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# NATURA REPORT 2010



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# I. WHAT WE BELIEVE IN

## 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 and 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.

## 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 building a better world**, based on better relationships with themselves, with others, with nature of which they are part, and with the whole.

## BELIEFS

**Life is a chain of relationships.** Nothing in the universe exists alone. Everything is interdependent.

We believe that **valuing relationships** is the foundation of an enormous human revolution in the search for peace, solidarity, and life in all of its manifestations.

**Continuously striving for improvement** develops 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 from 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.

# CULTURE DRIVERS

THE CULTURE DRIVERS ARE BASED ON OUR ESSENCE, AND WERE CREATED TO GUIDE OUR CHOICES AND ATTITUDES. THEY ARE LIKE TRACKS, TRACING A CONCRETE ROUTE AND SIGNALING WHAT DESERVES OUR SPECIAL ATTENTION IN OUR DAY-TO-DAY WORK.

THE DRIVERS WERE FORMED IN A COLLABORATIVE PROCESS INVOLVING THE FOUNDERS OF THE COMPANY, THE MEMBERS OF THE EXECUTIVE COMMITTEE, AND THE LEADERSHIP TEAM. WE ALSO TOOK INSPIRATION FROM THE CULTURE DIALOGUES, WHICH WERE HELD IN 2009 WITH 150 EMPLOYEES FROM THE ADMINISTRATIVE, OPERATIONAL, AND SALES STAFFS. THE CULTURE DRIVERS ARE:

## COMMITMENT TO THE TRUTH

Be authentic and steadfast, making this commitment to oneself and to others.

Defend what you believe and act consistently with one's beliefs.

## LOOKING AFTER RELATIONSHIPS

Doing things together is better if one opens up to others with generosity and empathy, creating an environment of trust with quality interaction.

Recognize that others are different from you, listen without judging, respect others' opinions, welcoming disagreements in order to find the best outcome for everyone.

## CONTINUOUS IMPROVEMENT

Always strive to improve, moving forward in all dimensions: material, emotional, intellectual, and spiritual.

Continuously seek to know oneself, recognizing one's talents and limitations.

Create an environment that fosters learning and continuous improvement and that recognizes high performance.

## DOING THINGS WELL

Resolve to do everything with simplicity, but also with beauty, quality, and with an eye for detail.

Have the discipline to deliver what was promised.

## INNOVATION

Be an entrepreneur; take a leading role, do what has never been done before, and take risks.

Continually question the status quo and encourage the search for new ideas.

## SUSTAINABLE DEVELOPMENT

Constantly deliver superior results and relevant value in the economic, social, and environmental dimensions.

Manage the short term with a commitment to building the future of the company.

## PLEASURE AND HAPPINESS

Face day-to-day challenges with optimism, composure, and good spirit.

Celebrate achievements, fueling the enthusiasm and energy that encourage us to move forward, to do more, and to do it better.

Find fulfillment in your work and affinity with your life purpose by finding meaning in everything you do.

# 2. OUR MOMENT

## WE ARE CONNECTED

TO THE PEOPLE AND THE  
CHALLENGES OF OUR TIME.

WE WORK TOWARDS THE

## PERMANENT EVOLUTION

OF OUR ACTIVITIES AND  
THEIR IMPACT ON THE THE

**COMMUNITIES**  
THAT WELCOME US.

## 2.1 MESSAGE FROM THE CHAIRMEN

“IN A REAL SENSE,  
**ALL OF LIFE IS  
INTERRELATED.**  
ALL PERSONS ARE CAUGHT IN  
AN INESCAPABLE NETWORK  
OF MUTUALITY, TIED IN A  
SINGLE GARMENT OF DESTINY.  
WHATEVER **AFFECTS ONE**  
DIRECTLY, **AFFECTS ALL**  
INDIRECTLY. I CAN NEVER BE WHAT I  
OUGHT TO BE UNTIL YOU ARE WHAT  
YOU OUGHT TO BE, AND YOU CAN  
NEVER BE WHAT YOU OUGHT TO BE  
UNTIL I AM WHAT I OUGHT TO BE.  
**THIS IS THE INTERRELATED STRUCTURE  
OF REALITY.**”

Martin Luther King

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exclusive licensor of the Estate of  
Dr. Martin Luther King, Jr.

## THE POWER OF TRANSFORMATION

INDIVIDUALS, COMPANIES, AND NATIONS NEED A GUIDING FORCE. AN OBJECTIVE. AN IDEAL. WE STILL USED TO HEAR, WHEN WE FOUNDED NATURA, STRONG ECHOES OF THE MESSAGE, THE DREAMS AND THE UTOPIAS OF MARTIN LUTHER KING, AND WE WERE ALSO DRIVEN BY A PURPOSE THAT SEEMED UNATTAINABLE.

Since then, the determination to build our company has been nurtured by the dream of building a better world. Like Martin Luther King, we are convinced that life makes sense only if we think, feel, and act in a systematic way.

We are now observing the clash of sometimes opposing forces. Exacerbated individualism seeking only to maximize material values coexists with the growth of a vision focused on the collective interest. Actions and greater awareness concerning the socio-environmental cause are revealing examples of the emergence of a change in the direction of civilization. We must therefore mobilize society to build an agenda of transformation.

Over the years, it has become increasingly clear that if this agenda is to flourish, it must be lived by all those who make Natura what it is and – so we aspire – by those with whom we relate. We live this objective intensely, aware of the fact that in the world there are those who have been excluded, there is prejudice, social inequality, corruption.. In other words, shadows that engender indignation and demand immediate action, as they are an affront to the ethics of life, justice and the possibility of peace.

The individualist vision may consider it naïve for a company to have an ideal that recognizes the need for societal change. With all due respect for those who have a different opinion, we believe we must take into account the world that surrounds us. Looking back at our history — beginning with the dream that is, little by little, blossoming into a tangible reality — we know we can be successful. And the progress we have made at Natura shows that we have made the right choices.

In 2008, we began to prepare our business structure for future development. At that time, we took steps to strengthen the foundation of our organizational culture, align our leadership more closely with our Essence, develop a new management system, redesign our logistics model, and concentrate on expanding our market share in Latin America and building our leadership position in Brazil.

The future holds both opportunities and challenges. We are aware of the tougher competitive environment and remain confident in our strengths. These include a strong brand that inspires our consumers, who are now served by 1.2 million sales consultants, both male and female; our renewed management abilities; and our ability to innovate — which is apparent in everything we do, from promoting quality in our relationships to transforming biodiversity assets into products.

We would like to express our acknowledgement of the motivated and talented leadership team that carried out this process and which is now channeling its energy into pursuing the plans to expand our activities. We would also like to extend our gratitude to the entire Natura community for its effort and engagement in our common causes.

The collective energy of our leadership and all of those with whom we work will power the expansion of this movement. We believe we can contribute to meeting the challenges of the future through our willingness to find solutions that transform socioenvironmental dilemmas into sustainable business opportunities, while generating prosperity for everyone.

This, Natura's historical calling, makes our value proposition even more attractive, thus enabling us to set our sights beyond the current borders and to see our brand transforming even more distant realities.

**ANTONIO LUIZ DA CUNHA SEABRA**  
**PEDRO LUIZ BARREIROS PASSOS**  
Co-Chairmen of the Board of Directors

## 2.2 MESSAGE FROM THE EXECUTIVE COMMITTEE

NATURA IS IN A POSITION TO RESPOND TO THE **CHALLENGES OF THESE NEW TIMES**. OUR CONFIDENCE STEMS FROM OUR CONTINUED ROBUST PERFORMANCE IN RECENT YEARS. IN 2010, WE WERE DELIGHTED TO **REPORT STRONG EARNINGS** – EVEN AS WE CONTINUED TO EXECUTE THE PLAN BEGUN IN 2008 THAT IS INTENDED TO MAINTAIN OUR **PACE OF GROWTH IN BRAZIL** AND ESTABLISH BASES FOR FUTURE EXPANSION.

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### COMMITMENT TO THE FUTURE

ALTHOUGH SOME OF OUR INITIATIVES ARE STRUCTURAL AND REQUIRE MORE TIME IN ORDER TO MATURE, OUR ENTHUSIASM IS FUELED, BY THE KNOWLEDGE THAT WE HAVE ACHIEVED ALL OF OUR INITIAL OBJECTIVES.

We saw yet another year of vigorous business expansion. Consolidated net revenues rose 21.1%, and EBITDA was up 24.6%. We took on more sales consultants in all of our operations. Latin America is a fertile market for business expansion and is increasingly important to our ability to grow. To meet our expansion plans in the region, we initiated local production through partnerships in Argentina, Colombia, and Mexico. In Brazil, Natura made strong gains, reaching a preference rate of 49% among consumers. We expanded our leadership position by 1.1 percentage points, reaching a 23.6% share of our target market. We created and distributed more value to all of our major stakeholders. And we mobilized the business sector around the topic of biodiversity and reduced the environmental impact of our products.

Not everything turned out as we had planned. Despite these advances, we still have progress to make in the level of service we provide to our consultants. Nevertheless, we are confident that the investments we have made in our infrastructure will raise our level of service to the standard we desire. Despite our efforts, we also failed to achieve the results we had hoped for in organizational climate, which were below the progress expected. However, we are convinced that we have taken the right steps to improve the quality of our relationships with our employees. Because this is such an important issue for Natura, we are redoubling our efforts to raise these stakeholders' level of satisfaction.

The plan we put in place in 2008 included initiatives that have both an immediate impact and long-term impacts. Several of these measures have contributed to our current results: innovation in our business model with the establishment of Natura Consultant Advisers (NCA); concentrating our portfolio on important product launches, such as the Una make-up range, Amó perfume, and Chronos anti-aging facial cream; and greater investment in marketing and communications through an additional injection of R\$410 million, enabled by productivity gains of R\$449 million.

We also undertook longer-lasting actions. We implemented a new process-based management model structured around business units and regions; we refreshed our organizational culture, focusing on developing and attracting leaders who are aligned with our Essence; we set the pace for managing the quality of our relationships by expanding engagement practices; and we invested in our infrastructure, upgrading our production, logistics, and information technology capabilities to improve services.

Concurrently, we turned our gaze to a more distant horizon and built our 2030 Vision. This is a long-range commitment to strengthening Natura's future while alerting us to the challenges and uncertainties of a world in rapid transformation. It reiterates our intention to create sustainable results and to contribute to a fairer, more inclusive and more responsible society.

Many of the events of 2010 have a common thread: enthusiasm for a project that imbues us with new energy at every cycle of achievement. We wish to thank all of you who have been so dedicated in your support for Natura. By working together, we will achieve innovative solutions that transform the business challenges of the next 20 years into development opportunities that benefit society as a whole.

**ALESSANDRO CARLUCCI**  
Chief Executive Officer

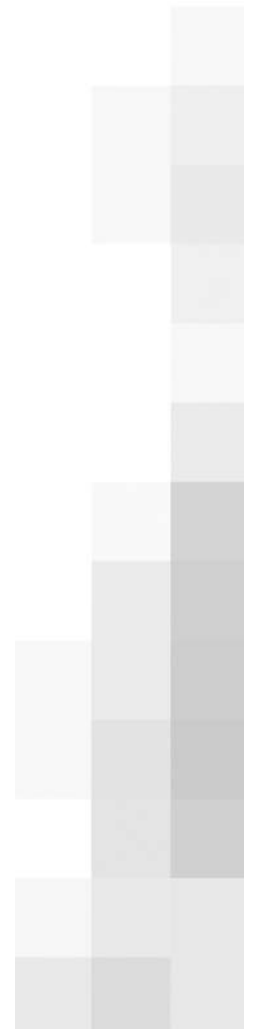
**JOÃO PAULO FERREIRA**  
Senior Vice President  
of Supply Chain

**JOSÉ VICENTE MARINO**  
Senior Vice President  
of Sales and Marketing

**MARCELO CARDOSO**  
Senior Vice President of  
Organizational Development  
and Sustainability

**ROBERTO PEDOTE**  
Senior Vice President of Finance,  
Legal Affairs, and Information  
Technology

**TELMA SINICIO**  
Senior Vice President of Innovation





# 2.3

## ORGANIZATIONAL PROFILE

THROUGH OUR PRODUCTS AND SERVICES, WE SEEK TO ENCOURAGE SELF-AWARENESS AND **PROMOTE WELL-BEING WELL**. WE ASPIRE TO PROVIDE CONSUMERS WITH NEW WAYS OF **ESTABLISHING RELATIONSHIPS WITH THEMSELVES**, WITH THOSE AROUND THEM, **AND WITH THE WORLD**.

We are a Brazilian cosmetics, fragrances and personal care company with a strong presence in Latin America. Since our founding in 1969, we have built a culture that values relationships. Our corporate behavior is focused on promoting sustainable development by improving awareness about responsible and innovative use of biodiversity assets. We strive to create value through solutions and new opportunities that we identify in partnership with our stakeholders — always with an eye to finding a balance between the social, environmental, and economic impacts of our business.

We have adopted a direct sales business model because we believe in our ability to generate and distribute income, offer development alternatives and inspire more than 1.2 million sales consultants to disseminate our value proposition to our consumers.

Natura directly employs more than 7,000 professionals. Our head office is in Cajamar, state of São Paulo, and we have five commercial offices in Brazil: Salvador (Bahia), Campinas and Alphaville (São Paulo), Rio de Janeiro (Rio de Janeiro), and Porto Alegre (Rio Grande do Sul). Our plants and Research and Technology centers are located in Cajamar (São Paulo) and Benevides (Pará), and in 2006, we opened an Advanced Technology Center in Paris, France. In Brazil, our products are delivered to our consultants and consumers from distribution centers in Cajamar and Jundiaí (São Paulo), Canoas (Rio Grande do Sul), Matias Barbosa and Uberlândia (Minas Gerais), Simões Filho (Bahia), Jaboatão dos Guararapes (Pernambuco), and Castanhal (Pará).

We have company-owned operations in France, Argentina, Chile, Colombia, Mexico, and Peru. In addition, we use local distributors to sell our products in Bolivia, Guatemala, Honduras, and El Salvador. In 2010, we began manufacturing in Argentina through local partnerships. We also have Natura Houses, which are centers where our consultants can work and train and where consumers can get to know our products. We have seven of these in Brazil, all in the state of São Paulo, 14 elsewhere in Latin America, and one in France.

We have been a publicly traded company since 2004, with about 40% of our shares listed on the New Market of the São Paulo Stock Exchange (BM&FBovespa). For five consecutive years, we have been included in Bovespa's Corporate Sustainability Index (CSI) (learn more on page 71, Shareholders).

## MAIN HIGHLIGHTS OF THE YEAR

### ECONOMIC

- Our net revenues totaled R\$5.1 billion, a growth of 21.1%.
- We recorded EBITDA of R\$1.2 billion, up 24.6% from the previous year, and an EBITDA margin of 24.5%, compared with 23.8% in 2009.
- We achieved net income of R\$744.1 million, 8.8% above the previous year.
- We distributed more wealth to our stakeholders. The wealth generated to our employees increased 20%, for our consultants 19% and for our shareholders 17%.
- International manufacturing began through partnerships in Argentina. In 2011, we will begin operations in Mexico and Colombia.

## SOCIAL

- Natura had 1.2 million consultants at the end of 2010. This represents a growth of 17% in Brazil and of more than 20% in our international operations.
- The Natura Crer para Ver (Believing Is Seeing) program, which invests in education, received a record R\$10 million in funding, 168% more than in 2009. Funding is based on sales of specific items in our portfolio. Revenues from sales of these items outside of Brazil totaled R\$1.3 million.
- Although progress has been made, the quality of the service we provide to consultants has not yet reached the level we desire. We continue working to reduce our nonservice rate (NSR), which keeps track of products that are ordered by consultants but are unavailable.
- The survey on working climate generated a 73% overall favorable response rate from our employees, one percentage point below 2009. Declines in ratings in our international operations and among operational staff in Brazil contributed to this decrease.
- The loyalty of our consultants in Brazil rose from 17% to 21%, but declined among Natura Consultant Advisers, from 37% to 32%.

## ENVIRONMENTAL

- We extended the period for achieving a 33% reduction in our relative greenhouse gas emissions to 2013. The original target date was 2011. By 2011, our reduction was 21%.
- We launched the first refill packaging made of polyethylene from sugar cane, a renewable source of energy. In addition to being 100% recyclable, it reduces greenhouse gas emissions that cause global warming by 58% compared with common plastic.
- We reduced relative water consumption by 10%, thanks to improvements that are intended to guarantee efficient use of resources.
- We created a methodology that measures the socioenvironmental impacts of our supply chain, in an effort to improve the selection of our suppliers.
- We were charged by the Brazilian Institute of the Environment and Renewable Natural Resources (Ibama) for failing to secure prior authorization to conduct research using inputs from Brazilian biodiversity. Natura does not agree with the procedure and has formally contested these charges.

## AWARDS AND RECOGNITIONS RECEIVED BY NATURA IN 2010

CUSTOMER SERVICE			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
Top 25 Companies in Customer Service in the Country	IBRC/Exame	Top Companies in Customer Service in the country	2 <sup>nd</sup>
		Cosmetics Industry Ranking	1 <sup>st</sup>
COMMUNICATION			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
Comunique-se	Comunique-se Magazine	Corporate Communication Professional: Rodolfo Guttilla, Director of Corporate Affairs and Government Relations at Natura	1 <sup>st</sup>
FINANCE			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
Top 100 Shares	Você S/A magazine	Top 100 Shares	7 <sup>th</sup>
As Melhores da Dinheiro (The Best of Dinheiro)	Isto É Dinheiro magazine	Best Company in the Pharmaceutical, Hygiene and Cleaning industry	1 <sup>st</sup>
The top 1000 companies with greatest revenues - Argentina	Mercado magazine	General Ranking	120 <sup>th</sup>
The biggest companies in Latin America	America Económica magazine	General Ranking	92 <sup>nd</sup>
Agência Estado Distinguished Companies	Estado de S. Paulo	General ranking of the top 10 companies listed on Bovespa	5 <sup>th</sup>
Valor 1000	Valor Econômico newspaper	Best Company in the Hygiene and Cosmetics industry	1 <sup>st</sup>

INSTITUTIONAL			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
Most Admired - Carta Capital	Carta Capital magazine	Most Admired Companies in Brazil	1 <sup>st</sup>
		Most Admired Company in the Personal Hygiene Industry	1 <sup>st</sup>
		Most Admired Leader: Alessandro Carlucci	10 <sup>th</sup>
Biggest and Best	Exame	Best Company in the Consumer Goods Category	3 <sup>rd</sup>
		Biggest and Best Ranking	68 <sup>th</sup>
"What is a Company Image Worth" Survey	Exame Magazine and Reputation Institute - NY	The 10 Companies in Brazil with the Best Reputation	5 <sup>th</sup>
Euromoney Ranking	Euromoney magazine	The Best Company in the Consumer Goods Category in Latin America	1 <sup>st</sup>
		Excellence in Corporate Management in Brazil	1 <sup>st</sup>
Image Ranking - Top 100 – Argentina	Imagen magazine	General Ranking	59 <sup>th</sup>
GRI and RCA Awards	The GRI Amsterdam Global Conference	The Value Chain Award	1 <sup>st</sup>
		The GRI Reader's Choice Award - Best Overall	5 <sup>th</sup>
The Bizz	World Confederation of Businesses	Business Excellence	1 <sup>st</sup>
INTERNET			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
Quality Standard in B2B	B2B magazine	Best Company in the Cosmetics, Hygiene and Cleaning category	1 <sup>st</sup>
Top of Mind Internet Award	UOL	We were recognized as the most remembered Brand by consumers on the Internet in the Beauty Products category	1 <sup>st</sup>
BRAND			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
Brands for Decision Makers	Jornal do Comércio RS	Recognized as the Leading Brand in the Personal Beauty and Hygiene industry and in Environmental Preservation	1 <sup>st</sup>
Most Valuable Brands in Brazil	Interbrand and Isto É Dinheiro	5 <sup>th</sup> place in the ranking of Most Valuable Brands.	5 <sup>th</sup>
Apex Brazil Award	Apex	Best International Brand Management	1 <sup>st</sup>
IMPARAward – Preferred Brands and Regional Affinity Index	Impar Magazine/PR	2 <sup>nd</sup> place in the preference of State of Paraná in the Perfume and Cosmetics Segment	2 <sup>nd</sup>
Brazil Intangibles Award – PIB	Grupo Padrão and Consumidor Moderno magazine	Pioneering in Intangibles	1 <sup>st</sup>
Brand Recall Award	Jornal do Comércio Newspaper – Recife	Sustainability	1 <sup>st</sup>
Top 100 most valuable brands in Brazil	The Brander magazine/IAM	Most valuable brands in Brazil	48 <sup>th</sup>
Top of Mind	Folha de São Paulo	Most remembered brand in the category of Environmental Preservation.	1 <sup>st</sup>
Top of Mind Successful Brands Minas Gerais	Mercado Comum magazine (MG)	Most remembered brand in the category Leadership in Women's Beauty Products.	1 <sup>st</sup>
Top of Mind Amanhã Magazine – Porto Alegre	Amanhã magazine	Most remembered brand in the categories Perfumes and Sustainability	1 <sup>st</sup>
Top Vale	Vale Paraibano newspaper	Category Cosmetics & Environment	1 <sup>st</sup>
World's Hottest Brands Advertising Age Brasil	Advertising Age	Natura was recognized as a regional brand - Brazil South America	1 <sup>st</sup>
Trusted Brands	Readers' Digest	Voted the most socially responsible company, Best Brand in the category "skin creams". In addition, the CEO Alessandro Carlucci was named "Executive of the Year".	1 <sup>st</sup>

<b>MARKETING, PRODUCT AND PACKAGING</b>			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
ABRE Design and Packaging	Brazilian Packaging Association	Best Packaging for Cosmetics and Personal Care - New Natura Chronos Line	1st
		Módulo Marketing - Best Communication Strategy Açai Harvest 2009	1st
Atualidade Cosmética	Atualidade Cosmética magazine and J.R. Paula Jr. Design	Chronos Facial Treatment	1st
		Latin American Men's Perfume: Essencial Exclusivo	1st
Elle Beauty Awards – Mexico	Expansión Group	Best spa product	1st
		Hair: Natura Fixplant Post Hair Straightening Anti-Frizz Finishing Cream, Best Shampoo and Conditioner for straight hair - Natura Smooth Plant	1st
		Chronos Facial Exfoliant	1st
		Double Action - Natura Una Lipstick	1st
Nova Beleza Award	Nova magazine	Bar soap Natura Ekos - Cupuaçu Soap for slicing	1st
<b>HUMAN RESOURCES</b>			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
HR Personality of the Year Award from ABTD/ PR	ABTD/PR	Marcelo Cardoso was recognized as HR Personality of the Year	1st
		Marcelo Cardoso was recognized as professional of the Year 2009 in the Hygiene and Cleaning Industry;	1st
Você HR Professional of the Year Award	Editora Abril	HR of the Year: Marcelo Cardoso, Vice President of Organizational Development and Sustainability	1st
Great Place to Work - Peru	Great Place to Work Institute and El Comercio Newspaper	Best Companies to work for in Peru	33rd
Best companies to work for Mexico	Great Place to Work	One of the best companies to work for	11th
Company of the Dreams of Youngsters	DMRH Group and Cia de Talentos	Awarded in the ranking of the top 10 companies in the preference of young Brazilians	5th
<b>SUSTAINABILITY</b>			
<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
2011 Global 100	Corporate Knights	100 Most Sustainable Corporations in the World	66th
ET Carbon Verification Leaders Award – Environmental Investment Organization (EIO)	Carbon Disclosure Project	Global company for its strategies of control, verification and dissemination of carbon emissions	1st
Global 100 Most Sustainable Corporations in the World	Corporate Knights Inc., Innovest Strategic Value Advisors, Asset 4 and Bloomberg	The 100 most sustainable companies in the world	99th
Best Practices for Social Responsibility – Mexico	Centro Mexicano para La Filantropia (Mexican Center for Philanthropy)	Best practices 2010: Bond with the community	1st
AMCHAM Corporate Citizenship Award – Argentina	AMCHAM Argentina	Awarded in the category Sustainability-Oriented Management	2nd
		Overall Ranking	2nd
Top 100 most sustainable corporations according to the media	Mídia B + Portal Imprensa	Health, Cosmetics and Cleaning - Pharmaceutical Industry	1st
Ranking Fundación Chile: Companies Best Prepared for Climate Change	Fundación Chile and Revista Capital	Companies Best Prepared for Climate Change	3rd
RSE National Ranking - Chilean Socially Responsible Companies	Fundación Prohumana and Que Pasa magazine	Honorable Mention in Chilean Socially Responsible Companies	16th
RSE Ranking - Argentina	Apertura magazine	Overall Ranking	16th
Road to Credibility	SustainAbility and FBDS	Best Sustainability Report	1st
Top Consumer Excellence in Consumer Relations and Respect for the Environment - Rio Grande do Sul	INEC - National Institute for the Consumer and Citizen and Consumer Test	Distinguished Commitment to Sustainable Consumption	1st

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## INVESTOR RELATIONS

<u>Recognition</u>	<u>Organization</u>	<u>Category Awarded</u>	<u>Place</u>
Abrasca - Best Annual Report	Public Company		7th
Ibovespa Most Transparent Companies	BM&FBovespa	Ibovespa's Most Transparent Companies	6°
Top Companies for Shareholders	Capital Aberto magazine	Top Companies for Shareholders	1st
IR Magazine BRazil Awards	IBRE – Instituto Brasileiro de Economia and FGV – Fundação Getúlio Vargas	Best Corporate Governance and Best Environmental Sustainability	1st

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## OPERATIONS MAP



## OUR MARKET

Once again, the cosmetics, fragrances, and personal hygiene sector continued growing at a record pace last year; this time, however, amid a scenario of strong expansion of Brazilian economy, estimated at 7.5% of GDP in 2010. With less strength, but with the same consistency, the rest of Latin America — notably Chile and Mexico — also reported increases in economic activity.

The growth of the Latin American cosmetics market was double that of Europe and the United States over the past decade. The region now represents nearly 15% of the global cosmetics market, revealing the scale of opportunities in Latin America.

According to data published by the Brazilian Association of the Cosmetic, Toiletry, and Fragrance Industries (Sipatesp/Abihpec), Brazil's target market registered a nominal growth of 13.5% in 2010. Our value proposition once again boosted our leadership by more than 1.1 percentage points and reached a 24% share of our target market.

Year after year, the direct-sales industry continues to attract people. According to the Brazilian Association of Direct Sales Companies (ABEVD), there are 2.7 million direct-sales representatives in Brazil. This represents a 12.2% increase over 2009.

## 2.4 OUR COMMITMENTS

OVER THE YEARS, WE HAVE DEMONSTRATED A COMMITMENT TO STRENGTHENING OUR PERFORMANCE INDICATORS. THESE INDICATORS REFLECT OUR WILLINGNESS TO INCORPORATE **IMPROVED MANAGEMENT OF OUR PRIORITY SUSTAINABILITY TOPICS INTO OUR STRATEGIC PLANNING.** TO LEARN MORE ABOUT THE TARGETS OUTLINED IN THIS TABLE, PLEASE REFER TO THE CHAPTERS "WHO WE WORK WITH" AND "WHAT WE AIM FOR."

**7**  
COMMITMENTS  
NOT ACHIEVED

**2**  
COMMITMENTS  
UNDER WAY

**8**  
COMMITMENTS  
ACHIEVED

### EMPLOYEES

#### QUALITY OF RELATIONSHIPS

**1.** 2010 COMMITMENT: Achieve a 76%<sup>1</sup> favorable response rate in the Natura climate survey.

**NOT ACHIEVED:** Natura achieved a 73% favorable response rate.

2011 COMMITMENT: Achieve a 76% favorable response rate in the Natura climate survey.

2011 COMMITMENT: Achieve a 32% loyalty rate with Natura employees.

*1. Due to a calculation error, we recorded a target in the previous report a target of 77%.*

#### EDUCATION

**2.** 2010 COMMITMENT: Achieve an average of 100 hours of training per employee in Brazil.

**NOT ACHIEVED:** We recorded an average of 90 hours of training per employee in the Brazilian operations.

2011 COMMITMENT: Record an average of 100 hours of training per employee in Brazil.

2011 COMMITMENT: Record an average of 88 hours of training in Natura's overall average, including international operations.

### SUPPLIER COMMUNITIES

#### QUALITY OF RELATIONSHIPS

**3.** 2010 COMMITMENT: Increase resources allocated to supplier communities by 44% (made up of supply, distribution of benefits, funding, and support, use of image, training, certification, studies, and assistance).

**ACHIEVED:** We increased resources by 57% compared to 2009.

2011 COMMITMENT: Increase resources allocated to communities by 25% from 2010.

2011 COMMITMENT: Record an average grade of 3.7 in the BioQlicar (Quality, Logistics, Innovation, Competitiveness, Service, and Relationship) assessment.

2011 COMMITMENT: Achieve a 44% loyalty rate with supplier communities.

### CONSULTANTS AND (NCAs)

#### QUALITY OF RELATIONSHIPS

**4.** 2011 COMMITMENT: Achieve an 18% loyalty rate with consultants.

**ACHIEVED:** We achieved a 21% loyalty rate.

2011 COMMITMENT: Record a 22% loyalty rate with consultants.

**5.** 2010 COMMITMENT: Achieve a 40% loyalty rate with NCAs.

**NOT ACHIEVED:** The loyalty rate with NCAs was 32%.

2011 COMMITMENT: Achieve a 37% loyalty rate among NCAs.

#### EDUCATION

**6.** 2010 COMMITMENT: Register the participation of 517,400 consultants in training programs.

**ACHIEVED:** We had the participation of 540,000 consultants in our training programs.

2011 COMMITMENT: Achieve the participation of 540,000 consultants in our training programs.

**7.** 2010 COMMITMENT: Raise R\$6 million from the sale of products of the *Crer para Ver* (Believing Is Seeing) line.

**ACHIEVED:** We achieved record revenues of R\$10 million.

2011 COMMITMENT: Record R\$13 million from the sale of products of the *Crer para Ver* line.

**8. 2010 COMMITMENT:** Have 100,000 consultants engaged in the Natura Movement.

**ACHIEVED:** 113,100 consultants engaged in the Natura Movement.

2011 COMMITMENT: Reach 135,000 consultants engaged in the Natura Movement.

2011 COMMITMENT: Reach a 13% engagement rate among consultants in the *Crer para Ver* program.

2. target refers to Brazilian operations

## CONSUMERS

### PRODUCT IMPACT

**9. 2010 COMMITMENT:** Eliminate parabens from our product portfolio by December 1, 2010.

**NOT ACHIEVED:** Due to technical difficulties related to the process, system, and formulation, we were not able to exclude parabens as an ingredient in the formulation of all products in this portfolio, including in our international operations.

2011 COMMITMENT: Eliminate this ingredient completely from our portfolio by June 30, 2011.

**10. 2010 COMMITMENT:** Eliminate phthalates from our portfolio as an ingredient in product formulation by July 1, 2010.

**ACHIEVED:** Natura excluded phthalates as an ingredient in the formulation of all products in its portfolio.

### QUALITY OF RELATIONSHIPS

**11. 2010 COMMITMENT:** Maintain the consumer loyalty rate at 46%.

**ACHIEVED:** We achieved a 53% loyalty rate among consumers.

2011 COMMITMENT: Maintain a 54% loyalty rate with Brazilian consumers.

## SUPPLIERS

### QUALITY OF RELATIONSHIPS

**12. 2010 COMMITMENT:** Achieve a satisfaction rate of 85% with the company.

**NOT ACHIEVED:** We recorded a rate of 81%, the same level achieved in 2009.

2011 COMMITMENT: Maintain a 28% loyalty rate with Natura.

## ENVIRONMENT

### GREENHOUSE GASES (GHGs)

**13. 2010 COMMITMENT:** Reduce our relative emissions of GHGs by 33% by 2011, based on the inventory conducted in 2006.

**COMMITMENT UNDERWAY:** As of 2010, we achieved a 21% reduction.

TARGET: The estimated 33% reduction was postponed to 2013.

**14. 2010 COMMITMENT:** Reduce our emissions of GHGs related to scope 1 and 2 of GHG Protocol by 10% by 2012, based on 2008 emissions.

**COMMITMENT UNDERWAY:** Accumulated variation from 2008 to 2010 indicated an increase of 38%.

TARGET: Reduce our emissions of GHGs related to scope 1 and 2 of GHG Protocol by 10% by 2012, based on 2008 emissions.

### PRODUCT IMPACT

**15. 2010 COMMITMENT:** Reach a rate of 18.5% on the sale of refills on items billed in Brazil.

**NOT ACHIEVED:** We achieved a 16.9% rate of refill sales, which represents a lower percentage compared to 2009.

**16. 2010 COMMITMENT:** Reduce the total weight of waste per unit billed by 6%.

**NOT ACHIEVED:** Our index increased by 8% to 25.7 grams per unit billed.

2011 COMMITMENT: Reduce the total weight of waste per unit billed by 3%.

**17. 2010 COMMITMENT:** Reduce water consumption per unit billed by 10%.

**ACHIEVED:** Consumption was reduced by 10%.

2011 COMMITMENT: Reduce total water consumption per unit billed by 3%.

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#### Notes:

1. In order to have a more thorough picture of the quality of our relationship with our stakeholders, we have also adopted a loyalty index that includes three aspects: satisfaction, intention to continue the relationship with Natura, and the recommendation of our brand, unlike the satisfaction survey, which considers only one of these aspects. Concerning our employees, in addition to the loyalty index, we also conduct the climate survey, which assesses more specific issues related to the work environment, careers and job satisfaction.

2. The above indicators for quality of relations have an error margin corresponding to a 95% confidence interval.

3. Except for the favorable responses in the Climate Survey, the commitments for quality of relationships refer to the Brazilian operations.



# 2.5

## GOVERNANCE

NATURA CORPORATE GOVERNANCE IS **PERMANENTLY ENHANCED**. WE HAVE BEEN SIGNIFICANTLY FOCUSED ON THIS OBJECTIVE SINCE 2004, WHEN **NATURA WENT PUBLIC** AND LISTED ITS SHARES ON THE SÃO PAULO STOCK EXCHANGE.

Our Board of Directors comprises six members, including two founding partners, Antonio Luiz da Cunha Seabra and Pedro Luiz Barreiros Passos. The third founding partner, Guilherme Peirão Leal, resigned in 2010 to run as the Green Party vice presidential candidate. Of the other four members of the Board, three are independent.

Board members are selected for their qualifications, knowledge on sustainability, experience in executive positions, and the absence of conflicts of interest. Board members' compensation includes a fixed monthly component and a variable annual component linked to Natura's economic, financial, social, and environmental results.

We continually improve and reinforce internal controls and processes, which has enabled Natura to achieve SOX certification for accounting controls and financial reporting. SOX certification is based on criteria in the 2002 U.S. Sarbanes-Oxley Act and is required of companies listed on the New York Stock Exchange. Natura is among the first Brazilian companies to obtain SOX certification, though this is not a Brazilian legal requirement. We believe that an efficient control environment produces transparency in the performance of our operations, ensures that our financial statements accurately present our business processes, and provides security for our stakeholders.

In an effort to acquaint Board members with the customs of the various regions where we operate, the Board has scheduled meetings outside the company's head office. Of the six regular meetings held last year, one took place in Rio de Janeiro in April, and another was held in Mexico in September. We will maintain this practice in 2011, holding one meeting annually in a Brazilian regional office and another meeting each year in one of the countries in which we do business.

The Board of Directors is supported by four committees: Strategy; Corporate Governance; People and Organizational Development; and Audit, Risk Management, and Finance. The latter was reorganized in December 2010, and now only external and independent members may serve on this committee. This reorganization was intended to improve internal controls. The Audit, Risk Management, and Finance Committee is responsible for evaluating accounting, taxes, corporate affairs, and new investments. New members who took office in February 2011 receive technical support from a group of external specialists and Natura executives.

In 2010, we sought to expand the participation of individual shareholders at the Annual Shareholders' Meeting. We gathered 200 investors at our Cajamar unit, and they were able to follow — in real time — the shareholders' meeting taking place at Natura's head office in Itapeverica da Serra. Through this event, investors were able to come into closer contact with our company, its controlling shareholders, and executives (learn more on page 71 – Shareholders).

Since 2007, Natura has been a member of the Company Circle of Latin American Corporate Governance, which consists of a group of Latin American corporations selected by the International Financial Corporation of the World Bank based on the quality of their governance practices.

### BOARD OF **DIRECTORS**

#### **PEDRO LUIZ BARREIROS PASSOS**

Co-chairman of the Board of Directors in office

#### **ANTONIO LUIZ DA CUNHA SEABRA**

Co-chairman of the Board of Directors

#### **EDSON VAZ MUSA**

Member

#### **JOSÉ GUIMARÃES MONFORTE**

Member; President of the Audit, Risk Management, and Finance Committee

#### **JULIO MOURA NETO**

Member; President of the Strategy Committee

#### **LUIZ ERNESTO GEMIGNANI**

Member; President of the People and Organizational Development Committee

## **PRESIDENTIAL ELECTIONS**

The decision of one of the co-chairmen of our Board of Directors, Guilherme Leal, to participate in the 2010 presidential elections was one of Natura's key governance challenges for the year. Guilherme Leal resigned from Natura shortly after the Green Party announced him as its candidate for vice president. Throughout this process, we emphasized transparency, clearly separating Natura's business operations from an individual's decision to run for public office.

Natura's governance structure ensured that the company took all steps required to insulate corporate governance from political influence. Our campaign donation policy, in force since 2006, forbids donations to candidates or political parties — a policy that gained greater significance last year. We also set up a special committee to monitor media exposure of Natura and its founding partner during the elections.

## **EVALUATION OF THE BOARD OF DIRECTORS**

In 2010, we conducted two evaluations of the members of our Board of Directors and the members of the committees advising the Board: one self-evaluation and one external evaluation, which enabled us to identify opportunities to improve our governance.

The self-evaluation was carried out by the Governance Committee, which conducted a series of individual interviews to capture the impressions of the members concerning the dynamics of the Board and its autonomy to make decisions, among other issues. The main findings and conclusions were compiled and presented to the Board itself. Among the progress identified in this self-evaluation are: the resumption of the executive sessions and the improvements in the working agendas.

The external evaluation, conducted by a consulting firm, involved an analysis of the size and composition of the Board and its advisory committees, the degree of empowerment, the working climate and the value added by its members, among other matters. Individual interviews were organized independently by the consulting firm, based on a comparison of Natura's initiatives with the best governance practices identified internationally.

The aspects that received the highest marks in the external evaluation refer to the good working climate, the freedom to address issues and to express opinions, and the clarity of the information submitted to the Board for consideration. Nevertheless, it was also found that the criteria for the process of evaluating the Board and its committees should be better disseminated to the company's senior management. Furthermore, it was discovered that while the general information is adequately transmitted, the flow could be improved to give the members more time to analyze the issues. The changes resulting from this evaluation will be implemented throughout 2011.

## **COMMITTEES SUPPORTING THE BOARD OF DIRECTORS**

### **AUDIT, RISK MANAGEMENT AND FINANCE**

Since early 2011, it has been formed by the independent Board members José Guimarães Monforte, Edson Vaz Musa and Luiz Ernesto Gemignani, and by the external specialists Gilberto Mifano and Taiki Hirashima, the Senior Vice President of Financial, Legal and Information Technology, Affairs Roberto Pedote, the Corporate Governance Director, Moacir Salzstein, and the Risk Management and Internal Audit Manager, Mercedes Stinco, who serves as the committee secretary. It meets four times a year and is primarily responsible for advising the Board of Directors in its financial and risk analysis and in its relationship with external auditors.

### **STRATEGY**

This committee is made up of three Board members – Pedro Luiz Barreiros Passos, Julio Moura Neto and Edson Vaz Musa – in addition to the CEO Alessandro Carlucci. They analyze strategic issues, preparing guidelines and recommendations for the Board of Directors. The committee monitors the strategic projects in progress, defined in Natura's Strategic Planning, and discusses the company's long-term actions. It meets on a monthly basis, except in January and June.

### **CORPORATE GOVERNANCE**

Among the functions of this committee is to discuss improvements and progress in governance and in running the business. It is made up of three Board members: Pedro Luiz Barreiros Passos, José Guimarães

Monforte and Júlio Moura Neto, in addition to Corporate Governance Director, Moacir Salzstein, who serves as the committee secretary. The meetings are held on a quarterly basis, although the committee convened five times in 2010, once in an extraordinary meeting to discuss the changes to the Audit, Risk Management and Finance Committee. The Corporate Governance committee was also responsible for the self-evaluation process of the Board of Directors and its advisory committees, as well as for overseeing the external evaluation process that occurred in the last quarter of 2010.

## PEOPLE AND ORGANIZATIONAL DEVELOPMENT

This committee is comprised of three Board members – Pedro Luiz Barreiros Passos, Edson Vaz Musa and Luiz Ernesto Gemignani – and Fátima Raimondi, an external member who joined in 2010, as well as the CEO Alessandro Carlucci and the Senior Vice President of Organizational Development and Sustainability, Marcelo Cardoso. The meetings are held on a monthly basis, except in January and July. The committee addresses topics such as remuneration, leadership projects, succession, training and topics of interest to the Human Resources Department, the Culture Program and the Natura Management System.

## EXECUTIVE GOVERNANCE

Natura's main executive body, the Executive Committee (Comex), is made up of Natura's Chief Executive Officer, Alessandro Carlucci, and five deputy chairmen. Comex's priorities are management of the business and assessment of economic, social, and environmental results. Comex also monitors strategic planning and our strategic projects.

The structure of Comex was consolidated in 2010 to enable a global outlook on business. Comex is supported by eight committees that discuss thematic topics and represent the executive body. The original six committees supported Comex on issues related to brand, sustainability, ethics, commercial innovation, products, and processes. Two new committees, the Customer Committee and the Ideas and Concepts Committee, were established in early 2011.

## NATURA EXECUTIVE COMMITTEE

### ALESSANDRO CARLUCCI

Chief Executive Officer

### JOÃO PAULO FERREIRA

Senior Vice President of Supply Chain

### JOSÉ VICENTE MARINO

Senior Vice President of Sales and Marketing

### MARCELO CARDOSO

Senior Vice President, Organizational Development and Sustainability

### ROBERTO PEDOTE

Senior Vice President of Finance, Legal Affairs, and Information Technology

### TELMA SINICIO

Senior Vice President of Innovation

## NATURA EXECUTIVE BOARD IN 2010

### ALEXANDRE CRESCENZI

Commercial Vice President – Brazil

### ALESSANDRA DA COSTA

Human Resources Vice President – Brazil

### ANA LUIZA MACHADO ALVES

Brand Vice President

### ANGEL MEDEIROS

Logistics Innovation Vice President

### ARMANDO MARCHESAN NETO

Customer Services Vice President – Brazil

### ARNÔ ARAÚJO

Commercial Vice President – Mexico

### AXCEL MORICZ

General Vice President – Colombia

### CECÍLIA GOYA MEADE

General Vice President – Mexico

### DANIEL GONZAGA

General Vice President – Peru

### DANIEL LEVY

New Business Vice President

### DENISE ALVES

Culture Vice President

### DENISE FIGUEIREDO

Business Unit Vice President

### DIEGO DE LEONE

Business Unit Vice President

### ERASMO TOLEDO

Commercial Development and Innovation Vice President

### FLÁVIO PESIGUELO

Organizational Development and Sustainability Vice President – International Operations

### GILBERTO XANDÓ

Business Vice President – Brazil

### HERIOVALDO SILVA

Commercial Vice President – International Operations

### JORGE ROSOLINO

Financial Vice President – Brazil

### JOSELENA PERESSINOTO ROMERO

Product Availability Vice President

### JOÃO CARLOS MOCELIN

Industrial Vice President

### JOÃO AUGUSTO PEDREIRA

Business Unit Vice President

Lucilene Prado

Legal Vice President

### LUIS BUENO

Regional Unit Vice President

### LUIZ CARLOS LIMA

Corporate Finance Vice President

### MARCEL GOYA

Finance Vice President – International Operations

### MARCOS PELAEZ

Information Technology Vice President

### MARCUS OLIVER RISSEL

Regional Unit Vice President

### MOACIR SALZSTEIN

Corporate Governance Vice President

### MÔNICA GREGORI

Communication and Marketing Vice President

### NESTOR FELPI

Customer Services Vice President – International Operations

### PEDRO GONZALES

General Vice President – Argentina

### PEDRO VILLARES

Superintendent of Natura Institute

### RENATO ABRAMOVICH

Regional Unit Vice President

### RICARDO FAUCON

Supply Vice President

### ROBERT CLAUS CHATWIN

Business Development Vice President

### RODOLFO WITZIG GUTTILLA

Corporate Affairs and Government Relations Vice President

### ROGÉRIO CHER

Corporate Human Resources Vice President

### TATIANA PIGNATARI

Business Unit Vice President

### TOMAS JANS

Business Vice President – International Operations

### VICTOR FERNANDES

Ideas, Concepts, Science and Technology Vice President

## COMMITTEES SUPPORTING COMEX

### CUSTOMERS

Created in January 2011, the main function of this committee is to monitor the quality of the services provided by Natura to its final consumers and consultants. It is chaired by the Senior Vice President of Operations and Logistics, João Paulo Ferreira, and another Comex representative, the Senior Vice President of Innovation, Telma Sinicio, also serves on the committee.

### ETHICS

Monitors issues related to the Natura Relationship Principles and makes decisions on cases of violations of these principles. It is headed up by the Senior Vice President of Financial, Legal and Information Technology Affairs Roberto Pedote, and other Comex members include the CEO Alessandro Carlucci and the Senior Vice President of Organizational Development and Sustainability, Marcelo Cardoso.

### IDEAS AND CONCEPTS

Chaired by the CEO Alessandro Carlucci, this committee was created in March 2011 to define the long-term innovative ideas and concepts for the company. Also serving on this committee are Senior Vice President of Innovation, Telma Sinicio, and the shareholders and members of the Board of Directors Pedro Luiz Barreiros Passos and Antonio Luiz da Cunha Seabra.

### COMMERCIAL INNOVATION

Its primary function is to analyze the projects that bring commercial innovation to the business. This committee is chaired by the Senior Vice President of Business, José Vicente Marino, while also serving is the Senior Vice President of Finance, Legal Affairs and Information Technology, Roberto Pedote.

### BRAND

Responsible for management of the Natura brand and analyzing topics such as brand architecture, assessing the Natura language and reviewing its main developments. It is chaired by the CEO Alessandro Carlucci, with the Senior Vice President of Business, José Vicente Marino, and the Senior Vice President of Organizational Development and Sustainability, Marcelo Cardoso, also serving.

### PROCESSES

Monitors the implementation of the Management by Process model, defining focuses of attention and strategies. It is chaired by the Senior Vice President of Organizational Development and Sustainability, Marcelo Cardoso. The Senior Vice President of Operations and Logistics, João Paulo Ferreira, also represents Comex on this committee.

### PRODUCTS

Oversees the steps and processes involved in the approval of new products created by Natura. It is chaired by the Senior Vice President of Innovation, Telma Sinicio, while also serving is the CEO Alessandro Carlucci and the Senior Vice President of Business, José Vicente Marino.

### SUSTAINABILITY

Monitors the management of the sustainability topics associated with the company's Integrated Planning methodology, namely: monitoring the Socio-Environmental Budget (targets and commitments assumed by Natura in these areas) and defining the Materiality Matrix. Furthermore, it also oversees the management of strategic projects related to sustainability, such as Carbon Neutral and the Solid Waste project. The committee is also responsible for evaluating positions and strategies concerning the company's vision of sustainability and Quality of Relationships. It is chaired by the Senior Vice President of Organizational Development and Sustainability, Marcelo Cardoso, with the participation of the Senior Vice Presidents of Financial, Legal and Information Technology Affairs, Roberto Pedote, and of Operations and Logistics, João Paulo Ferreira.

## **RISK MANAGEMENT**

Natura's risk management strategy involves analysis of two primary risks to our business: strategic risks, which are external threats to the continuity of our business; and operational risks. Responsible managers and their teams evaluate internal processes to identify potential operational risks. In both cases, the analysis considers potential economic, social, and environmental outcomes.

Natura's risk management strategy identifies processes and control mechanisms to address Natura's primary strategic and operational risks. These include physical risks, but not risks related to climate change. Our actions do, however, evaluate regulatory risks and identify opportunities to offer new technologies and products that address the challenges posed by climate change.

An important development in 2010 was the consolidation of Natura's strategic risks map, which was incorporated into our strategic planning. This map is now monitored by all committees that support the corporate governance and executive structures.

As part of a more comprehensive contingency plan, we have established a crisis prevention system based on the most relevant scenarios experienced by the company. This initiative has been developed by Natura since 2009.

As part of the review of our internal control processes, we redefined the user profiles for accessing Natura information and data, thereby streamlining our fraud prevention management. We also reviewed our Relationship Principles, including more details and clarifications about two specific principles for our employees and in-house outsourced workers, on conflicts of interest and personal favoritism (read more on page 45 – Employees).

Since 2009, Natura has been conducting an Internal Controls Evaluation to identify the main operational risks and the controls of all its 132 processes. Last year, the evaluation involved the application of 212 questionnaires and the mobilization of 219 managers and directors. In addition to forwarding the most important identified risks to Strategic Planning, they were also incorporated into the Natura's process planning. We also developed specific action plans to mitigate the higher risks.

## **INTERNAL AUDIT**

Made up of 16 professionals, Natura's internal audit team reports to the Audit, Risk Management, and Finance Committee. This structure guarantees the independence of auditors, who are free from interference from other areas of the company. In 2010, the team performed 33 audits of Natura's technical capabilities, management and operational processes, and international operations. This number far exceeded the 13 audits conducted in 2009.

Internal audits include a series of tests and procedures to evaluate the control environment and evaluate the potential for fraud and corruption. Of the 33 audits performed in 2010, 11 cases required investigation. Five of these cases ultimately were found to involve irregularities, and those involving misconduct resulted in the dismissal of six employees. Each of these cases led Natura to strengthen its control mechanisms.

## **SENIOR MANAGEMENT COMPENSATION**

Natura's executive compensation package intends to stimulate entrepreneurship and promote executive engagement, and is, in part, linked to the company's growth and capital appreciation. Our profit-sharing system for executives is based on multiples of base salary, in accordance with their duties. When this model was reviewed in 2009, the variable pay component was expanded, thus enabling the company to be more competitive.

The remuneration received by the chief executive officer, vice presidents, officers and senior managers is consistently linked to the commitment to our long-term project by means of the Stock Option or Share Subscription Plan.

The Share Purchase or Subscription Option Program has stipulated, since 2009, that adherence to the program is bound by the agreement of the executive to invest at least 50% of the amount received as profit sharing in the acquisition of Natura shares. The shares may only be exercised after a vesting period of three years for 50% of the shares, and of four years for 100% of the shares. In either case, there is an eight year validity, and the shares are not available for sale until the end of the third year.

In 2008, the Board of Directors established an annual limit of 0.6% of total shares and a maximum limit of 3% for the program. The model established in 2009, more aggressive than the previous year, set an annual limit of 0.75% and a maximum of 4%. In December 2010, the amount of options held by executives represented nearly 1.59% of Natura's shares, compared to 1.29% in December 2009. The number of Natura shares on December 31, 2010, totaled 430,881,416.

Since 2002, we have granted 19,638,804 options, of which 23% have been cancelled due to the resignation of executives.

NUMBER OF OPTIONS						
Plan	Granted	Exercised	Mature Balance	Non-Mature Balance	Cancelled	
2002	3,533,610	2,712,645	0	0	820,965	23%
2003	3,969,220	3,404,495	0	0	564,725	14%
2004	1,901,460	1,606,063	0	0	295,397	16%
2005	1,120,760	567,874	83,48	0	469,406	42%
2006	1,153,756	230,227	392,492	0	531,037	46%
2007	1,305,508	110,852	236,987	347,839	609,831	47%
2008	1,800,010	0	0	1,039,961	760,049	42%
2009	2,742,128	0	0	2,404,809	337,319	12%
2010	2,112,352	0	0	2,077,658	34,694	2%
<b>Total</b>	<b>19,638,804</b>	<b>8,632,156</b>	<b>712,959</b>	<b>5,870,267</b>	<b>4,423,423</b>	<b>23%</b>

APPRECIATION OF THE PLANS						
Amounts in Thousands of R\$						
Plan	Restated Amount of the Plan	Real Discount Obtained in the Year	Discount Obtained in the Year <sup>1</sup>	Potential Discount of the Mature Balance <sup>2</sup>	Potential Discount of the Non-Mature Balance <sup>2</sup>	Status of the Plan
2002	R\$ 6.85	42,412.4	52,216.3	0.0	0.0	Expired
2003	R\$ 3.84	66,917.3	79,701.6	0.0	0.0	Expired
2004	R\$ 9.44	26,152.8	29,308.9	0.0	0.0	Expired
2005	R\$ 20.25	6,712.1	7,032.5	2,302.6	0.0	100% Mature
2006	R\$ 30.17	2,664.6	2,739.4	6,930.7	0.0	100% Mature
2007	R\$ 28.53	1,703.9	1,742.2	4,573.2	6,712.4	50% Mature
2008	R\$ 22.16	0.0	0.0	0.0	26,700.5	Não Mature
2009	R\$ 24.17	0.0	0.0	0.0	56,909.6	Não Mature
2010	R\$ 35.46	0.0	0.0	0.0	25,706.1	Não Mature
<b>Total</b>		<b>146,563.1</b>	<b>172,740.9</b>	<b>13,806.6</b>	<b>116,028.6</b>	

1. Accumulated amounts, adjusted by the Brazilian IPCA (Extended National Consumer Price Index) until December 2010.

2. Price of Natura shares (NATU3) on December 30, 2010: R\$ 47.83.

50% Mature	100% Mature	Validity
10-apr-05	10-apr-06	10-apr-08
10-apr-06	10-apr-07	10-apr-09
10-apr-07	10-apr-08	10-apr-10
16-mar-08	16-mar-09	16-mar-11
29-mar-09	29-mar-10	29-mar-12
25-apr-10	25-apr-11	25-apr-13
22-apr-11	22-apr-12	22-apr-14
22-apr-12	22-apr-13	22-apr-17
19-mar-13	19-mar-14	19-mar-18

## VARIABLE REMUNERATION

Variable Remuneration is intended to recognize and reward the executives of Natura for their performance and results over the year, to guarantee a competitive compensation package and to align the interests of executives and shareholders. The total amount of annual profit sharing, the basis of the long-term compensation program, is limited to 10% of the company's net profit. With these limits, Natura has a consistent and well-controlled system that avoids distortions between remuneration and the company performance.

The variable component, whether short-term or long-term gains, allocates a larger amount for senior executives than for other employees. In addition to well-defined limits, all variable remuneration is tied to the effective attainment of targets and to the surpassing of minimum growth expectations established annually by management. Natura's performance, therefore, must reach a minimum set for this remuneration to be paid.

The criteria determining the variable component take into account three sets of performance indicators, all derived from the Strategic Planning. In 2010, the following indicators were used:

- Economic – Consolidated Ebitda, Brazilian and international operations;
- Social – Organizational climate survey in the Brazilian and international operations and the consultant loyalty index;
- Environmental – Carbon emissions;
- Other – Non-Service Rate (NSR), which shows the percentage of products that are unavailable when orders are placed by our consultants, in the Brazilian and international operations.

See below the remuneration amounts of the main staff groups:

2010	Average number of employees	Total salary (in millions) <sup>1</sup>	Total variable (in millions) <sup>2</sup>	Stock Options Plan for 2011 (in number of options) <sup>3</sup>
Board of Directors	6	2.64	2.08	-
Executive Committee	6	5.25	6.28	-
Senior Management and Officers	86	27.04	17.83	-
Middle Management	336	42.17	18.14	-
Administrative Staff	1,255	63.63	6.29	-
Sales Force	905	44.60	43.19	-
Operational Staff	2,542	41.89	10.33	-
<b>Total 2010</b>	<b>5,135</b>	<b>227.23</b>	<b>104.13</b>	<b>-</b>

1. Total Salary: Includes annual average base pay over 12 months (net) plus overtime in millions.

2. Total Variable: Bonuses, Profit Sharing and Sales Prizes paid over the year.

3. Stock Options: Plan for 2011 will be approved in March 2011.

2009	Average number of employees	Total salary (in millions) <sup>1</sup>	Total variable (in millions) <sup>2</sup>	Stock Options Plan for 2010 (in number of options) <sup>3</sup>
Board of Directors <sup>4</sup>	7	3.49	1.33	-
Executive Committee <sup>4</sup>	5	3.96	7.78	683,656
Senior Management and Officers	74	19.77	20.17	1,347,440
Middle Management	283	32.86	20.50	0
Administrative Staff	903	44.63	5.59	0
Sales Force	981	43.76	46.25	0
Operational Staff	2,239	37.09	5.59	0
<b>Total 2009</b>	<b>4,492</b>	<b>185.56</b>	<b>107.21</b>	<b>2,031,095</b>

1. Total Salary: Includes annual average base pay over 12 months (net) plus overtime in millions.

2. Total Variable: Total Salary plus Bonuses, Profit Sharing and Sales Prizes. Profit Sharing refers to the stated year, paid in the subsequent year.

3. The number of options refers to the plan of the current year.

4. Employee numbers revised after one member of the Executive Committee was mistakenly counted as a member of the Board of Directors in the 2009 report.

2008	Average number of employees	Total salary (in millions) <sup>1</sup>	Total variable (in millions) <sup>2</sup>	Stock Options Plan for 2009 (in number of options) <sup>4</sup>
Board of Directors <sup>5</sup>	7	2.64	1.33	0
Executive Committee <sup>5</sup>	6	5.45	7.29	694,726
Senior Management and Officers	81	24.31	21.22	2,040,931
Middle Management	302	39.85	22.57	0
Administrative Staff	971	53.54	8.67	0
Sales Force	1,097	43.81	40.06	0
Operational Staff	2,132	37.89	8.63	0
<b>Total 2009</b>	<b>4,597</b>	<b>207.50</b>	<b>109.77</b>	<b>2,735,657</b>



## 2.6 NATURA MANAGEMENT SYSTEM

OUR ACTIONS ARE INTENDED TO **ENGAGE AND INSPIRE OUR EMPLOYEES**, SUPPORTING THEM IN CLEARLY DEFINED PROCESSES, ENABLING THE IMPLEMENTATION OF THE COMPANY'S STRATEGY AND PLANS, AND GUARANTEEING THE EXPANSION OF OUR **DIFFERENTIATED BUSINESS MODEL**.

In order to organize the information flow across all Natura's processes and guarantee the alignment of decisions with our principles, the Natura Management System has been under development since 2008, when the model incorporated our Regional Units (in all Brazilian regions and international operations) and Business Units (by product segment).

The System is designed to reproduce our method of operating wherever we are by means of well-defined processes and routines, enhancing a non-centralized and integrated management model that allows greater independence for managers and greater proximity to consultants and consumers. The expansion of our international actions allows greater importance on the new model.

In the coming years, our challenge will be to have this integrated management system become understood and adopted by all Natura employees, becoming an intrinsic way of how Natura routinely does business. To assist with this challenge, we have identified 12 interrelated priority components that are critical to the success of the Natura Management System: leadership, strategic planning, relationships, sustainability, learning, individuals, processes, brand, culture, customers, innovation, and triple bottom-line results.

The component of this new management system that is in the most advanced stage of completion is the Management by Process model, which was established with the creation of our Business Units and Regional Units. In 2010, we fully integrated 22 key processes in Natura. To guarantee proper implementation, we stage assessments and process certification. We have created indicators for each process and have designed six new processes to be certified in 2011. This has created a more effective structure for monitoring of Natura's 18 strategic projects. They are all directly attached to our growth proposal for the coming years and they have been approved by the Board of Directors. They are also regularly monitored by senior management.

# 3. WHAT WE AIM FOR

**WE BELIEVE IN  
THE TRANSFORMATIVE POWER  
OF PEOPLE, COMPANIES,  
NETWORKS, AND COMMUNITIES,  
AND WE WANT TO PLAY A  
LEADING ROLE IN THE  
EVOLUTION OF  
OUR SOCIETY.**

## 3.1 OUTLOOK AND STRATEGY

OVER THE PAST THREE YEARS, **WE HAVE COMBINED** SIGNIFICANT **BUSINESS GROWTH** WITH CHANGES IN OUR MANAGEMENT AND INFRASTRUCTURE MODEL AND IN OUR **RELATIONSHIPS WITH STAKEHOLDERS.**

As a result of these intense structural developments, Natura is poised to take advantage of opportunities in the cosmetics, fragrances and personal care market in Brazil and Latin America. We are strengthening our competitive advantage at a time when our region enjoys a positive outlook. The expansion of manufacturing, the participation of women in the job market, falling unemployment, and rising family incomes have led to prolonged periods of economic growth in several Latin American countries.

We understand that the attractiveness of our market results in increased competition. We believe, however, that the Brazilian market still offers many growth opportunities through the regionalization of our operations and by filling the space where our brand is not yet present. Our international operations are becoming stronger year after year. We now have the infrastructure, market knowledge, leadership, products, sales channels, and relationship networks needed to increase our share in these markets.

We are entering a cycle in which innovation is increasingly relevant in all aspects of our business — not only in product development, but also in our sales model, in building relationships, and in finding solutions to social and environmental challenges. Inspired in our culture, we intend to deepen the search for solutions related to the performance of our role as change agents in society.

### STRUCTURAL CHANGES

In 2010, we initiated international production through partnerships. The shift from an exportation model to a local production model will benefit society and reduce environmental impacts, in a combination that enables the construction of a sustainable development model.

Operations in Argentina started in the second half of 2010 with perfume-bottling activities. In 2011, we will initiate operations in Mexico and Colombia. Within three years, we intend for 50% of revenues from our international operations in Latin America to come from products manufactured outside Brazil. When fully deployed by 2013, this new manufacturing structure will eliminate 70% of greenhouse gas emissions that result from supply logistics in these countries.

We restructured some executive positions to monitor operations more closely, giving us the agility required for superior management. We merged our Business and Internationalization vice presidencies and created two general executive offices, one for Brazil and another for international operations. These initiatives provided our leaders with greater autonomy and our Executive Committee with a more global and strategic vision. In January 2010, our office in Buenos Aires, Argentina, began to manage our international operations.

We expect this new production-and-logistics model to drive expansion in our domestic and international business. Additional innovations in the planning stage will improve the assistance we provide to our sales consultants and consumers.

We have made significant investments in information technology, which will support our growth cycle in the coming years. This initiative will provide greater scalability, integration, and connectivity to our systems platform. Approximately 85% of orders from our sales consultants are received via the Internet.

To prepare for the changes taking place at Natura, we will transfer our administrative unit and the distribution center in Itapeverica da Serra this year to a new facility in the city of São Paulo. We understand that these changes, which aim to provide employees with better working conditions, will also impact the local community, especially with respect to tax collection. To mitigate these impacts, we are engaging in a dialogue with the municipal administration about the pending relocation and our plans to continue to invest in the community (learn more on page 68, Surrounding Communities). Some administrative functions now based in Cajamar, as well as the picking center (preparation of boxes with products for sending to consultants) will also be transferred to São Paulo.

## OUR PLANNING

In 2010, we set up a new Strategic Planning cycle for the period from 2011 to 2015. We defined targets and identified critical success factors, indicators, and milestones required to achieve our objectives.

We know that the success of this initiative rests in part on our ability to develop leaders whose actions align with our Essence so that they can become real agents of social transformation. We also intend to create an internal environment with constant learning opportunities, supported by a strong organizational culture enhanced by the many countries in which we operate. We place a high priority on taking advantage of opportunities that derive from connectivity so that we can foster sustainable development.

These elements will guide our strategic planning for the next five years, allowing us to maintain our leadership position in Brazil and to expand our direct sales model in Latin America. They will also help us generate more value for Natura's stakeholders. As a result, we will continue to delight and be delighted by our customers, fostering our well-being well concept in an innovative manner; strengthening our brand, and maintaining the quality of relationships with our stakeholders.

Thinking about the future is the first step toward innovation. In 2010, one outgrowth of our strategic planning process was the development of our 2030 Vision. With the support of senior management, we stretched our vision beyond the five-year planning cycle to focus on long-term scenarios and potential challenges.

Given the potential scenarios we predict for the world in 2030, we note one positive trend: a growing collective awareness awakened by the threat posed by climate change. Nevertheless, if current patterns of production and consumption are maintained, environmental degradation may take on devastating proportions.

In this context, we should reassert our position as social change agents and channel our capacity to innovate towards finding a balance in our business activities, by investing in new technologies and production practices, and by influencing the partners in our production chain – from suppliers of raw materials to our consumers. We want to be part of the network of organizations committed to the creation of a new model of development.

## EXECUTIVE SUMMARY OF THE VISION OF NATURA IN 2030

One quick look at what humanity is experiencing reveals the inequality, corruption, hunger, disease and war that plague our societies. Against this backdrop, the environmental devastation and growing global warming, also consequences of man's actions, indicate that our life in 2030 is under threat.

Faced with this desolate outlook, globalization presses on with fast-growing economic activity in large centers, but without the global governance aimed at solving the socio-environmental challenges. Nevertheless, given the scale of the threat posed to the future of the planet, we have noticed the awakening of a collective awareness of respect for life rising above any other value or interest.

When confronted with this new hope, we see that our range of beliefs, values and Reason for Being will become even more appreciated. We also believe that Brazil could be a source of inspiration for this imbalanced world that is advancing rapidly towards globalization and universalization. Brazil could inspire the world, since it is an extremely diverse country abounding with cultural, social and environmental wealth. And, like the Brazilian company we are, we will help us become a leading country in the development of a new economy for the 21<sup>st</sup> century.

To be living in this world in constant transformation not only inspires us, it also motivates us towards a more radical, broad and thorough application of our values. We all have the opportunity to contribute to the development of a new civilizational process and we believe that the international community will increasingly appreciate the initiatives of companies that are committed to this change.

At Natura, we shall continue our dedicated pursuit of balance in our business activities, diminishing our negative impacts on the environment until we can guarantee positive processes throughout our production chain. At the same time, and with just as much determination, we will try – demonstrating the contagious enthusiasm that the world needs – to fulfill our vocation as social change agents, justly remunerating the network involved in the development and sale of our products and providing inclusion opportunities for the excluded population. We need to share knowledge and opportunities so that everyone can, in a positive and autonomous manner, be part of a collective awareness of respect for life, for the human condition and for the planet.

Therefore, we believe that our brand will enjoy global presence and recognition, and that we will be known for our pioneering work in the development of new business based on the transformation of socio-environmental challenges into opportunities. We also believe that we will be part of a network of interconnected entrepreneurs and companies recognized for producing leaders who are committed to the creation of a new model of development.

With equal responsibility, we shall employ our capacity to innovate more comprehensively, considering the integral vision of the human being and our mission to creatively meet consumer needs, while also seeking to respect and preserve the threatened web of life, taking our inspiration from the collective dream to shape a healthier future for the planet.

## **SUSTAINABILITY MANAGEMENT**

The way we do business is guided by our search for a sustainable development plan. We are aware that the joint management of economic, social and environmental aspects of all processes is a major challenge. However, we have managed to effectively incorporate this integrated vision into our routine operations. Sustainability is one of the cornerstones of our processes and a part of Natura's Strategic Planning, which is approved by the Board of Directors and closely monitored by senior management. Our main socioenvironmental indicators serve to integrate the company's strategic plan, and these indicators are communicated to all business units to guide their processes.

The Executive Sustainability Office is responsible for this process, educating and disseminating practices throughout the company. In both Brazil and in our international operations, we rely on a network of sustainability leaders who convey global practices to each unit and assure that these practices are integrated into decision making. Our Biodiversity Management Group systematically monitors our sustainable use of biodiversity so that through technology development, stewardship, ethical trade actions, and benefit sharing, we preserve natural resources and have a positive impact in our local communities.

We also seek to make continual progress in the construction of our materiality matrix. This involves a process of determining which aspects of our company's sustainability efforts are viewed as most relevant by our stakeholders. This process is carried out every two years. The results of the actions related to our six priority topics in 2010 (Amazon, Biodiversity, Greenhouse Gas Emissions, Education, Product Impact and Quality of Relationships) are reported to Natura's senior management by the Sustainability Committee. In 2010, for the first time, we invited our international operations to take part in this process. The new materiality matrix will be included in the next reporting cycle and incorporated into 2011 strategic planning (learn more on page 109, About this Report).

Maintaining the quality of the relationships we have established with our stakeholders is also part of our sustainability management process, and this includes our educational programs on relations and dialogue with stakeholders (read more on page 38, Quality of Relationships).

## 3.2 HIGH PRIORITY SUSTAINABILITY TOPICS

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### AMAZON

WE SEE THE AMAZON REGION AS A STRATEGIC DRIVER FOR **BRAZIL'S ECONOMIC DEVELOPMENT**. FINDING NEW OPPORTUNITIES FOR SUSTAINABLE USE OF THE AMAZON'S RESOURCES IS PARAMOUNT TO GUARANTEEING QUALITY OF LIFE FOR **FUTURE GENERATIONS**.

Twelve years ago, we decided to incorporate biodiversity assets into our products in a sustainable manner, respecting the ways of traditional communities and the livelihoods of local families.

Based on this experience, we developed the Amazon Program, which seeks to stimulate the creation of sustainable supply chains and new businesses based on science, innovation, and entrepreneurship, in addition to the natural and cultural resources offered by the region. Through the Amazon Program, we can contribute to sustainable development proposals that offer opportunities to local inhabitants while keeping the forest standing.

In preparing this strategy, we reflected on the lessons of our previous actions and from workshops on the Amazon with Natura's senior management. The knowledge gained from these actions gave rise to the program, which is based on the expansion of our activities in science, technology and innovation; sustainable production chains; and the region's institutional strengthening.

#### PALM OIL

We convened a panel of key opinion leaders, experts, and representatives of civil society, government, and nongovernmental organizations to discuss a sustainable model for palm cultivation in the region. What we learned from this process gave rise to the Amazon Program, which allows us to build guidelines that will help us to develop a balanced production plan.

Because of improper agricultural practices that have damaged ecosystems in Asian countries, the production of palm oil has negatively affected the biodiversity in tropical forests. However, we believe that the sustainable production and use of palm oil is possible, driving income generation and regional development.

In 2010, we joined the Roundtable On Sustainable Palm Oil (RSPO), a global initiative led by the WWF to certify the production process and assure compliance with social, environmental and economic criteria. Our palm oil supplier, Agropalma, has begun the process to certify its production and Natura will pursue its own certification once this has been completed.

We want to accompany the national discussions on the impact of palm and engage in dialogue with regional leaders to develop a domestic plan for sustainable production. Since 2008, we have been working in partnership with Embrapa to research agroforestry systems for palm production in conjunction with other species in the Amazon, and its combined use with other oilseed crops.

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# BIODIVERSITY

WE RECOGNIZE THAT COMPANIES, SOCIETY, AND GOVERNMENT **SHARE RESPONSIBILITY** FOR THE CONSERVATION OF BIOMES AND FOR PURSUING ECONOMIC OPPORTUNITIES FOR THE **SUSTAINABLE MANAGEMENT OF NATURAL RESOURCES.**

Our experience shows that production processes with lower environmental impact and innovative solutions may generate positive results for both society and business. Our production model involves some 2,300 families in Brazil and is based on the creation of fair trade and compensation for the use of genetic heritage and traditional knowledge, proper handling of raw materials, and promotion of local development (learn more on page 30, Supplier Communities). Our operations are guided by the Policy for the Sustainable Use of Biodiversity and Cultural Heritage, created in 2008 based on the Convention on Biological Diversity (CBD), which establishes guidelines for the use of raw materials and for the sharing of their benefits.

Reaffirming our leadership role in the area of biodiversity, we headed the Brazilian Business Movement for the Conservation and Sustainable Use of Biodiversity . More than 80 participating companies and civil organizations signed a letter declaring their commitment to the conservation of Brazilian biodiversity. This document encourages the government to define a regulatory framework that fosters research and scientific advances that integrate production, use, and conservation. The Movement sent the letter to the federal government and presented it at the 10th Conference of the Parties to the Convention on Biological Diversity (COP 10), in Nagoya, Japan.

As a result of this imperfect legislation, in 2010 we received infraction notices from the Brazilian Institute of the Environment and Renewable Natural Resources (Ibama) for alleged irregular access to biodiversity (learn more on page 80, Creation of Environmental Value).

“SUSTAINABILITY SHOULD BE SEEN AS AN INTEGRAL, INSEPARABLE PART OF THE BUSINESS.”

**Christian Moura**, Supplier:

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## EDUCATION

EDUCATION IS A **MAJOR CHALLENGE** THROUGHOUT LATIN AMERICA. THE GEOGRAPHICAL OUTREACH OF **OUR BUSINESS OFFERS THE SCOPE AND CONDITIONS** FOR LARGE-SCALE PROJECTS AND INITIATIVES, POSITIVELY INFLUENCING A MOVEMENT FOR THE NEED FOR **QUALITY EDUCATION.**

In 2010, we created the Natura Institute, a non-profit organization that is responsible for all our private social investment. Through the Crer para Ver (Believing Is Seeing) program, we invest the proceeds from the sale of a special line of products into initiatives that can affect the quality of education in Brazil and Latin America. In addition, we offer educational technologies to society that can have a positive influence on public education policies to improve literacy skills for preschool-aged children. This would be similar to what we achieved in Brazil with the Trilhas (Trails) Project, and we will share this with the Ministry of Education. In 2010, the Crer para Ver program obtained the highest funding in its history, R\$10 million, 168% higher than the previous year. Revenues from international operations contributed R\$1.3 million to this program in 2010 (learn more on page 93, Creation of Social Value).

Our concern with education extends to our employees, suppliers, and consultants. At a time when Brazil faces the challenge of finding a qualified workforce to drive its development, there is a clear shortfall in secondary, technical, and higher education. Accordingly, we seek to offer our employees education and professional development for all positions. In 2010, we created a program for the operational staff that links career development to education. We also significantly increased the number of young apprentices and launched a program that prepares these young workers for the professional market (learn more on page 44, Employees).

In 2011, we will offer preparatory courses for job openings at Natura in the community of Cajamar to increase the number of qualified candidates at Natura and other companies (learn more on page 68, Surrounding Communities). We also invest in the training of our consultants. In 2010, more than 500,000 consultants participated in training; most had less than 3 years of experience working for Natura (learn more on page 54, Consultants and NCAs).

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## GREEN HOUSE GASES

WE KNOW THAT ONLY **SIGNIFICANT CUTS** IN THE VOLUMES OF CARBON LAUNCHED INTO THE ATMOSPHERE WILL EFFECTIVELY **CONTAIN THE FORCES THAT CREATE CLIMATE CHANGE.** TO HELP TO ACHIEVE THIS, WE CREATED THE **CARBON-NEUTRAL PROGRAM** IN 2007.

Besides offsetting our emissions through support to socioenvironmental projects, we committed to reducing our relative greenhouse gas (GHG) emissions by 33% between 2007 and 2011. By the end of 2010, we had reached a total reduction of 21%, even with an increase in production. Given what we have learned over these past five years, we have deferred our achievement of this goal to 2013.

Due to the reduction obtained in the last four years, even with the increase in our production, we have learned important lessons. Today, the carbon issue is an integral part of Natura's strategy and influences the company's decision making. We have adopted innovative initiatives and conducted an in-depth analysis of the impact of our processes so that our managers understand the contribution of each process to GHG emissions.

We carried out a broad diagnosis of our operations in 2010 to identify new opportunities for reducing and mobilizing the entire company so that these targets are met. The new study includes the expected gains from various ongoing structural projects, from the revision of product mass and use of biopolymers in packaging to the distribution process with the new logistic model and the start of international manufacturing.

The complexity of these actions, involving a deep transformation of how we run our business, partially explains the revision of our goals. An important point to highlight is that our commitment to reduction is not limited to our own operations, but also the extraction of raw materials by all our suppliers, which makes our reduction efforts all the more complex and our achievements all the more significant. (Learn more on page 80, Creation of Environmental Value).

We also face the additional challenge of reducing 2012 absolute emissions in the Brazilian operation by 10% from 2008 levels. These are emissions that result from our internal production processes. We maintained our target despite delays in the implementation of internal programs that could help us achieve this goal, and despite the change in the Brazilian electricity matrix. The latter increased the use of thermal plants, thereby raising the rate of carbon emissions to produce electricity.

“ IT IS NOT EASY TO CHANGE THE POLITICS OF A COUNTRY. BUT IT IS POSSIBLE TO EDUCATE AND CREATE A CRITICAL MASS THAT WILL MAKE SUSTAINABLE DECISIONS. ”

**Claudia Rodríguez**, civil society organization representative



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## PRODUCT IMPACT

ONE OF OUR PRIMARY CHALLENGES IS TO REDUCE THE IMPACT CAUSED BY THE **MANUFACTURE, DISTRIBUTION, AND USE** OF OUR PRODUCTS. THIS HAS LED US TO INVEST IN PRACTICES AND TECHNOLOGIES THAT AIM TO **MINIMIZE THESE IMPACTS**, ESPECIALLY IN TWO ASPECTS: MANAGEMENT OF **SOLID WASTE** AND **WATER CONSUMPTION**.

The management of solid waste was a priority in our discussion panels with stakeholders. In 2010, we developed a more extensive program, enlisting the help of 40 people, among packaging manufacturers, garbage collectors, industry professionals, academics, specialists, and consumers in defining issues and guidelines for improvement. Our first action, to be implemented in 2011, will be to work with our suppliers and outsourced production partners to search for efficiencies and innovative waste solutions — from the time raw materials are extracted all the way through postconsumption.

It is worth mentioning that new concepts were acknowledged in the recently instituted National Policy for Solid Waste, such as the priority assigned to reduction prior to recycling and the responsibility of the consumer, who is a part of the chain. The business community now faces the additional challenge of searching for alternative treatments for its waste, including in the postconsumption phase.

Management of water consumption is another priority. This year, we decided to broaden the analysis of our impact on this natural resource. Previously, we had focused on our internal processes and our main suppliers. More recently, however, we started to use the water footprint concept, which gives us a more comprehensive vision of the impact of water usage throughout the life cycle of a product or process. The water footprint includes not only consumption, but also the potential for pollution. In 2009, we became a partner of the Water Footprint Network (WFN) group, the purpose of which is to promote sustainable, equitable, and efficient use of water. In 2010, we used the methodology described in the Water Footprint Manual in two of our products to learn how this applies to our business. Natura is the first cosmetics company in the world to use this methodology in the manufacture of cosmetic products (learn more on page 80, Creation of Environmental Value).

“ THE FOCUS IS ON HOW TO FACE THE PROBLEM. LITTLE HAS BEEN DISCUSSED ABOUT HOW NOT TO GENERATE IT. ”

Lucio Di Domenico, civil society organization representative

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## QUALITY OF RELATIONSHIPS

WE BELIEVE THAT **SOLUTIONS** TO THE CURRENT CHALLENGES FACED BY HUMANITY ENTAIL A **COLLECTIVE PROCESS OF THINKING ABOUT THE FUTURE** WITH A FOCUS ON RAISING **AWARENESS** AND **DIALOGUE**. THEREFORE, NATURA BELIEVES IN THE IMPORTANCE OF MAINTAINING THE QUALITY OF ITS RELATIONSHIPS.

We invest in the development of efficient channels for dialogue, in sharing experiences, in transparency, in ethical behavior, and in the creation of opportunities to find shared solutions.

We rely on formal channels of interaction, such as the Natura Service Channel and Natura Consumer Service Channel, specifically created for our consultants and consumers. Through our Ombudsman's Office, our employees, suppliers, and Natura Consultant Advisers can also obtain information or file complaints.

Our objective is to listen to our stakeholders, who we believe can help us improve the way we plan and manage our operations. Last year, we demonstrated this by hosting discussion panels that ultimately led to the establishment of a series of new initiatives at Natura. These initiatives included a waste management program (learn more on the previous page, High-priority Topics/Product Impact) and our position on the sustainable use of palm (learn more on page 29, High-priority Topics/Amazon). The results of these dialogues influenced our decision-making and the development of our strategic planning, and also helped us develop our processes and behaviors, which contributed to raising the standard of our relationships. We also started to include our international operations in the process of defining the materiality matrix (learn more on page 109, About the Report), by holding discussion panels in Colombia, Mexico, Peru, and Argentina in 2010, and in Chile in March 2011 (learn more on page 39, Quality of Relationships).

# 3.3

## INNOVATING INNOVATION

INNOVATION IS AT THE CENTER OF NATURA'S **VALUE CREATION** AND INVOLVES ALL THE COMPANY'S **STRATEGIC PILLARS**. IT IS EXPRESSED THROUGH THE INNOVATION OF OUR PRODUCTS, SALES MODELS, THE MANAGEMENT SYSTEM AND THE WAY IN WHICH WE TRANSFORM SOCIAL AND ENVIRONMENTAL CHALLENGES INTO OPPORTUNITIES FOR LEARNING AND SUPPORTING **SUSTAINABLE DEVELOPMENT**. FOR US, INNOVATION MEANS **CREATING A FLOW OF WELL-BEING WELL** THAT SURPASSES THE EXPECTATIONS OF OUR STAKEHOLDERS.

Two important developments took place in 2010: the construction of our Vision 2030 (learn more on page 23) and Natura's Vision of Innovation. These independent projects give us a long-term perspective, outlining future opportunities and defining the paths we want to follow.

We have identified the need to develop new competencies, beyond the classical sciences, developing a more comprehensive approach. These strategies include increasing our knowledge of sciences that govern sustainability, social biodiversity, and sensorial experience, while pursuing innovation in other fields of knowledge associated with the perceptions, behaviors, and rituals of groups of people. Through these new strategic fronts, we are fine-tuning our direction in science and technology.

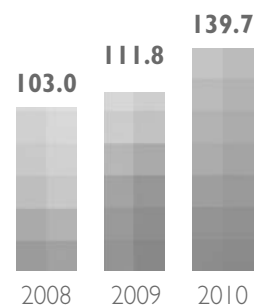
This vision has also reinforced our commitment to searching for alternatives to reduce our environmental impact and to embracing the principles of ecodesign (the development of products, processes, and services that take environmental impact into account). As part of this commitment, for example, Natura established a carbon-emissions limit for the approval of new products in the company (learn more on page 63, Creation of Environmental Value).

Among other innovative initiatives in sustainability management, we prepared a methodology for evaluating the social and economic impacts of our suppliers (learn more on page 49, Suppliers) and developed a pilot experiment to calculate the water footprint of two products in our portfolio – including, in addition to our own operations, the consumption from extracting the raw material. (learn more on page 63, Creation of Environmental Value).

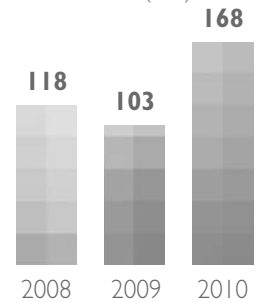
To support these changes, we expanded our investments in research, science, and technology, and in the creation of knowledge networks. The investment of our net revenues in innovation-related activities increased to 2.8% (R\$139.7 million). This amount was invested exclusively in science and technology, innovation management and partnerships, product development and marketing, regulatory affairs management, and product safety (graphs 1 and 2).

Strategic portfolio management dictates that the ideal level of innovation, as measured by the Innovation Index (see formula below), should range between 55% and 65%. In 2010, we recorded 61% that guaranteed to Natura a differentiated market presence and the appropriate strength to the channel.

1. INVESTMENT IN INNOVATION (R\$ MILLIONS)



2. NUMBER OF PRODUCTS LAUNCHED (UN)



## INNOVATION INDICATORS (%)

	2008	2009	2010
Percentage of net sales invested in innovation	2.8	2.6	2.8
Innovation Index <sup>1</sup>	67.5	67.6	61.4

1. Gross revenues for the past 12 months from products launched in the past 24 months, divided by total gross revenues for the past 12 months.

Natura's innovation is sustained by its search for excellence in:

- Scientific research to identify ingredients from Brazilian sociobiodiversity and to enable the use of these new ingredients in the manufacturing of products that offer special benefits;
- Scientific fundamentals on hair and skin, and in-depth knowledge of consumer needs;
- New models and methods to ensure product safety and global strategies on regulatory matters;
- Cosmetic Vigilance System, which monitors possible adverse impacts of products, supports the consumer, and drives the innovation process;
- Focus on scientific understanding of controversial ingredients and replacement strategy;
- Systemic understanding of well-being and its relations in the physical, emotional, cultural, and social dimensions;
- Concept creation and development of new products that provide a continuous flow of product launches in both the short and long term;
- New packaging, and other innovative and different ways of providing benefits to the consumer, with the lowest possible environmental impact;
- Transformation of socio-environmental challenges into business opportunities and products, including the sustainable use of natural resources, social biodiversity, ecodesign, and environmental indicators.

We launched products with concepts that are deeply connected to our beliefs, leading the consumer toward new ideals and experiences. One example is Natura Chronos, a line of anti-aging cream, which we relaunched last year. Knowing that signs of aging can differ among women in the same age group, we developed an innovative product designed for people with different skin types rather than one based on a consumer's age.

The new Amó fragrance, meanwhile, is intended to stimulate the senses, the intimacy and the closeness between people. The product line aims to encourage consumers to reflect on their relationships and propose the redemption of true love.

Similarly, when developing the new Natura UNA cosmetic line, we reflected on the motivation behind wearing make-up and its symbology. In addition to using high performance raw materials, the new line is also innovative in its packaging and in the ingredients used in the products, combining sophistication and naturalness.

The high technology at the service of sustainability was also spotlighted with the launch of refills for the Natura Erva Doce liquid hand soap, which use green polyethylene made from sugarcane. It is the first cosmetic with this kind of packaging available on the market, helping us meet our product impact reduction target (read more on pages 86, Creation of Environmental Value).

## OPEN INNOVATION

The broadening of the scope of innovation in 2010 is part of our open innovation strategy, first developed in 2005. This strategy is the foundation for the development of our products, processes, and tools, through partnerships with science and research centers in Brazil and abroad. In 2010, we teamed up with leading technological centers, such as the Massachusetts Institute of Technology, in Boston, United States of America, and we streamlined relationships with our other international partners. We also qualified 27 employees in innovation management through the international certification program offered by the Hult Business School in partnership with the IXL Center. This qualification is accredited by the Global Innovation Management Institute.

We improved employee training to include the development of innovation competencies, including: how to best generate new ideas and concepts; how to leverage technological convergence and our knowledge of sustainability; and other themes related to our Essence. Staff in our business units and Brand and Sustainability departments received more than 8,000 hours of innovation training in 2010. Additionally, we offered technical and functional training in the more traditional areas of science and technology.

We believe that a scientific foundation, together with the systematic acquisition of knowledge using the open-innovation model, will enable the creation of innovative concepts and ideas, enabling more rapid development of new products and processes at a reduced cost to Natura.

## NATURA **CAMPUS**

Created in 2007, the Natura Campus Technological Innovation Program is part of our open innovation program. It has the support of the National Council for Scientific and Technological Development, the São Paulo State Research Support Foundation, and the Research and Financing Projects of the Brazilian Innovation Agency to develop partnerships with the academic community. These institutions contribute to the joint financing of projects and provide participants with equipment, scientific scholarships, and research materials.

The Natura Campus Portal ([www.natura.net/campus](http://www.natura.net/campus)) registered 6,000 visits in 2010. It contains a database of voluntary researchers and has 280 research groups linked to 108 science and technology institutions. The website, which was updated last year, is an important tool for our relationship with the academic community. Through this portal, we received 13 new proposals from nine institutions. Two of these proposals have already been approved.

We staged the second edition of the Natura Innovation Award last year, and the winning project was a study by the Institute of Nuclear Energy Research, which intends to develop a non-invasive methodology for making skin diagnoses. Held every two years, the award, supported by the Brazilian Development Bank (BNDES), recognizes Brazil's scientific production and its contribution to the technological innovation process at Natura.

In 2010, we received R\$900,000 in financial support from Finep for research and development projects. We also obtained another R\$135.7 million in BNDES financing for innovation, industrial training, logistics and information technology.

## **COMMERCIAL AND RELATIONSHIP INNOVATION**

Commercial innovation was in the spotlight last year after the creation of a committee dedicated to this area. We also increased the use of digital tools in our contact and relationships with our sales consultants and consumers. This year, our sales consultants placed 85% of their orders through the Internet. We continued to improve our relationship with consultants through use of the "Consultancy" blog ([www.blogconsultoria.natura.net](http://www.blogconsultoria.natura.net)) and Twitter; we use these media to give our consultants information about our actions, products, and sustainability measures (learn more on page 45, Consultants and NCAs).

Internet access to the Natura digital magazine ([www.natura.net](http://www.natura.net)) increased more than 100% in the period. In February 2011, we launched a version of this publication for the iPad. This application allows for more interactive contact and gives users a 360-degree view of the products. Additionally, on the make-up pages, users can change the color of the products used by the model and gain access to make-up hints. Our pages on Facebook and Twitter and our blogs have also become strategic relationship tools that allow us to offer flexible assistance to our consumers (learn more on page 59, Consumers).

We also redesigned, in February 2011, the Natura Conecta portal ([www.naturaconecta.com.br](http://www.naturaconecta.com.br)). This allowed us to continue improving the company's use of virtual instruments in its relationship with stakeholders (learn more on page 38, Quality of Relationships).

## 3.4 COLLECTIVE CONSTRUCTION

WE SEEK TO INCLUDE DIFFERENT PERSPECTIVES AND TO **STRENGTHEN TRANSPARENCY** REGARDING THE DISCLOSURE OF OUR RESULTS BY MEANS OF **INNOVATIVE AND COLLABORATIVE TOOLS**. THIS STRATEGY IS PART OF OUR GOAL TO CONTINUOUSLY INCREASE THE SPACE GIVEN TO OUR **STAKEHOLDERS TO EXPRESS THEMSELVES**.

As part of the preparation of this annual report, we relied once again on the Wiki Report, a virtual community of the Natura Conecta platform ([www.naturaconecta.com.br](http://www.naturaconecta.com.br)) open to the participation of anyone who is interested in our activities. This is an innovative and collaborative experience that enables continuous improvement by capturing the opinions and suggestions of different stakeholders.

The discussions held in the virtual forums gave rise to "The Natura we share" letter, published in our 2009 annual report. In 2010, we did not make the progress we had hoped for because of the reframing of Natura Conecta, which was relaunched in February 2011 (learn more on page 3, Quality of Relationships). We hope to increase the use of this tool and transform the Wiki Report into an active forum for discussion.

We used Wiki to build Natura's new corporate materiality matrix. The main issues identified in dialogues online in Brazil and in our international operations were put to a vote by the online community. More than 150 participants chose the most relevant issues. The results are being analyzed and the new materiality matrix will be disclosed in 2011.

Another initiative to promote dialogue with our stakeholders was the panel to discuss the "Future of the Report." The meeting, held in December 2010, engaged experts in communication and sustainability, as well as employees and suppliers involved in our reporting process, in a discussion about choices for the next 20 years. Many promising ideas arose from this event. Some of the subjects that participants discussed are in line with our goals; these include the need to create more collaborative platforms for reporting and to establish multidisciplinary teams to run the process of disclosing our financial results. The discussions have continued on the virtual platform.

As a result of this meeting, we expanded our most recent annual disclosure. In addition to the traditional videoconference for investors and analysts, we organized an open conference to present our results. This event, held on February 25, 2011, was chaired by Natura's CEO and the Senior Vice President of Financial, Legal, and Information Technology Affairs. The executives presented the key economic, social, and environmental highlights of 2010, and answered questions from participants.

Our goal is to continue to expand these collaborative opportunities. To participate in Natura Conecta, register at [www.naturaconecta.com](http://www.naturaconecta.com) and join the Wiki Report community.

# 4. WHO WE WORK WITH

OUR RESULTS  
ARE THE FRUIT  
OF COLLECTIVE  
CONSTRUCTION.  
THUS, WE SEEK TO  
DEVELOP SPACES AND  
**QUALITY**  
RELATIONSHIPS  
THAT ENABLE THE  
**JOINT CREATION**  
OF SOLUTIONS

## 4.1 QUALITY OF RELATIONSHIPS

SINCE 2009, NATURA HAS BEEN DEVELOPING STRUCTURED **RELATIONSHIP-MANAGEMENT** PRACTICES. THESE PRACTICES ENCOURAGE A COLLABORATIVE APPROACH TO FINDING SOLUTIONS TO CHALLENGES WE ALL FACE. THIS SPIRIT IS REFLECTED IN THE IN-PERSON **DIALOGUE PANELS** WE HOLD WITH OUR STAKEHOLDERS, AS WELL AS IN EVENTS THAT INTENDED TO **IMPROVE THEIR SELF-DEVELOPMENT AND AWARENESS.**

In 2010, we heard from 824 people through meetings with employees, consultants, shareholders, suppliers, supplier communities, consumers, the media, and people from the surrounding communities. We also included others in this process — experts on specific issues, key opinion leaders, and representatives of government and civil society.

In all, we held 22 dialogue panels, more than twice as many as in 2009, when nine meetings were held. They included dialogue panels held in our operations in Latin America (Colombia, Mexico, Peru, and Argentina), which together contributed to the construction of our materiality matrix. The purpose was to develop a corporate matrix that reflects the interests of stakeholders from all operations. In February 2011, this cycle will be concluded with the organization of a meeting in Chile. Key issues identified in this process become part of our strategic planning (learn more on page 136, About This Report).

In addition to this quantitative accomplishment, we experienced significant advancements in quality. Through a process of “co-construction,” participants discussed priority issues, such as the mapping of external factors linked to our production chain, in partnership with suppliers (learn more on page 49, Suppliers), and the initiatives related to the sustainable use of palm oil and solid waste management (learn more on page 28 and 32, High-High-priority Topics/Amazon and Impact of Products).

In 2011, we relaunched the Natura Conecta virtual network ([www.naturaconecta.com.br](http://www.naturaconecta.com.br)), which now has its own platform and is integrated with other Natura virtual communities. Because of this relaunch, the use of virtual resources to build relationships with stakeholders did not reach the extent we envisioned; however, these activities have resumed, and everyone who is interested in our business is invited to participate (learn more on page 37, Collective Construction).

With the goal of building transparent and straightforward relationships, we organized a series of actions for different stakeholders. One such activity was the Reflection Cycle on Cultural Biology, with biologist Humberto Maturana and professor Ximena Dávila. This event was designed to foster awareness and generate positive change in relationships. We also continue to develop the *Você tem fome de quê?* (What Do You Crave?) program by including stakeholders beyond our employees. This program involves lunch-hour talks at the Cajamar unit. In 2010, presenters included top international thinkers, such as quantum physicist Amit Goswami, American entrepreneur Charles Watson, Massachusetts Institute of Technology innovation specialist Otto Scharmer, and spiritual teacher Diane Hamilton.

For the first time ever, we held a meeting with former employees. The event in Cajamar brought together more than 200 people. We thanked each of them for their contributions to the company, seeking to build relationships of friendship and trust with this group.

Among the activities to promote individual development, we staged the Reflection Cycle on Cultural Biology with the Chilean biologist Humberto Maturana and the human relations professor Ximena Dávila. This activity was intended to raise the awareness of the participants and generate positive changes in relationships. Some 100 representatives from different stakeholder groups took part in the activities.

We also organized a series of eight lectures as part of the program “*Você tem fome de quê?*” (What do you crave?), offering other stakeholders, including our employees, the opportunity to participate. The program is held periodically during the lunch period at our headquarters in Cajamar. In 2010, lectures were given by leading international thinkers, such as the Indian physicist Amit Goswami, the creative process specialist Charles Watson, the Massachusetts Institute of Technology professor Otto Scharmer and the Zen Buddhist teacher Diane Hamilton.

We also gave away 100 free admissions to the International Conference of the Ethos Institute 2010, which was held under the theme “The World Under New Management – Sustainability: Society’s New Contract with the Planet”.

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#### DIALOGUE PANELS HELD IN 2010

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Stakeholder	Number of participants	Date (month) and Place	Main topics
Consumers	22	January/2010 Cajamar (SP)	Analysis of Natura's strategy based on the pillars of product, channel and corporate behavior
Surrounding community	10	April/2010 Cajamar (SP)	Presentation of the new system of resource allocation for the Municipal Councils of Children and Adolescents (CMDCA's); discussion and agreement of the principles of relationship
Consultants	33	May/2010 Cajamar (SP)	Diagnosis of problems and opportunities for improvement of consulting activities
Surrounding community	19	May/2010 Itapecerica da Serra (SP)	Presentation of the new system of resource allocation for the Municipal Councils of Children and Adolescents (CMDCA's); discussion and agreement of the principles of relationship
Surrounding community	10	June/2010 Cajamar (SP)	Dialogue between the groups with presentation of projects under development in the municipality and discussions between them
Multistakeholder	55	July/2010 Colombia	Definition of priority topics for corporate materiality matrix.
Multistakeholder	65	July/2010 Argentina	Definition of priority topics for corporate materiality matrix.
Multistakeholder	40	August/2010 Cajamar SP	Debate on Natura's positioning and practices in relation to solid waste. Discussions contributed to the guidelines of the new waste management project
Surrounding community	26	August/2010 Itapecerica da Serra (SP)	Dialogue between the groups with presentation of projects under development in the municipality and discussions between them
Natura Consultant Adviser (NCA)	40	August/2010 Osasco (SP)	Diagnosis of problems and opportunities for improvement of consulting activities



Stakeholder	Number of participants	Date (month) and Place	Main topics
Suppliers	70 people	August/2010 Cajamar (SP)	Discussion to determine the social and environmental impacts to which the supply chains are exposed (Mapping externalities)
Consultants – Central Region of Brazil	22	October/2010 Belo Horizonte (MG)	Dialogue with NCs with up to 18 months of activity to diagnose the key problems and opportunities for improvement on beginning consultant activities
Former consultants - Central Region of Brazil	11	October/2010 Belo Horizonte (MG)	Dialogue with former NCs who left Natura with less than 18 months of activity to diagnose the key problems and improvement opportunities
Natura Consultant Advisers (NCAs) - Central Region of Brazil	31	October/2010 Rio de Janeiro (RJ)	Dialogue with NCAs with up to 18 months of activity to diagnose the key problems and opportunities for improvement on beginning NCA activities
Former Natura Consultant Advisers (NCAs) - Central Region of Brazil	20	October/2010 Rio de Janeiro (RJ)	Dialogue with former NCAs who left Natura with less than 18 months of activity to diagnose the key problems and improvement opportunities
Supplier and processing communities	60	November/2010 Cajamar (SP)	Reappraisal of the topics covered in dialogue panels in 2009; Bioqlicar assessment and discussion of future scenarios and joint opportunities
Multistakeholder	40	November/2010 Peru	Definition of priority topics for corporate materiality matrix.
Multistakeholder	40	November/2010 Cajamar (SP)	Discussion about Natura's positioning regarding the use of palm oil and building a sustainable model for the production of this input in the Amazon region
Multistakeholder	30	December/2010 São Paulo (SP)	Dialogue on the future and changes required for the Natura Annual Report
Multistakeholder	65	December/2010 Cajamar (SP)	Reappraisal of Natura's actions on the priority topics of sustainability and redefinition of priority topics for corporate materiality matrix
Multistakeholder	45	December/2010 Mexico	Definition of priority topics for corporate materiality matrix.
Brand Suppliers	70	December/2010 Cajamar (SP)	Dialogue with strategic partners and employees who work in the production of the main expressions of our brand (products, advertising, Natura magazine, media, events, Natura Meetings, etc.). Reflections on challenges and strategy of both short and medium terms for each of these forms of brand expression.

## OMBUDSMAN'S OFFICE

Natura's Ombudsman's Office is a formal dialogue channel between the company and its employees, in-house outsourced workers, and suppliers (Brazil). This important function helps us to monitor compliance with our Relationship Principles commitments and whether our own actions are derived from our Essence. This resource is also available to former employees.

These contacts are recorded and analyzed by the Ombudsman team and submitted to the responsible manager. The Ombudsman's Office investigates complaints and allegations of misconduct, welcomes suggestions and compliments, and receives general inquiries. Natura's historical records do not include any cases of discrimination. All contacts that may be considered misconduct are reported to the ethics committee, of which the company's CEO is also a member. When necessary, the office enlists the support of internal auditors (learn more on page 18, Governance).

### TOTAL NUMBER OF INQUIRIES RECEIVED THROUGH THE OMBUDSMAN CHANNEL

	2008	2009	2010
Internal stakeholders, Brazil	783	1,096	1,120
Internal stakeholders, Latin America	26	13	18
Suppliers, Brazil	19	13	17
Consultants, Brazil <sup>1</sup>	52	34	8
<b>Total</b>	<b>880</b>	<b>1,156</b>	<b>1,163</b>

*1. Data refer to a pilot project in a sales department in the Greater São Paulo area.*

Natura Ombudsman's Office surveys Brazilian employees about their satisfaction with its services. In 2010, the office achieved a 97% satisfaction level, which is statistically equivalent to the figure reported in 2009 (98%). We do not conduct surveys with employees in our international operations or with suppliers or consultants since we still don't have a significant sample for this measurement.

### BRAZILIAN OPERATIONS' INTERNAL STAKEHOLDERS

In 2010, we recorded 1,120 inquiries from internal stakeholders in Brazil. The percentage of issues handled, 83% in 2009, decreased to 52% last year. This decrease resulted from our decision to change the criteria for use of the Ombudsman's Office in an effort to promote greater dialogue between employees and their managers. Our goal is to create a culture that encourages collaborative problem solving, reserving the Ombudsman's Office for cases where solutions are elusive. As a result, technical inquiries regarding processes, policies, procedures, and infrastructure were rerouted to appropriate managers.

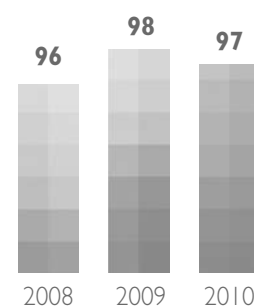
Other changes in channel behavior were also observed. Anonymous reports decreased, thus strengthening the consolidation of the channel as an additional tool of dialogue and relationship for employees and in-house outsourced workers in Brazil.

Some 53% of the inquiries handled by the Ombudsman's Office related to "people management", primarily benefits such as medical and dental assistance, transportation, and meals. In 2009, 73% of the inquiries fielded by the Ombudsman's Office were of this nature.

### PROFILE OF CONTACTS BY INTERNAL STAKEHOLDERS IN BRAZIL

Criticisms	77%
Compliments	10%
Queries	7%
Suggestions	4%
Complaints/ethical misconduct	2%
<b>Total number of contacts</b>	<b>1,120</b>

### I. SATISFACTION WITH THE OMBUDSMAN CHANNEL (%)<sup>1</sup>



*1. Result refers to positive responses to the question, "Are you satisfied with this dialogue channel?"*

## RELATIONSHIP PRINCIPLES

In 2010, we reviewed the Natura Relationship Principles, a set of commitments that guide our day-to-day actions and attitudes, and we made changes to the content, adding more details to two principles: conflicts of interest and personal favoritism. Intended specifically for our employees and in-house outsourced workers, these principles include clarifications on the giving and receipt of gifts, making trips, hiring suppliers and engaging in outside activities that may be in conflict with the work performed at Natura.

As a result of this initiative, we are now providing better guidance to our employees so they do not put themselves in situations that involve, or may be interpreted as involving, a potential conflict of interest or case of personal favoritism. The initiative has provoked reflection and raised awareness and respect for the topics that were addressed, reinforcing the message that knowledge and observance of the Relationship Principles is an individual responsibility.

## INTERNAL OMBUDSMAN'S OFFICE – LATAM

In 2010, we observed an increase in the number of contacts, to 18 from 13 in 2009, with the majority originating in Peru, primarily from former employees who were dismissed due to ethical issues, after an analysis and verification that involved various different departments of Natura. We saw a reduction in the number of anonymous comments, causing the percentage of identified contacts to rise sharply from 31% in 2009 to 50% in 2010. Most of the anonymous contacts are made on behalf of groups. The contacts are handled primarily by the senior management and the People and Communication Department. Finally, most of the contacts were made by Relationship Managers (44%), unlike in the Brazilian operations, where this channel is used most frequently by the operational and administrative staff.

## SUPPLIERS

In 2010, we also registered a small increase in contacts from suppliers, to 17 from 13 the year before. The majority of this increase represents criticisms. The number of complaints fell from 50% of the contacts in 2009 to just 18% last year. Most of the contacts were made by suppliers of services (88%), while suppliers of products made 12% of the contacts. All the contacts last year were identified, unlike in 2009 when 38% of the contacts from service suppliers were made anonymously.

## CONSULTANTS

The official channel for our consultants to contact us is the Natura Service Center (NSC). The Ombudsman's Office only handles cases that are not solved by the NSC. We have also modified some criteria for registering behavioral concerns (such as, for example, problems contacting NCAs and relationship managers, incorrect orders, etc.) and guaranteeing that technical issues are dealt with by the channel. We handled 5,335 contacts from this stakeholder group in 2010. (Read more about our consultants on page 56).

## CONSUMERS

Our consumers can use the Natura Customer Service Center (NCSC). Nevertheless, just like the service for consultants, we may also intervene in special cases that are not solved by the NCSC, such as dissatisfaction with the replacement of a product. In 2010, we also modified the criteria, starting to lend more support to the legal field and the press, which require a much faster response. In 2010, we handled 730 issues from this stakeholder group (read more about Consumers on page 59).

# 4.2

## EMPLOYEES

THE **GOOD RESULTS** OF THE ACTIONS TAKEN IN MORE THAN 40 YEARS WERE ONLY ACHIEVED BECAUSE OF OUR **DEDICATED STAFF AND ITS ALIGNMENT TO OUR ESSENCE**. MAINTAINING THE QUALITY OF OUR RELATIONSHIP WITH EMPLOYEES IS ONE OF OUR PILLARS FOR PROMOTING SUSTAINABLE DEVELOPMENT AND VALUE GENERATION.

Because of this, Natura has made a conscious effort to improve its “people management” over the last several years. In this regard, education — a driver of sustainability — received a good deal of attention in 2010. We established education-and-development programs for employees at different levels of the company, strengthened our organizational culture, created more efficient retention processes, and completed the training of our international staff.

### NUMBER OF NATURA EMPLOYEES<sup>1</sup>

	2008 <sup>3</sup>	2009	2010
Brazil	4,386	4,821	5,509
Argentina <sup>2</sup>	306	331	395
Chile	222	264	293
Mexico	277	335	329
Peru	290	296	293
Colombia	135	168	170
France	32	45	48
<b>Total</b>	<b>5,648</b>	<b>6,260</b>	<b>7,037</b>
<b>Other employment contracts<sup>4</sup></b>			
Apprentices <sup>6</sup>	12	10	152
Trainees	66	47	68
Temporary staff <sup>5</sup>	445	340	128
In-house outsourced workers <sup>7</sup>	1,787	1,310	2,065

1. Consolidated data as of December 31, 2010.

2. Of this total, 61 employees are part of the structure that deals with international operations, with headquarters in Argentina.

3. The operation in Venezuela was closed in 2009 and had 50 employees in 2008.

4. Includes operations in Brazil, Argentina, Chile, Colombia, Peru, and Mexico (except outsourced workers).

5. Staff hired for a fixed period under the CLT Labor Code by employment agencies and subordinated to these agencies are considered temporary.

6. In 2010, Natura launched the Semear (Seed) Program in Brazil, as the focal point for development of young apprentices.

7. Suppliers that provide services to Natura and that work in or have access to company premises for a period exceeding six months are deemed to be in-house outsourced workers. This includes Cajamar, Itapeverica da Serra, Barueri, São Paulo and our international operations. The scope of the indicator was changed in 2010, but it was not possible to review the historical basis due to the change in the classification and definition of the concept of outsourced workers.

With Natura’s business expansion across Latin America, our staff increased by 12.4% in 2010. The commencement of international activities created challenges, making our structure more complex and more culturally diverse. We intend to extend our best practices to employees working in other countries in which we operate.

Our organizational climate survey indicated a drop of one percentage point in the overall satisfaction with the workplace environment, with a 73% rate of favorable responses from our employees. This indicator was below our target of 76%. In Brazil, this figure remained at 72%. We achieved a significant improvement among administrative staff and maintained a high rate among the sales force.

Notwithstanding our efforts, there was a decrease in favorable responses from our operational staff. This suggests that actions such as the Renovação (Renewal) Program and its career and development initiative, *Meu Caminho* (My Way) (learn more on the next page, Education), are falling short of their goals. This program was implemented in the second half of 2010, and we believe that it will begin to show greater benefits in 2011.

1. Due to a calculation error, a 77% target was included in last year’s report.

According to the survey of the operational staff, we made progress in factors such as Leadership, Performance Management, Development, Communication, Quality of the Decision-Making Process, as well as Remuneration and Benefits, the aspects of the Renovação Program where the most headway has been made. In 2011, we intend to improve the Career and Management aspects of the program.

Another issue that needs to be addressed, particularly among the administrative staff, is the management of our physical facilities, which no longer meet current requirements. We will, therefore, in the first half of 2011, inaugurate new facilities for our operations.

Satisfaction with the overall quality of the workplace also declined in our international operations. This was the result of specific factors in countries such as Argentina, Chile, and Peru and because of events related to the implementation of our international business strategy. These events generated restructuring actions in some countries. We aim to improve the execution of strategies that we believe will strengthen the quality of our relationships with international employees.

#### ORGANIZATIONAL CLIMATE – APPROVAL (%)<sup>1 2</sup>

	2008	2009	2010
Brazil	69	72	72
Argentina	80	77	64
Peru	77	78	71
Chile	83	77	69
Mexico	85	84	82
France	60	75	72
Colombia	84	88	84
<b>Natura</b>	<b>72</b>	<b>74</b>	<b>73</b>

1. Percentages indicated are the share of employees who rated 4 and 5 on a scale of 0–5, with 5 being the highest score. The survey considers such issues as management, workplace environment, and career development.

2. The research methodology was adapted to incorporate the assessment of our Culture Drivers. The change, however, does not affect comparability with the results of previous years.

We also measured employee loyalty, which registered 30% in 2010. This indicator tracks general satisfaction, intention to continue a relationship with Natura, and whether they would recommend our brand. We also measure the loyalty of our employees, and we are now reporting these results for the first time. Monitored by Natura since 2009, this indicator cross-references information about overall satisfaction and the intention to continue working for Natura and to recommend the company. In 2010, we achieved a result of 30% on this indicator; one percentage point below the previous year. For 2011, we want to reach 32% loyalty in this indicator, which will now be the main gauge of the quality of our relationship with employees.

## EDUCATION

Education was an important theme in our relationships with employees during 2010. Despite falling short of our goal to provide 100 training hours per employee in Brazil, we reached 90 hours and consider this result very significant. In 2011, we plan to monitor educational efforts in our international operations.

#### AVERAGE HOURS OF TRAINING PER EMPLOYEE PER YEAR IN BRAZILIAN OPERATIONS<sup>1</sup>

	2008	2009	2010
Production	105	86	90
Administrative	90	79	90
Management	68	61	83
Board	9	78	67
<b>Total<sup>2</sup></b>	<b>94</b>	<b>82</b>	<b>90</b>

1. This indicator includes training of the sales force (sales managers and relationship managers).

2. Includes total hours of all levels divided by the total number of employees in December of the corresponding year.

Delays in the implementation of training programs for our operating staff and our own overly ambitious timetable for implementation contributed to the lower-than-expected number of training hours provided.

This development program is specific for operational employees, and linked to career progress. Employees expand their knowledge and qualify to take on new positions at Natura through training programs. In 2010, about 30% of our operational staff participated. Classes take place during working hours and on weekends, and special classes are offered for the hearing impaired.

We also developed an educational program specifically for young apprentices. In addition to receiving the legally required technical training, apprentices study subjects related to living our values and career development.

The program for apprentices led to the hiring of 134 youngsters in 2010, expanding the opportunities offered to young people. Despite the large number of admissions, we have still not met the legal quota established by the Young Apprentice program, although we are working towards compliance with this legislation. The program's technical learning was structured in partnership with the National Learning Service and the National Commercial Learning Service.

More than 2,000 candidates participated in our selection process. The strong demand, in addition to confirming the attractiveness of Natura, illustrated the need young people have for new opportunities. Accordingly, after the selection process, we invited the 500 shortlisted candidates to take part in a careers workshop to contribute to the professional development of those who were not hired. We also plan to extend the scope of the program, by helping the youngsters improve their chances of being hired in future selection processes at Natura or by other companies (read more on page 68, Surrounding Communities).

INVESTMENT IN EDUCATION AND TRAINING OF EMPLOYEES (IN R\$ '000) <sup>1</sup>			
Operation	2008 <sup>4</sup>	2009	2010
Brazil <sup>2</sup>	14,062.0	20,221.3	25,744.0
Argentina	162.5	103.3	93.3
Chile	82.7	164.6	127.0
Mexico <sup>3</sup>	473.8	526.3	567.5
Peru	74.9	222.7	210.0
Colombia <sup>3</sup>	12.8	21.9	39.9
France	73.4	51.0	100.3
<b>Total</b>	<b>14,942.1</b>	<b>21,311.1</b>	<b>26,882.0</b>

1. Data in Brazilian Reals was converted to U.S. dollars at US\$ 1: 2008 - R\$ 1.8346; 2009 - R\$ 1.7412; 2010 - R\$ 1.71.

2. The figure for investment in Brazil incorporates investment in Corporate Education, including courses with Time Jobs, and Sales Force training (sales managers and relationship managers). For International Operations, it incorporates education courses for employees, including relationship managers and team work.

3. Historical data for Mexico and Colombia contained inconsistencies and was recalculated.

4. The operation in Venezuela was closed in 2009 and investment in education in 2008 was 98.1.

In 2010, we also organized some specific educational activities in the area of innovation, primarily for our research and development staff. We invested in the use of new formats and methodologies, staging in-person and virtual courses, as well as dialogue and discussion sessions and workshops. We also run the Natura Education Program, which grants scholarships to employees and their family members to encourage continued learning. In 2010, we invested R\$862,000 in the program (see tables).

IN THE BRAZILIAN OPERATION - NATURA EDUCATION PROGRAM <sup>1</sup>			
	2008	2009	2010
Scholarships awarded	473	611	546
Scholarships awarded/enrollment (%)	32.6	48.3	43.2
Amount invested in Natura Education (R\$ thousands)	720	841	862

1. Includes all employees enrolled and selected during the year.

NATURA EDUCATION PROGRAM - COURSES HELD BY EMPLOYEES OR FAMILY MEMBERS WHOLLY OR PARTLY SUBSIDIZED BY NATURA (BRAZIL)			
	2008	2009	2010
Technical/vocational	48	77	47
Languages	118	117	134
Pre-university	11	6	5
University	219	292	259
MBA and postgraduate	77	119	101

All new employees in Brazil (including in-house outsourced workers) undergo integration training, where they learn about topics related to human rights, the environment and social responsibility. These issues are also addressed in lectures that are open to all our employees. In total, we offered 5,593 hours of training in these programs in 2010. Although we have no specific training on issues related to corruption and human rights, all our new employees learn our Relationship Principles, which are inspired by the Declaration of Human Rights. These principles clearly demonstrate our official stance against corruption – banning all forms of bribery, corruption and kickbacks.

Our internal security staff at Cajamar have received special training on human rights and techniques for approaching and searching people before they can work on the random search system at Cajamar. Implemented as a pilot project in 2010, the searches may be conducted on employees of all levels at the company and are randomly defined by electronic sensors installed at the parking exits and the bus terminal. The purpose of the searches is to preserve company property.

## ORGANIZATIONAL CULTURE

By developing our organizational culture, we lay the groundwork for our Vision of the Future and reinforce our Essence among our employees. These efforts align behavior, strategies, programs, processes, and relationship expectations.

In 2010, we developed seven Culture Drivers (learn more on page 3), inspired by our Essence. These drivers provide clear guidance for our choices and attitudes and illustrate the behaviors and values expected by the company.

These drivers were the result of a collaborative process that involved the company's founders, the Executive Board, and the leadership team. We also considered suggestions made in 2009 by nearly 150 employees in the administrative, operational, and sales areas. The drivers will be rolled out to all Natura employees in 2011, when we will also review our main practices, symbols and organization systems, and set forth the procedures to guarantee the ongoing promotion and reassertion of our culture.

## LEADERSHIP

A leadership team that is committed to our Essence is fundamental to our growth. Natura has invested in the training and development of almost 600 leaders in Brazil and abroad. In 2010, we filled 62% of our open leadership positions with internal staff.

In 2011, we will establish a leadership-specific educational program that will support our desired organizational competencies. We believe this will strengthen our organizational culture. The project will include onsite classes and distance learning; study groups formed by people with similar interests; workshops; and activities that promote the exchange of knowledge and ideas.

The intent of this program is to qualify leaders and to strengthen our succession plans. We map our critical positions and, at the end of 2010, had defined a succession plan for 40% of our short-, medium-, and long-term positions.

Our leaders currently have their careers monitored by external consultants. In 2011 we will implement a pilot project for internal members of the Executive Committee and the Board of Directors to become mentors and accompany the long-term development of leaders.

We have started to analyze the career development of these leaders using a 360-degree feedback assessment, which makes an appraisal of the individual based on a self-assessment and the perception of their superiors, peers, subordinates and other stakeholders such as suppliers. Far more transparent and participative, this assessment also addresses performance and adherence to Natura's Essence. Through a process of engagement, the leaders can evaluate their life purposes inside and outside Natura and, after also considering the external evaluations, prepare a development plan for the next five years. In 2011, we plan to extend this assessment process to the administrative and operational staff.

## ATTRACTION AND ENGAGEMENT

Natura relies on recruitment-and-selection processes that attract candidates who are not only technically qualified but who also identify with our Essence and values.

The new attraction model implemented in 2010 moves in this direction and goes beyond the traditional selection model. We view the application process as an opportunity for individual personal and career development. We also seek feedback from applicants at all stages of the selection. We aim to stimulate a reflection about the process. This initiative will formally begin in 2011.

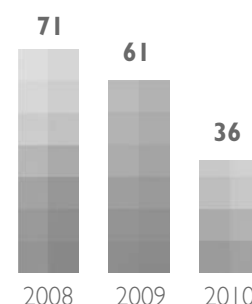
This model has already been applied to our trainee program, back in 2009. Lasting two years, the 35 selected young people participated in a comprehensive selection process guided by diversity, without considering university education or fluency in languages, and with the age limit increased to 28 years.

Though we have established a strong track record for filling leadership positions with internal staff, we did not reach the target we established for ourselves in 2010. Compared with 2009, the internal fill rate dropped by 25 percentage points, in part because of Natura's growth and because of steps taken to incorporate strategic market competencies. To reverse this trend, we redesigned our job opportunities program, which encourages employees to seek professional growth. The job opportunities program also addresses the responsibilities of all involved in the process, including candidates, the hiring manager, and Human Resources. In 2011, this program will be extended to our international operations. We also made eligibility-for-advancement criteria more flexible and strengthened efforts to promote job openings.

Outside Brazil, we offer "global opportunity allowances" that enable employees to move to other countries. This initiative will help us form a multicultural team and allow staff to share knowledge and experiences.

Our international operations strategy depends on the formation of mixed teams of employees who are responsive to our value proposition and people who are knowledgeable about these markets. Currently, most of the staff within our international operations consist of local professionals.

**I. POSITIONS FILLED BY INTERNAL STAFF- PLACES OFFERED/TAKEN BY EMPLOYEES (%)**



## TURNOVER

We registered a small increase in employee turnover in Brazil in 2010 (see table). This increase is primarily due to Natura's decision to dismiss employees with low performance or commitment.

In our international operations, Mexico registered a significant drop in turnover rates. This was the result of better-defined employment profiles, as well as improved recruitment, selection, and monitoring of new employees. Increased turnover in Peru resulted principally from the restructuring of the Sales Department and the resulting change in job requirements. In Chile, the increase in turnover was driven primarily by temporary outsourcing after a February 2010 earthquake.

<b>EMPLOYEE TURNOVER (%)<sup>1</sup></b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>
Brazil	12.4	7.5	8.4
Argentina	16.6	12.5	12.3
Chile	13.9	13.6	16.4
Mexico	42.7	25.3	11.6
Peru	12.2	16.6	26.6
France	35.0	15.5	12.6
Colombia	35.4	39.7	21.0

*1. Although we monitor data by age group and gender, we do not take this information into account in our business.*

<b>TOTAL DEPARTURES</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>
Brazil	891	551	641
Argentina	50	38	40
Chile	29	36	49
Peru	33	49	75
Colombia	35	31	37
Mexico	121	81	38
France	20	11	5

Considering the members of the senior management recruited from the local community, we achieved a rate of 100% in France, 67% in Argentina, 33% in Chile and 17% in Colombia and Mexico. In Peru, we have yet to hire local staff.

All our employees with less than three months service participate in our Performance Management Program and receive regular feedback during their assessment cycle, in addition to structuring their own individual development plan.

In 2010, we extended the scope of the analysis, with a view to providing a clearer performance management in the assessment of our employees, and to offering more assertive and efficient feedback.

## VOLUNTEERING

We are restructuring the initiative in 2011 to encourage more of our employees to participate in the corporate volunteering program, whose goal is to foster transformation opportunities through volunteer work. In 2010, we registered 57 participants. The staff who enrolled in the program worked on social projects during business hours and, in some cases, over the weekends.

## DIVERSITY

Building a more equitable and sustainable society depends on respect for diversity. In Brazil, the main challenge is social inclusion, and the insertion of classifications such as age group and gender is not, by itself, a guarantee of diversity.

Education provides the best path to social inclusion. Companies' efforts to improve the quality of education beyond their own doors can have a substantial impact on inclusion and promote the personal and professional maturity of the employees (learn more on pages 30 and 92 High-Priority Topics/Education and Generation of Social Value).



Our vision of diversity also consists of engaging professionals in regions where we operate. Their experience with other societies, cultures, and value systems provides us with a means for improving our relationships with our stakeholders. In our units, 23% of leaders have had professional experience in other countries.

Although our vision on the theme has evolved, we know that we still have to improve our positioning regarding diversity and deploy more effective actions.

#### MULTICULTURE <sup>1 2</sup>

	2008	2009	2010
<b>Total foreign leaders or leaders with international experience</b>	n.d	12	27
<b>Percentage of foreign leaders or of leaders with international experience in relation to all leaders (%)</b>	n.d	13	23.1

1. Includes process management, business and global leaders.

2. We take into consideration current or past international experience in Natura in operations with nationality different to that of the employee and with a minimum duration of two years.

In 2010, we recorded an increase in the hiring of people with disabilities, although still slightly below the minimum quota of 5% established by law, as a result of the higher rise in the staff numbers than the growth in the hiring of these employees. We are streamlining our program to provide for the development not only of people with disabilities, but also for their managers, and we are also hiring people with different types of disabilities. We believe that in addition to simply complying with the hiring quota, we have the responsibility to promote the integration of disabled employees in the company, in society and with coworkers, which is why we are now offering more basic skills training courses, attended by 217 people in 2010, nearly three times the previous year. We also completed the training of 57 employees in sign language, to act as facilitators to improve the inclusion of the hearing impaired.

#### DIVERSITY <sup>1</sup>

	2008	2009	2010
<b>Total employees in Brazil</b>	<b>4,386</b>	<b>4,821</b>	<b>5,509</b>
<b>Women</b>			
In relation to total employees (%)	63.7	60.5	60.7
In management positions compared to the total number of management positions (%)	52.3	51.9	54.2
In board positions compared to the total number of board positions (%)	19.2	17.6	21.7
<b>Above 45 years</b>			
In relation to total employees (%)	10.5	12.2	10.6
In management positions compared to the total number of management positions (%)	8.2	11.3	9.2
In board positions compared to the total number of board positions (%)	38.5	35.3	28.3

1. In this edition, we no longer report the classification by race due to a different understanding about diversity, which involves broader concepts of social inclusion.

#### HIRING AND TRAINING OF PEOPLE WITH DISABILITIES (BRAZIL)

	2008	2009	2010
Employees with disabilities	237	236	249
People with disabilities in relation to total employees (%)	5.4	5.0	4.5
People with disabilities, trained in the Basic Professional Skills program	39	67	217

## COMPENSATION

Our compensation practices follow the corporate policy effective in all countries. However, if necessary, we may adjust amounts and potential earnings in accordance with each market.

Salaries are established according to reference surveys, the salary structures of Brazilian or multinational companies, publicly held companies, and companies whose compensation practices are similar to ours. The comparability is based on the scope and complexity of functions. We maintain a salary average that is in line with market practices.

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**PROPORTION OF LOWEST WAGE COMPARED TO THE MINIMUM WAGE IN EACH COUNTRY**


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	<u>2008</u>	<u>2009</u>	<u>2010</u>
Brazil	1.2	1.1	1.4
Argentina	1.5	2.0	1.7
Chile	1.4	1.3	1.3
Peru	1.6	1.7	1.0
Mexico	4.6	4.8	4.6
Colombia	1.1	1.6	1.1
France	1.1	1.5	1.1

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We also offer a variable compensation model adjusted to the characteristics of each stakeholder, with specific forms of payment, targets, and amounts. Income distributions to nonexecutive stakeholders are limited to 3% of the operating income. In 2010, our operational employees received, on average, the equivalent of three additional months' salary in variable pay.

Looking to cater to the growth and the internationalization of the company, we offer an expatriate program with a package of special services and benefits, as well as development and career opportunities. We currently have 30 expatriate employees at our operations in Chile, Argentina, Peru, Mexico, Franca and Colombia.

In 2010, collective bargaining agreements provided our employees in Brazil with a salary increase of around 7.17%. Female administrative employees who comprise the sales force – relationship managers and sales managers – recorded a higher salary increase than the collective bargaining agreement due to the sales bonuses they obtained. Over the year, the sales bonuses earned by the female staff increased 7.8% compared to 2009.

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**RATIO OF WOMEN'S SALARIES COMPARED TO MEN'S (BY EMPLOYEE CATEGORY) (%)**


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	<u>2008</u>	<u>2009</u>	<u>2010</u>
Operational	-18.34	-15.59	-15.83
Administrative	13.56	32.80	30.43
Managers	-4.38	-5.63	-4.44
Executives	-19.60	-18.62	-19.00

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**SALARY PROFILE (R\$) - AVERAGE MONTHLY SALARY IN OPERATION BRAZIL <sup>1 2 3</sup>**


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	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Women - total (R\$)</b>	<b>4,352.0</b>	<b>4,755.1</b>	<b>4,943.6</b>
Average monthly salaries for production jobs	1,104.5	1,150.0	1,201.6
Average monthly salaries for administrative positions	5,287.9	6,137.4	6,189.8
Average monthly salaries for management positions	12,341.1	13,105.1	13,351.0
Average monthly salaries for board members	31,185.9	34,309.8	37,195.7
<b>Men - total (R\$)</b>	<b>3,550.3</b>	<b>3,574.3</b>	<b>3,851.9</b>
Average monthly salaries for production jobs	1,352.5	1,362.3	1,427.5
Average monthly salaries for administrative positions	4,656.4	4,621.5	4,745.5
Average monthly salaries for management positions	12,906.9	13,886.2	13,971.7
Average monthly salaries for board members	38,788.7	42,162.5	45,919.0
<b>Over 45 years (R\$)</b>	<b>7,540.2</b>	<b>8,067.5</b>	<b>8,088.8</b>
Average monthly salaries for production jobs	1,676.3	1,712.7	1,770.2
Average monthly salaries for administrative positions	8,161.9	8,961.0	9,166.3
Average monthly salaries for management positions	15,198.0	17,437.9	18,343.6
Average monthly salaries for board members	38,395.8	38,242.9	44,089.5
<b>Up to 45 years (R\$)</b>	<b>3,653.3</b>	<b>3,850.4</b>	<b>4,095.0</b>
Average monthly salaries for production jobs	1,213.6	1,240.7	1,293.2
Average monthly salaries for administrative positions	4,652.1	5,266.5	5,304.9
Average monthly salaries for management positions	12,379.8	13,068.4	13,144.4
Average monthly salaries for board members	36,658.4	41,570.5	43,637.8

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1. The calculation does not consider payment of short-term incentives (Profit Sharing).

2. Bonuses paid to sales managers and relationship managers were considered for the purpose of calculating this indicator. Sales employees, when distributed in categories, reinforce the average female wages by sales bonus, excluding production jobs.

3. In this edition, we no longer report the classification by race due to a different understanding of diversity, which involves broader concepts of social inclusion.

In all our operations, we follow the standards and limits established by local legislation concerning collective bargaining. In Brazil, for example, the collective bargaining agreements sealed with unions include all employees.

We recognize and uphold the right of all employees to be represented by their respective unions, although we have no formal processes in place to identify operations in which the right to exercise freedom of association and collective bargaining may be at risk. However, our employees have the Natura Ombudsman's Office at their disposal to report any type of complaint (read more in Quality of Relationships). Natura's relationship with unions is managed by the Human Resources Department and we organize meetings to discuss agendas that are set in advance with union representatives.

Even though prior notification of operational changes is not specified in the collective bargaining agreements, we always make an effort to communicate these changes in advance and, upon doing so, provide clarifications.

In our pension scheme, each employee can decide on the amount they wish to contribute, from a scale of 1% to 5% of their salary, and Natura will add another 60% to their contribution. The scheme is optional and available to all employees in Brazil. With the exception of relationship managers and sales managers, who receive bonuses proportional to the results they achieve, all our employees receive, in addition to their annual salary, two additional month's wages at the end of each year (known in Brazil as the 13<sup>th</sup> and 14<sup>th</sup> salaries, the 13<sup>th</sup> being required by law).

Natura does not have any formal program to prepare employees for retirement, although in 2011 we are going to implement a pilot project for our relationship managers. The project consists of a series of workshops on career transition that are intended to promote reflection on the future. Individual sessions will also be organized throughout the year for the relationship managers. Among other topics, these sessions will address career planning, alternative activities such as a second job or volunteer work, and saving and investing. The program is voluntary and geared towards managers who are approaching retirement. The project will eventually be expanded to include all employees.

## BENEFITS

Our benefits policy is centered on the idea of offering well-being to all who work with us. Learn about the benefits offered:

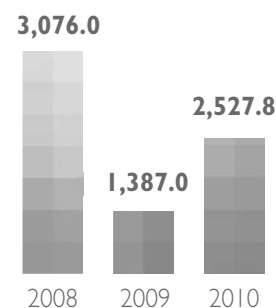
Benefits offered to employees in the Brazilian Operation:

- *Natura Educação* (Natura Education) Program: scholarships for employees and their families
- *Construindo o Futuro* (Building the Future) Program (includes savings incentives): Encourages the habit of saving among employees
- Nursery for employees' children up to 2 years and 11 months of age
- Support for adoption processes
- Health care plan
- Dental care plan
- Check-up for employees from management level upwards
- Partial reimbursement of drug costs for cardiovascular diseases, diabetes, renal failure, cancer, liver diseases, neurological disorders, work-related musculoskeletal disorders and psychiatric disorders
- Telemedicine: ECG by phone in emergencies
- *Saúde em Movimento* (Health in Motion) Program: encouraging physical activity. Medical and nutritional evaluations and also of physical fitness before starting activities
- Fitness Center Grant for Relationship Managers and Sales Managers
- Five free products per month for employees at managerial level
- Health Area: Urgent and emergency medical care, physiotherapy, RPG, gynecology and obstetrics, acupuncture, orthopedics, nutrition and psychology. Also included are programs for Hearing Conservation and Occupational Health Medical Control with examinations for admission, periodic exams, job changes, return to work and layoffs, and activities for early detection, treatment and monitoring of cases of occupational diseases
- *Quero Estar Bem* (I Want to Be Well) Program, created in 2010, includes all the specialties and professionals of the Health Area, considering the human being fully in four dimensions: physical, emotional, spiritual and social (read more in Worker's Health and Safety).

As well as these benefits, the employee is entitled to:

- Ergonomics Program, which seeks a productive and comfortable adjustment of the worker to their work, promoting the changes necessary for their well being, inside and outside the company.

### I. CONTRIBUTIONS MADE BY NATURA TO EMPLOYEE PENSION PLAN (R\$ MILLION)



1. The company's contributions increased due to the end of the surplus situation of the pension fund

- Social Services. Ensures employees an opportunity for discussion, understanding and resolution of issues of a social order.
- Workplace exercise program
- Purchase of five Natura products per month with 40% discount
- Vacation Project (activities in Espaço Natura, in July, aimed at employees' children aged between 6 years and 12 years 11 months)
- Professional guidance
- Cuidando de Quem Cuida (Caring for Carers) Program: postnatal meeting, course for pregnant women
- Subsidized day care and special needs care (offered to employees with children with special needs), to defray the costs of education
- Life Insurance
- Payroll deduction loan
- Vehicles for management-level employees
- Family Moment: entertainment, culture and recreation for employees with children up to 9 years 11 months and distribution of toys
- Pharmacy Agreement
- Contracted transportation
- Runners Project, running and walking workouts monitored by specialized professionals
- Restaurant
- Christmas Basket
- Gifts (Mother's Day, Father's Day and birthday)
- Sale of Discounted School Materials
- Fitness, swimming pool and multisport court services at Natura Club (Cajamar and Itapecerica da Serra) and Well Being Area
- Services and facilities: seamstress, laundry, shoemaker; optician, insurance, postal services, rental of books and videos
- End of Year Party
- Celebrations for years worked

Benefits offered to resident third parties:

- Course for pregnant women
- Health Area - emergency care
- Runners Project
- Restaurant
- Workplace exercise
- Toys
- Christmas Basket
- Contracted transportation
- Fitness, swimming pool and multisport court services at Natura Club (Cajamar and Itapecerica da Serra) and Well Being Area
- Services and facilities: seamstress, laundry, shoemaker; optician, insurance, postal services, rental of books and videos
- Gifts - Mother's Day and Father's Day

## HEALTH AND SAFETY

We continued to step up our safety efforts, investing R\$882,000 in accident prevention in 2010. We maintained throughout the year the same low level of work-related accidents as in 2009: 17 in total, of which 7 were accidents with leave and 10 were accidents without leave.

A special project conducted with service suppliers cut the number of accidents suffered by outsourced workers by 25%. An analysis of the accidents indicates that workplace behavior is the main cause of injury. For 2011, we intend to concentrate on developing and implementing a system of health and safety management that focuses on avoiding risky behavior, and on providing better support and services to our units in both our Brazilian operations (distribution centers, Natura Houses, etc.) and our international operations.

**TYPICAL INJURIES AND LOST WORKDAYS AND WORK-RELATED ABSENCES (INCLUDING OUTSOURCED EMPLOYEES) IN THE BRAZILIAN OPERATION I**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Employees - number of accidents with leave <sup>2</sup>	16	12	7
Employees - number of accidents without leave <sup>3</sup>	5	5	10
Number of work accidents per employee	0.005	0.004	0.004
Outsourced employees – number of accidents with leave <sup>4</sup>	11	4	4
Subcontractors - number of accidents without leave <sup>4</sup>	2	4	2
Working days lost <sup>5</sup>	131	84	64
Frequency rate of accidents with leave <sup>6</sup>	1.71	1.31	0.69
Frequency rate of accidents with/without leave <sup>7</sup>	2.24	1.85	1.67
Investment in disease prevention per employee (R\$)	479.6	707.4	736.5
Investment in accident prevention per employee (R\$) <sup>8</sup>	722.8	851.5	882.5
Number of cases of occupational diseases reported to the National Social Security Institute – Cajamar	5	10	9
Number of occupational diseases reported to the National Social Security Institute on - Itapecerica da Serra	1	0	0
Rate of absenteeism (%) <sup>9</sup>	n/a	n/a	5.45
Number of deaths	0	0	0
Occupational illness frequency rate <sup>10</sup>	0.64	1.09	0.88

1. This includes accidents recorded in the units of Cajamar, Itapecerica da Serra, Barueri, São Paulo, Benevides and distribution centers.

2. Accidents with leave are those in which the employee does not return to their activities on the next working day.

3. Accidents without leave are those in which the employee returns to work on the same day of the accident or the next working day.

4. This includes our "resident" and "non-resident" service providers.

5. This refers to Natura employees.

6. Equal to the number of accidents with leave per million man-hours worked (HHT).

7. Equal to the number of accidents or employees involved in accidents with or without leave per million man-hours worked (HHT).

8. Includes the entire budget of the Department of Occupational Safety, expenditures and investments carried out by the Engineering and Manufacturing area to guarantee and/or improve occupational safety conditions. This does not include spending on training.

9. We began tracking the rate of absenteeism in 2010.

10. Number of cases per 106 man hours worked.

Formal agreements with unions include measures to improve workplace protection, namely the use of protection equipment, procedures for the prevention of accidents with machinery and equipment, communication of workplace accidents, and the installation of an Internal Accident Prevention Commission (IAPC). All our employees in Brazil are represented in formal health and safety committees and also in the different IAPCs, on which any company employee, regardless of their seniority, may serve. They observe the following structure: 50% of their representatives appointed by Natura and 50% appointed by our staff.

We invested R\$736 million in health management in 2010 and we prepared a diagnosis of the health of our staff. Based on this assessment, in December 2010 we launched an illnesses prevention program to encourage employees to take care of their health. One of the initiatives involves better management of more complex health issues, in which employees or their dependents who have a specific condition will be invited to take part in programs to monitor their health problem. We shall also launch in 2011 a program to prevent hypertension.

Once identified, cases of occupational illness are treated by a multidisciplinary team made up of occupational health doctors, an ergonomist, an orthopedist, a physiotherapist, an acupuncturist, a psychologist, Global Postural Reeducation (GPR) therapy and a social worker. Furthermore, frequent evaluations will be made of our work stations and we also offer workplace exercise classes for everyone at the company.

In November 2010, 33 employees, part of a group working in special areas of the factory to rehabilitate from physical injury, were dismissed by Natura. The layoffs followed a thorough evaluation and were made exclusively due to lack of commitment and improper behavior in the workplace. Natura operates in strict compliance with legislation and we are confident that we have always acted respectfully and transparently towards our employees. The dismissed employees who had surgeries scheduled, in accordance with prevailing legislation and their employee category's collective bargaining agreement, had their health insurance extended. When questioned by the Labor, Administration and Public Service Commission of the Lower House of Congress, we presented all the necessary explanations concerning the layoffs.

## **COMMUNICATIONS WITH EMPLOYEES**

In 2010, we made improvements to the quality of our communication with the operational staff, including changes in the use of language and an expansion of the specific means of communication for this group of employees.

We also segmented the Natura TV Channel, which is broadcast at 23 points in our Brazilian operations, offering specific programming for our operational employees. We also improved communication with the staff at the Benevides Industrial Plant.

Employees can also use Natura Nós (Natura Us), an internal social network that is also available to in-house outsourced workers and relationship managers. In 2010, a review of the network was made and improvements will be introduced in 2011.

# 4.3

## CONSULTANTS AND NCAs

OUR SALES **CONSULTANTS** ARE A **FUNDAMENTAL COMPONENT** OF OUR BUSINESS MODEL. THEY NOT ONLY SELL OUR PRODUCTS BUT ALSO **DISSEMINATE OUR ESSENCE** AND OUR VALUE PROPOSITION.

In 2010, we reached an important milestone: Our sales force exceeded 1 million consultants in Brazil and 200,000 in our international operations. The number of sales consultants grew by 18% in Brazil, and by more than 20% internationally.

Favorable economic conditions aside, this development is due primarily to the consolidation of our Natura Consultant Adviser (NCA) model. Natura completed its first operating cycle in all regions of Brazil in 2010 using the new NCA model. NCAs are a significant part of our commercial strategy and enable a closer relationship with our consultants. Within this structure, relationship managers work more closely with NCAs, each of whom, in turn, offers support to up to 150 consultants by providing guidance and assistance to their development, in addition to working as consultants themselves.

In 2010, we had more than 11,000 NCAs, 24% more than in 2009. Relationship, commercial training, and sales actions focused on new consultants played an important role in promoting the growth of the sales channel. Together with the NCA platform, these activities converged to produce one of the lowest turnover rates ever at Natura.

In our international operations, the most significant factors fueling the growth of our sales force were increased recognition of our brand, consultant-recruitment campaigns, management-improvement processes, and better monitoring of the sales channel.

NUMBER OF CONSULTANTS IN BRAZIL AND INTERNATIONAL OPERATIONS (THOUSANDS)<sup>1 2</sup>

	2008	2009	2010
Brazil	730.1	879.7	1,028.7
Argentina	37.3	46.5	53.2
Chile	17.5	24.5	31.0
Mexico	20.0	31.2	41.2
Peru	35.2	42.6	45.5
Colombia	5.9	13.0	19.0
France	0.8	1.4	2.5
<b>Total</b>	<b>846.8<sup>3</sup></b>	<b>1,038.9</b>	<b>1,221.1</b>

1. In Brazil, the figure refers to the number of consultants available at the end of the year.

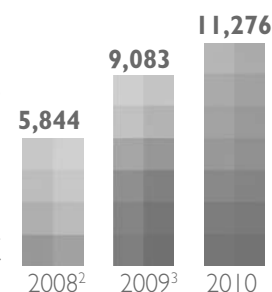
2. In the international operations, the data refers to the closing position of cycle 17.

3. Operations in Venezuela, with 2,800 consultants, were discontinued in 2009.

Our international operations are not based on the NCA model. In 2010, however, we implemented a project in Mexico inspired by the success of this initiative in Brazil. We created the Natura Consultant Entrepreneur (NCE), whose primary function is to attract new consultants and promote entrepreneurship. This strategy is based on the characteristics of local markets and was designed to boost Natura's direct sales in Mexico by attracting new consultants to our business and value generation model.

The quality of our consultant relationships is a key driver of our success. We held six dialogue panels in 2010 to detect improvement opportunities and build collaborative solutions that may assist in the development of our activities. Some of these meetings were attended by consultants and NCAs who had been working with the company for less than a year and a half, as well as by former consultants and NCAs who worked with the company less than 18 months. The purpose was to gain a better understanding of the challenges consultants faced in the early stages of their work with Natura.

1. NUMBER OF NCAs IN BRAZIL<sup>1</sup>



1. Refers to the number of NCAs at year's end.

2. Includes Midwestern, São Paulo Interior, Northeastern, Rio de Janeiro, and Minas Gerais regions.

3. The increase in the number of NCAs is related to the expansion of the model in São Paulo Capital, North, and South regions.

The level of satisfaction is permanently monitored, and our relationship-quality rates have remained stable over time. The loyalty of our consultants increased from 17% to 21% in 2010. The loyalty index of our NCAs has fallen. Because of the novelty of the NCA model, we still face challenges, such as our response time in meeting NCA needs. We continue to seek ways to improve this relationship.

QUALITY OF RELATIONSHIPS WITH CONSULTANTS (BRAZILIAN OPERATIONS) (%) <sup>1</sup>			
	Jan/08	Jan/09	Jan/10
Satisfaction <sup>2</sup>	88	88	90
Loyalty <sup>3</sup>	16	17	21

QUALITY OF RELATIONSHIPS WITH NCAs (BRAZILIAN OPERATIONS) (%) <sup>1</sup>			
	Jan/08	Jan/09	Jan/10
Satisfaction <sup>2</sup>	93	95	94
Loyalty <sup>3</sup>	31	37	32

1. As of 2010, we have modified the survey criteria, no longer monitoring the relationship with consultants and with NCAs and instead adopting Satisfaction and Loyalty as indicators of the quality of the relationship.

2. Consultants and NCAs either "satisfied" or "completely satisfied." - Top 2 Box

3. Loyalty denotes Top Box for satisfaction, intention to continue a relationship with Natura, and willingness to recommend the brand.

## INCOME AND PRODUCTIVITY

Average annual income distributed to consultants increased, from R\$3,900 in 2009 to R\$4,100 last year. These data are positive in light of the significant increase in the numbers of new consultants joining us in recent years, and they are now quicker to reach the productivity levels of those who have been active for longer. However, there was a slight decrease in NCA per-capita income due to the business model's rapid growth.

ANNUAL AVERAGE INCOME GENERATED IN THE BRAZILIAN OPERATIONS (R\$)			
	2008	2009	2010
Natura Consultant Advisers (NCAs) <sup>1</sup>	3,380	9,841	9,802
Natura Consultants <sup>2</sup>	4,097	3,987	4,128

1. We consider the catalogue price (full price) and the consultant's 30% profit.

2. NCAs are commissioned based on performance in terms of number of consultants submitting orders and volume of orders.

## TRAINING AND CAPACITY BUILDING

The success of our business strategy also depends on the level of training and engagement of our consultants, so we have been investing increasing amounts of resources in training. In 2010, in Brazil 517,400 consultant trainings took place, exceeding our target of 500,000. We emphasize training opportunities for consultants with less than three years' experience through distance learning and in-person courses; 78% of these consultants have taken advantage of this. We have also developed a specific training model for our international operations, to be applied in 2011, with a revised approach drawing on our experience in Brazil and the content adapted to local needs. These activities are comprehensive and cover product knowledge, sales techniques, and socioenvironmental awareness.

Natura Houses are used for training and for Natura meetings at the beginning of each cycle, when we present new products and developments to our consultants. In 2010, we opened two new Natura Houses in Brazil, one in the Itaquera neighborhood of São Paulo and the other in Santo André, a city inside the metropolitan region of São Paulo. The latter caters to a smaller number of consultants, enabling a closer relationship with them to achieve even greater engagement. We also opened three new units for our international operations: one in Lima, Peru, and one each in Buenos Aires and Cordoba, Argentina. In all, we have seven Natura Houses in Brazil and 15 abroad.

PARTICIPATION OF CONSULTANTS IN TRAINING IN BRASIL (IN THOUSANDS)			
	2008	2009	2010
New consultants	304.0	430.2	457.9
Initial training	164.9	354.4	360.9
Training participations <sup>1</sup>	458.2	583.0	592.6

1. May include more than one participation by the same Natura consultant even when repeating a training course.

New consultants take part in induction training, during which they are monitored from the moment they join Natura until they receive the products from their first order. This allows them to familiarize themselves with the work of consultants and with our value proposition. They also have at their disposal on the internet our Portal do Conhecimento (Knowledge Portal), with exclusive content and news for consultants, information about Natura products and tips about making sales.

We completed the course given in partnership with the National Service for Commercial Education (Senac), in which we offered our consultants in São Paulo training in entrepreneurship and make-up techniques, and we are looking to forge new partnership to continue the project. We continue to invest in new initiatives to improve professional development, such as special training in new products that we consider strategic.

For NCAs, we upgraded the initial training program, extending the course from just two days to one month, and basing it on in-person meetings, virtual tools and content, while promoting individual reflection and making available the support of relationship managers.

For our managers, we offer training on the operational side of the business and to prepare them for an increasingly more autonomous role as managers of groups of consultants and NCAs. Every two years, managers are invited to participate in a workshop on our competitive advantages, during which they address topics such as: brand, products, quality of relations and sustainability. We also decided to extend this training to our NCAs, and 50% of them took the course in 2010.

As a signatory to the Brazilian Direct Selling Association code of conduct for business-to-business and direct sellers, Natura develops programs to train consultants for the business and to uphold the company's ethical standards.

In 2010, as in previous years, no legal or administrative cases were filed against Natura involving any violation of privacy or consultants' personal data. Nor was there any record of legal cases on issues such as child, hazardous, or slave labor involving consultants.

## QUALITY OF SERVICES

In 2010, we reduced our non-service rate (NSR), reversing the upward trend of 2009. This indicator measures the nonavailability of products ordered by consultants. Despite this improvement, we are still far from offering the level of service we hope to provide to our sales channel.

When a nonservice cannot be avoided, we try to minimize the inconvenience caused to our consultants by offering substitute products and running promotions. We have aligned business areas for service response, logistics control and marketing planning to ensure effective communication with relationship managers, consultants, and NCAs in dealing with cases of nonservice.

The changes being made to the logistics model are having a benefit on the sales channel. In 2010, to expanded capacity and opened new distribution centers, thus raising the quality of service provided to our consultants and cutting delivery times (Learn more on page 26, Structural Changes).

The increased numbers of distribution centers will improve inventory management and help us to avoid product loss. In 2010, as part of our effort to reduce the NSR, we built up the inventories, though this results in a higher level of product loss because of label expirations or, in some cases, discontinuation of sales. In 2011, we will improve inventory management to reduce loss rates.

Complaints from consultants about the services we provide have been reduced nearly 40%. Like the NSR, this indicator measures their complaints in relation to problems during the order cycle, from requests for products to their delivery to consultants.

In 2010, we also improved the service through better management of commemorative dates. We surveyed consultants to anticipate demand at particular times, thus influencing planning to cater to extra demand.

## COMMUNICATION CHANNELS

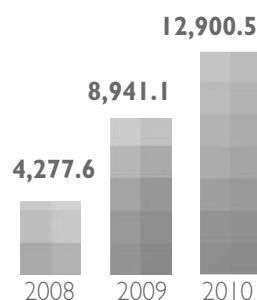
We have several structured communication channels to support sales activities. The share of consultant orders placed over the Internet rose to 85% in Brazil in 2010. In 2009, the percentage was 70%. The rate for our international operations is 69%. In 2009, consultants only in Chile and France were able to place orders over the Internet; in 2010, Internet ordering was extended to Argentina, Peru, and Colombia. In 2011, it will be extended to Mexico (graph 1).

In addition to making the order-taking process more efficient, electronic tools also enabled us to enhance and expand our interaction with consultants. To facilitate access, all Natura offices have computers with internet access for use by consultants, who may be assisted by NCAs to become familiarized with this channel.

Visits to our redesigned Consultancy blog ([www.blogconsultoria.natura.net](http://www.blogconsultoria.natura.net)) doubled during 2010, from an average of 40,000 to 80,000 per month. Visits to our Natura digital magazine ([www.natura.net](http://www.natura.net)) increased 100%. In February 2011, we also launched a revised digital reader version for the iPad (Learn more on page 35, in Innovating Innovation).

The Natura Service Center (NSC) is also available to our consultants. The NSC offers a toll-free hotline for receiving product orders; answering queries about products and services; and handling compliments, complaints and suggestions. We continuously strive to improve this resource, and in 2010 we launched a new project to settle more queries on the first call. Critical issues are forwarded to the Ombudsman's Office.

**1. NUMBER OF ORDERS PLACED THROUGH THE CONSULTANT SITE IN BRAZIL (IN THOUSANDS) <sup>1</sup>**



<sup>1</sup> Orders taken by a consultant over the Internet, as billed for indicated years.



In 2010, the NSC received 23,700 calls a day, down from 28,000 in 2009. This reduction is a direct result of greater Internet for placing orders; only 14% of orders were made through the NSC, compared with 29% in 2009.

## 2. CAN - NATURA SERVICE CENTER IN BRAZIL<sup>1</sup>

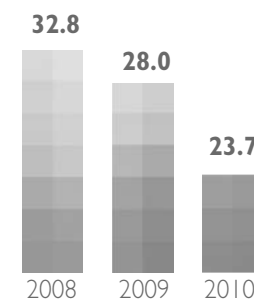
### RECOGNITION AND INCENTIVES

We seek to strengthen relationships with our consultants by holding events in which we acknowledge and thank them. In Brazil in 2010, more than 73,000 consultants were thanked for their length of service, and more than 9,000 were recognized for outstanding performance in both sales volume and sales of refills and products from Natura's Crer para Ver (Believing Is Seeing) line. Consultants who have been active for 15 years are invited to visit the Natura plant in Cajamar (São Paulo), where they are welcomed at an event and honored by our directors and vice presidents.

Consultants who have been with the company for five and 10 years receive awards, and we also give prizes for outstanding sales performances. In 2010, we launched a recognition program for NCAs who made good progress and achieved strong results.

We also organized incentive campaigns for the purpose of driving up sales, with messages that are aligned with our value proposal. One of the main events in 2010 was the Chronos Convention, attended by more than 300 consultants, NCAs and relationship managers.

In the NCA recognition program, 2,200 NCAs were rewarded for their good progress and 3,000 for their strong results.



#### RECOGNITION NCS

	2008	2009	2010
Total NCs recognized for time in activity	65,000	64,030	73,286
Total NCs recognized for performance	14,493	10,572	9,137
Number of awards for recognition with distinction	1,120	473	473
Number of events of recognition with distinction	56	43	43

### NATURA MOVEMENT

The Natura Movement is intended to raise awareness of our values among our consultants and influence positive behavioral changes in their families, customers, and surrounding communities. The Natura Movement involves our own projects as well as external initiatives that are focused on two main pillars: reducing environmental impacts (with a focus on Natura products) and social transformation (through social inclusion and human-development projects).

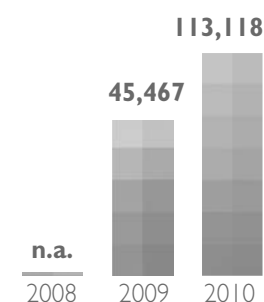
Across Brazil, we have worked with 12 projects. Last year, 113,000 consultants were involved in these activities — more than twice the number in 2009 and exceeded our goal of engaging 100,000 consultants. To achieve this goal, we invest our efforts in raising awareness and mobilization initiatives. In 2010, we set up our Acolher (Welcome) Program, which provides technical and financial support for environmental projects developed by consultants across Brazil. The first projects to receive support from the program will be announced in April 2011.

The program also seeks to promote an exchange of knowledge and to engage consultants in socially responsible actions. This program's portal, [www.movimentonatura.com.br/acolher](http://www.movimentonatura.com.br/acolher), offers a way for consultants to connect and to share experiences and provides information about other initiatives and social entrepreneurship. Almost 3,000 consultants have registered on the portal, which received more than 100,000 visits between September and December 2010.

The Natura Movement also supports Natura's Crer para Ver (Believing Is Seeing) program by encouraging consultants to make online sales of products. In 2010, some 65,000 consultants participated in each sales cycle (learn more on page 92, Creation of Social Value).

In the Natura Product Recycling program, which encourages consultants to collect the empty product containers during their visits to customers, more than 184 metric tons of packaging was gathered, compared to 120 metric tons in 2009. We made little progress, however, increasing the number of participating consultants, a figure that stood at around 15,000 last year. We realize that the scope of this recycling is too limited, since it does not come close to the scale necessary for collecting all the post-consumption packaging. This is why we are structuring a more comprehensive waste management plan at Natura (read more on page 32 Priority Topics/Product Impact).

#### 1. NCS ENGAGED IN NATURA MOVEMENT<sup>11</sup>



<sup>11</sup> Equal to the absolute number of consultants average/year. This indicator has been monitored since

This recycling program – which was already in place at the end of 2009 in the city of São Paulo and along the São Paulo state coastline, in the Baixada Fluminense region of Rio de Janeiro, throughout the state of Espírito Santo and in the state capitals of Recife (Pernambuco) and Salvador (Bahia) – was extended to include the whole state of Rio de Janeiro in 2010. The containers are delivered to our transportation companies, which in turn deliver them to recycling cooperatives, contributing to raising the incomes of recyclable waste collectors and to the proper disposal of the containers.

#### RECYCLING PROJECT

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Penetration of participating consultants <sup>1</sup>	2.3%	2.4%	1.2%
Total collected (metric tons) <sup>2</sup>	118.0	120.0	184.3

1. Percentage of participating consultants (delivery of box with waste) out of total consultants active in the cycle.

2. Natura packaging and products after use.

#### OTHER PROJECTS SUPPORTED BY THE NATURA MOVEMENT

##### ÁGUA DE VIVER

Realizado em parceria com a ONG SOS Mata Atlântica, grupos formados por CNs, CNOs e gerentes de relacionamento monitoram a qualidade da água de rios e riachos das comunidades onde vivem e atuam, promovendo o engajamento da população local. Em 2010, foram realizados 76 monitoramentos em 37 cidades com a participação de 610 CNs.

##### ÁGUA DE VIVER (WATER TO LIVE)

Developed in partnership with SOS Mata Atlântica, an environmental NGO, groups formed by consultants, NCAs and relationship managers monitor the quality of the water in rivers and streams in the communities where they live and work, promoting the engagement of the local population. Last year, 76 monitoring exercises were conducted in 37 towns with the participation of 610 consultants.

##### MATA ATLÂNTICA É AQUI (ATLANTIC FOREST IS HERE)

Also run in partnership with SOS Mata Atlântica, a truck travels to Brazilian towns showing an exhibition on the Atlantic Forest biome and staging activities to raise awareness, mobilize and educate about the importance of preserving the forest. In 2010, the activities were held in 36 towns with the participation of 4,600 consultants, while some 114,500 people visited the exhibition.

##### GRUPO CULTURAL AFROREGGAE (AFROREGGAE CULTURAL GROUP)

The partnership with the Grupo Cultural AfroReggae completed four years in 2010. Natura provides institutional support for the organization in its activities that involve an exchange of knowledge and promote culture. Last year, 121 consultants participated in the actions of the group that benefited some 2,000 people.

##### RESPEITO SÃO PAULO (RESPECT SÃO PAULO)

The program is organized by Natura and aims to raise awareness among our consultants so they can act as change agents in the region. Average participation in each cycle of the program was 3,000 consultants.

##### OTHER ACTIONS

We continue to support the Civil Police of Rio de Janeiro which, together with AfroReggae, engage in dialogue on human rights and the culture of peace in various different communities in the state, involving 12,000 people in 2010. We have also started to support the Gol de Letra Foundation in Rio de Janeiro, the Pracatum Association in Salvador (Bahia) and the Canta Brasil Socio-Cultural Group in Bento Gonçalves (Rio Grande do Sul).

# 4.4 CONSUMERS

OUR CONSUMER-RELATIONS INITIATIVES ARE DRIVEN BY OUR DESIRE TO LEARN ABOUT THE HABITS AND NEEDS OF THE MILLIONS OF CONSUMERS WHO USE OUR PRODUCTS. WE WANT TO OFFER THEM AN **EXPERIENCE THAT STIRS THEIR SENSES AND PROMOTES WELL-BEING WELL.**

Over the past two years, we have significantly expanded our efforts to survey, listen to, and engage in dialogue with consumers to understand them better and to offer products that exceed their expectations. The information we get in return influences our strategic planning and provides input for the innovation process.

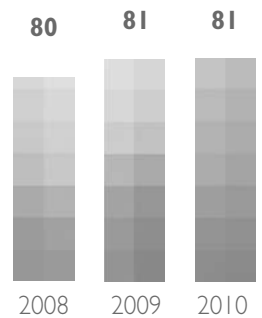
In 2010, Natura's investment in market research grew 58% from the previous year. It is worth noting that we had already taken a major step forward in 2009, setting up our Consumer Insight area to improve our knowledge of the market and to identify trends. We expanded this initiative to our international operations in 2010.

In this context, we want to go beyond product-development surveys to examine and understand our consumers' attitudes and behaviors. We want to be present in all the market segments, from the very first moments of a child's life through old age. Therefore, we are studying specific consumer segments, such as men, seniors, and preteens. We are also extending consumer behavior research to areas we consider relevant, such as beauty and conscious consumption.

In 2010, we held our first dialogue panel exclusively for consumers. Twenty-two members of the public from several regions of Brazil and different age groups participated. At the meeting, we discussed their ideas for improving our products, services, and activities.

This commitment to strengthening ties with our customers has ensured Natura's continuing high levels of acceptance, as shown by the Brand Essence/Ipsos image survey. According to this study, 81% of consumers gave top marks to our brand. In addition, 49% of cosmetics consumers selected Natura as their brand of choice. Our consumer loyalty rate, which demonstrates consumer satisfaction and their willingness to recommend and continue to buy our products, is 53% — a significant increase over the previous year's rate of 46%. Through our expansion in the Brazilian market, we have reached 55% of homes in Brazil (graphs 1 and 2).

I. GLOBAL EVALUATION OF BRAND IMAGE SURVEY (BRAZIL) (%)<sup>1 2</sup>



1. Source: Brand Essence.  
2. The top box overall assessment metric considers respondents that gave top marks to the Natura brand on a scale from 1 to 5.

QUALITY OF RELATIONSHIPS WITH CONSUMERS IN BRAZIL (%)<sup>1 2</sup>

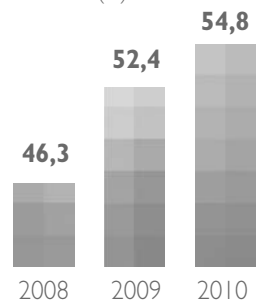
	2008	2009	2010
Loyalty <sup>3</sup>	n.a.	46	53
Preference	47	47	49
Would recommend	n.a.	72	78

1. Source: Brand Essence.  
2. From 2009 onward, the survey expanded its coverage to include three more cities, totaling six areas. Last year, we did not report the three new survey areas because there was no historical comparison. In 2010, we are including this analysis, and we have revised the 2009 figures accordingly.  
3. The loyalty index is calculated based on the percentage of consumers who gave the maximum score for Satisfaction, Intention to Continue Buying, and Recommendation.

We maintain other channels for engaging consumers, such as our growing Internet presence through social networks and our own online communities for building relationships with customers. Examples of this practice include portals called I Love Make-Up ([www.adoromaquagem.com.br](http://www.adoromaquagem.com.br)), Skin Care ([www.cuidadapele.com.br](http://www.cuidadapele.com.br)), and Love in Motion ([www.amoremovimento.com.br](http://www.amoremovimento.com.br)). These sites encourage visitors to exchange experiences. We also launched the Natura Musical portal ([www.naturamusical.com.br](http://www.naturamusical.com.br)), a community that offers information about the project and invites our customers to interact with sponsored artists. In 2010, these communities registered 3.3 million accesses and were visited by more than 2.7 million people.

Another important factor is the growing consumer interest in gift items suggested by Natura, as sales of these products have increased twice as fast as our standard items. This can be attributed to a greater perception of the value of our brand, but also to the information garnered from surveys that led us to reformulate our strategy for commemorative dates such as Mother's Day, Valentine's Day and Christmas.

2. PENETRATION IN BRAZILIAN HOMES (%)<sup>1 2</sup>



1. Source: Kantar World Panel.  
2. Penetration is the percentage of households in the population covered by the survey that have purchased the brand in the specified period.

We also encourage our consumers to play a more active role in product development, such as in the launch of the Una make-up line. The tones of classic lipstick colors (those most used by consumers), for example, were chosen based on the results of market research involving more than 2,000 women.

In addition to promoting products, our advertising and publicity also makes a commitment to raising consumer awareness, upholding ethical principles and championing diversity. It also expresses our concern with advertising to children and with the sustainable use of biodiversity assets.

Natura operates within the rules of the Advertising Self-Regulation Council and the codes of conduct of the Brazilian Association of Advertisers, the Brazilian Consumer Protection Association and the Brazilian Association of Direct Selling Companies. These rules are used organically as guidelines in all our communications.

## CUSTOMER SERVICE

The main channel for consumers to contact us is the Natura Customer Service (NCS). The NCS received more than 1 million calls in Brazil in 2010, 31% fewer than the previous year.

This decrease is associated with efforts to reduce false reporting of product defects. We began to analyze products returned by consumers before replacing them and improved our controls as a result. Complaints fell by 62%, a decrease we believe is associated with the reduction of false reports, and we have become more efficient at replacing products that present genuine problems. Information derived from the analysis of genuine problems contributes to innovation and the continuous improvement of our products and services.

The initiative has enhanced our response and prompted an improvement in the quality of our service. With a smaller volume of calls, we have been able to improve the management of NCS services and the number of unanswered calls fell from 7% in 2009 to 4% in 2010.

### NCS - NATURA CUSTOMER SERVICE (CALLS IN THOUSANDS)<sup>1</sup>

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total	1,531.0	1,484.4	1,028.9
Answered	1,471.0	1,375.3	987.0
Unanswered	60.0	109.1	41.8

<sup>1</sup> Calls relating to Brazilian operations.

As we are concerned with the privacy and confidentiality of our consumers, everyone who contacts us through the internet or the NCS is protected by policies and systems that ensure data security. In 2010, we did not record any proven complaints of privacy violation or loss of data of our consumers.

## HEALTH AND SAFETY

In 2010, we restructured our consumer safety area. We brought all of our processes related to the safety and effectiveness of ingredients together under a single management system. This includes finished products, regulatory issues, the cosmetic vigilance system, and clinical research. With our international expansion in 2010, we worked with our teams in Latin America to improve our understanding of regulatory issues outside of Brazil.

The health and safety of our consumers and the efficacy of our products are concerns that have been incorporated into our business process, from the development of product concepts to the final disposal of packaging, including research and development, certification, manufacturing, marketing and promotion, storage, distribution, supply, customer service and actual product use.

In 2010, we completed product reformulations to eliminate phthalates from our production and, by June 2011, we expect to eliminate parabens from our formulas. Our target was to have both completely eliminated in 2010, but we revised our goal because of technical challenges. Although these ingredients do not pose proven risks to consumers, we decided to remove them from our formulas because there is no scientific consensus about proper precautions.

Parabens belong to a group of preservatives used in cosmetics and foods. Since Natura only uses compounds that pose no risk to human health, this lack of scientific consensus on the potential harmful effects of some types of parabens (the types not used by Natura) prompted us to completely eliminate the use of all parabens. Phthalates, meanwhile, are a family of compounds used for many different purposes, including as additives in the manufacture of plastics and in the cosmetic industry. Natura used to work with a compound from this family, diethyl phthalate, as a solubilizer of fragrances, a bittering agent and alcohol denaturizer. When applied in low concentrations, there are no indications that diethyl phthalate can be harmful to health. Nevertheless, since this ingredient may be mistaken for other controversial versions of phthalates, they have also been completely eliminated from our production.

The precautionary principle is invariably adopted by Natura before using a new ingredient or launching a new formula. In other words, if the international medical and scientific communities have any doubts about the potential adverse health effects of a product, we choose not to use it. For raw materials that have some limitation on the permitted concentration, we always try to comply with the standards of countries with the most restrictive legislation. All our new ingredients and formulas are tested by a team of dermatologists.

We also have a Cosmetic Vigilance System that monitors the potential adverse effects of our products. In addition to protecting the end consumer, this system also fuels our innovation process. All the communication we receive on health or safety reactions is investigated and monitored.

In 2010, Natura received no legal penalties or inquiries from the National Health Surveillance Agency (Anvisa), Brazil's health sector regulator, not any fines resulting from the effects of our products on the health and safety of consumers. Furthermore, we did not receive any significant fines related to product labeling.

There were 463 complaints filed with the Brazilian Consumer Protection Agency against Natura. Most referred to requests to negotiate the debts of consultants, third party inquiries related to undue black-listing as a result of registration fraud, and complaints from dissatisfied customers who did not get a product exchange or refund. All complaints are analyzed by the relevant departments and the findings are used to improve our processes.

## 4.5 SUPPLIERS

OUR PURSUIT OF CONTINUOUS IMPROVEMENT IN THE **QUALITY OF OUR PARTNERSHIPS** WITH SUPPLIERS PLAYS A KEY ROLE IN MAINTAINING OUR **COMMITMENT TO SUSTAINABILITY**.

The number of supplier-partners we work with totaled just over 4,900. Of these, about 5% work with finished goods and production inputs (biodiversity ingredients, raw materials, packaging materials). The remainder provides services or delivers ingredients and materials indirectly required for our business processes. Despite the growth of our international activities, these partners are located mainly in Brazil

In Latin America, we recently adopted the strategy of developing local production through outsourced partners. In 2010, we started bottling perfume in Argentina and, in 2011, we will expand production to Colombia and Mexico. This model, in addition to cutting costs and having less of an environmental impact, takes into account important concepts for Natura, such as partnership and co-construction, and it places a value on partners with local knowledge and good socio-environmental practices. (Read more on page 25, Structural Changes).

We aim to continually evolve our processes in order to boost our business partners' levels of satisfaction. In 2010, the supplier-satisfaction index remained stable at 81%, compared with 82% in 2009. This fell short of our target of increasing satisfaction to 85%. Some operational issues, such as logistical bottlenecks, contributed to this. We will introduce new processes for planning and handling materials in the first quarter of 2011.

We also did not move forward as fast as we would have liked with improving the flow of contracts and payments, an issue raised by suppliers during the dialogue panels. Through our services center, we have improved monitoring of payments and have optimized the process of drafting contracts and related support systems. We believe these advances, made in the second half of 2010, will be reflected in better service during 2011.

One positive aspect is that our suppliers' loyalty rate rose from 25% in 2009 to 28% in 2010. This indicator, which we are reporting for the first time, has been monitored by Natura since 2008, and it combines overall satisfaction, intention to continue a relationship with Natura, and whether a supplier would recommend Natura to other suppliers. For 2011, we hope to maintain a 28% supplier-loyalty rate, which will now be the main indicator for assessing our relationships with suppliers (graph 1).

Since 2009, we have been active on five fronts identified for improving our supplier relationships: employee awareness of critical issues affecting the supplier relationship; closer relations with strategic suppliers; improving the product innovation funnel process to include suppliers; improving the payment process; and extension of our corporate supplier development program to other categories of supplies and services.

To raise the awareness of new employees as to the importance of supplier relations, we reinforced the theme in the integration program. This is an important point that should be intensified in 2011 to align new employees with the precepts that guide our quality in relations with suppliers.

We held four dialogue panels with suppliers to discuss the following issues: solid waste, the relationship between suppliers and supplier communities, and sustainable supply chains. We continued to hold meetings to monitor the performance of the Qlicar (Quality, Logistics, Innovation, Competitiveness, Service, and Relationship) program, with a focus on continuous improvement, as well as the effectiveness of procedures that define our relationships with strategic partners. These periodic meetings — which include “Breakfast Meetings with Suppliers” and “Alliance Conferences” enable us to maintain and improve these relationships.

In the product innovation process, we intensified the flow of information to suppliers and established clearer rules for project management, consolidating these initiatives with the creation of a department devoted exclusively to innovation with suppliers.

## QLICAR PROGRAM

In 2010, we extended the reach of Qlicar, which covered 97 partners — mainly suppliers of inputs and some of our service providers. Qlicar was extended to vendors that provide such services as marketing and communication campaigns and sub-brand publicity. We also reactivated BioQlicar for our supplier communities (learn more on page 64, Supplier Communities).

We emphasize continuous performance improvement in our programs involving suppliers of finished goods and among our transportation companies, call centers, and logistics vendors. In 2011, we will extend this approach to in-depth awareness of environmental issues.

We also reinforced the educational pillar, staging workshops on how to prepare sustainability reports and use them as a tool for evaluating and monitoring a company's management. We also organized a training course on the production of greenhouse gas emissions inventories.

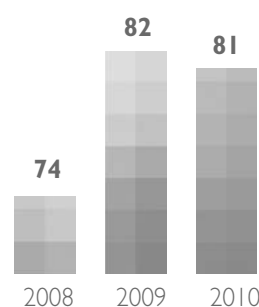
In the field of education, we began, half way through 2010, to train suppliers how to prepare sustainability reports using the Global Reporting Initiative (GRI) model adopted by Natura. Seven suppliers from different sectors are taking a course of workshops, scheduled for completion in July 2011, intended to qualify and engage them in the use of sustainability reporting to evaluate and manage their socio-environmental impacts. This training is conducted in partnership with the Brazilian Association of Corporate Communication (Aberje).

We are also training six suppliers on the subject of Climate Change, based on the guidelines of the Greenhouse Gas Protocol (GHG Protocol) — the methodology used by companies and governments to understand, measure and manage their carbon emissions. This project is run in partnership with the Getúlio Vargas Foundation and its goal is to help these partners improve their emissions monitoring.

In another development that deserves attention, seven suppliers signed up to the Brazilian Business Movement for the Conservation and Sustainable Use of Biodiversity, led by Natura. This is a movement of companies that have made a voluntary commitment to the conservation of social biodiversity. The companies that joined the initiative were: Agropalma, Beraca, Firmenich, Centroflora, IFF, Native and Solabiá.

Our suppliers are required to complete self-evaluations and audits to analyze issues of quality, environment and social responsibility, and also aspects related to human rights, such as the use of child labor, forced labor or the equivalent of slave labor. In 2010, no cases of human rights violations were identified. All our 187 product suppliers completed the self-evaluation process and 53% submitted to periodic audits. Additionally, all the suppliers who are part of the Qlicar program were audited.

**1. OVERALL SATISFACTION – BY SUPPLIER (%)<sup>1 2</sup>**



<sup>1</sup> Percentage of suppliers satisfied or fully satisfied.

<sup>2</sup> The indicators have a margin of error corresponding to a 95% confidence interval.

SUPPLIERS AUDITED OR SELF-EVALUATED ON QUALITY, ENVIRONMENT AND SOCIAL RESPONSIBILITY <sup>1</sup>			
	2008	2009	2010
Productive Suppliers (self-evaluated %)	100	100	100
Productive suppliers audited (%)	48	48	53
Suppliers Qlicar audited (%)	100	100	100

1. The aspects of human rights covered are child labor and slave labor or labor analogous to slave labor.

HUMAN RIGHTS CLAUSES IN CONTRACTS <sup>1 2</sup>			
	2008	2009	2010
Percentage of significant investment agreements that include human rights clauses	100%	100%	100%
Total number of significant investment agreements that include human rights clauses (thousands)	2.0	2.5	2.2

1. The definition of significant investment was revised to represent the expressed number more coherently. Among the criteria to verify whether a particular investment is significant or not, are: value (contracts over R\$ 200,000); contracts involving intellectual property; real estate acquisitions; donations and sponsorship.

2. The clauses relate to child labor and slave labor or labor analogous to slave labor.

## SUSTAINABLE SUPPLY CHAINS

We took on a great challenge in 2010: to develop a methodology to quantify the environmental impacts that our partners' activities may cause for society (known as socio-environmental externalities) and convert the data into monetary values. The new methodology will be incorporated into the process of selecting suppliers and is aligned with our ambition of developing sustainable supply chains.

The study links the primary impacts of the supply chain with Natura's priority sustainability issues. We applied it on a pilot basis for the selection of two suppliers in 2010: one from the services segment and the other from products. In both cases, we decided to select partners who, in addition to meeting traditional technical criteria, demonstrated advantages in social and environmental indicators, such as reducing greenhouse gas emissions and investing in education.

Our goal is to apply this methodology to 16 groups of materials and services (accounting for 60% of the value of our purchases) by the end of the first quarter of 2011, and to reach 100% of our portfolio within the next two years.

This pioneer process is a result of collective construction. We held two dialogue panels gathering 70 people from 14 supplier categories, which helped us identify all the externalities to which each one is exposed.

The methodology was developed in partnership with the consulting firm A.T. Kearney, known for its work in supply chain management, and with the support of representatives from The Economics of Ecosystems and Biodiversity (TEEB), of the United Nations.

# 4.6 SUPPLIER COMMUNITIES

WHEN NATURA COMMITTED TO A **TECHNOLOGY PLATFORM** THAT INCORPORATES INPUTS EXTRACTED FROM **BRAZILIAN BIODIVERSITY** IN A SUSTAINABLE WAY, WE INITIATED RELATIONSHIPS WITH SUPPLIER COMMUNITIES THAT PROVIDE NOT ONLY RAW MATERIALS BUT ALSO ACCESS TO **TRADITIONAL KNOWLEDGE.**

This business model produces value for Natura and helps to create wealth for communities and small farmers while driving local development. In 2010, our network of relationships involved 25 supplier communities comprising 2,301 families in the North, Northeast, Southeast, and South of Brazil and in Ecuador. Eleven supplier communities provide materials for our plant that makes oils and soaps in Benevides (Pará) (learn more on page 68, Surrounding Communities). The number of families involved was 14% higher than the previous year. Examples of progress in this relationship include a 57% increase in resources allocated to communities and the effective implementation of our Rural Supplier Development program, called Bio-Qlicar (Quality, Logistics, Innovation, Competitiveness, Service and Relationship). This program is growing into a robust platform for dialogue and for the development of small farmers and partner communities involved in our supply chains of biodiversity inputs (graphs 1 and 2).

Our relationship with supplier communities is based on the Natura Policy for the Sustainable Use of Biodiversity and Associated Traditional Knowledge, and is aligned with the International Convention on Biological Diversity. This policy, which was formulated in 2008 and disseminated to our stakeholders in 2009, regulates our processes and helps us improve the planning of demand for inputs purchased from these communities. It also sets parameters for negotiating the equitable distribution of benefits obtained from the use of these ingredients.

Our policy dictates that approval to embark on a relationship with new communities or to start new research and supply projects must involve internal forums to assess all the risks and opportunities, both for the community and for Natura. The selection is made based on a diagnosis of the following characteristics of the communities: supplies, relationship, plant production and marketing, and it also includes an analysis of the traceability, the administrative organization and the legal structure of the association or cooperative, engagement with partners and environmental conservation practices, among other things.

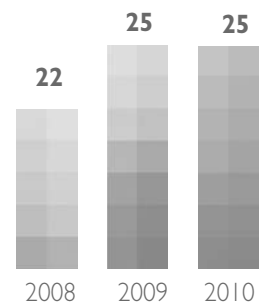
In what we consider our priority communities, we are committed to the preparation of sustainable development plans, implemented through projects run in partnership with the communities and other organizations. The focus of these plans is to contribute to sustainable local development, so society as a whole can develop.

The reasons for terminating a relationship may include the discontinuation of a product line or use of a specific raw material, or failure to satisfy critical supply criteria (quality, volume, etc.). It is worth pointing out that this analysis is only made after a period in which all the conditions that allow the community to meet these requirements have been provided (training, investments in infrastructure, management, etc.).

Internally, we have a multidisciplinary team that uses management systems and governance mechanisms to promote a more comprehensive inclusion of these communities into our business model, and we are also streamlining our procedures so we can adapt better to the local contexts of each community.

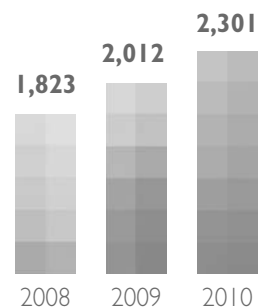
In 2010, we began to assess the loyalty of supplier communities to Natura, based on a survey similar to that which is conducted with our other suppliers. These methodologies will be consolidated in 2011. The initial assessment revealed the need for improvement in some aspects of these relationships, such as communication, the procurement process, and joint development opportunities in the supply chains.

1. NUMBER OF COMMUNITIES WITH WHICH NATURA DOES BUSINESS <sup>1</sup>



*1. In 2010, we revised the criteria for quantification of supplier communities, which now consider only traditional communities and family farmers. We revised the numbers for 2008 and 2009 accordingly.*

2. BENEFITED FAMILIES





We also improved dialogue with supplier communities by inviting them to a three-day conference. This meeting, involving 60 people, also included representatives of processing companies (suppliers that take ingredients such as almonds, seeds, or fruit from our supplier communities and convert them into oils or other substances that are incorporated into our products). Through dialogue, we have promoted better integration between these two important groups in our supply chain. At the conference, we showed how the issues discussed in 2009 had evolved and we conducted an assessment of BioQlicar. We also discussed scenarios for the coming years, the future of our relationships, and each side's role in fostering sustainability.

As a way of giving fresh impetus to the communities and making clear their importance to Natura, we staged two product launches in the communities that supply their inputs. We launched the Una make-up line at the Cooperative of Small Agroextractivist Producers in Esperantinópolis, in the state of Maranhão, which supplies ground babassu coconut. We also chose the community of Jacarequara – home to the Mixed Farmers Cooperative Between the Caeté and Gurupi Rivers (Coomar), in Santa Luiza do Pará, in the state of Pará – as the site of the launch of our new Ekos line of soap. This event was attended by 30 journalists from across Brazil, who not only learned more about the new product, but were also introduced to the work conducted in the communities. These events have also brought our consultants and supplier communities closer together, creating an environment for the exchange of cultures and world visions between the different links in Natura's sales and production chain.

We also presented the work of our supplier communities at the 10th Conference of the Parties to the Convention on Biodiversity (COP-10), in Nagoya, Japan. Furthermore, the Ekos Portal ([www.naturaekos.com.br](http://www.naturaekos.com.br)), which promotes the range of products from the Ekos line, also contains information on the work in these communities, such as the model of sustainable extraction and the socio-environmental concerns.

We organized anthropological studies in 2010 on the involvement of children and adolescents, members of the supplier communities' families, in the production chain. The studies reveal that this involvement is not limited to the economic or legal dimension, but also considers social and cultural issues. The social division of labor in the extractivist communities observes a characteristic vision of the world that belongs to their own cultural system. As a result, we did not identify any practices justifying corrective action. We will continue to monitor the issue in 2011 to make sure that no children or adolescents are being exposed to risk.

It is worth noting that in 2010 we did not register any incidents involving indigenous populations in the locations where we operate.

## RESOURCES FOR COMMUNITIES

In 2010, our transfer of resources to supplier communities rose 57% over 2009 levels, to R\$8.7 million. This amount refers to payments for the supply of inputs; contracts for sharing benefits; for access to genetic heritage or associated traditional knowledge; for use of images; and for direct investments in local sustainable development.

RESOURCES ALLOCATED (R\$ THOUSANDS) <sup>1</sup>			
	2008	2009	2010
Supply	2,283.9	2,767.2	4,373.6
Sharing benefits from access to genetic heritage or associated traditional knowledge <sup>2</sup>	1,435.7	1,056.3	1,480.1
Funds and support <sup>3</sup>	631.2	1,087.7	1,551.7
Use of image <sup>4</sup>	15.4	14.5	76.5
Training <sup>5</sup>	56.4	151.8	184.6
Certification and stewardship <sup>6</sup>	23.4	27.8	212.2
Studies and advisory services <sup>7</sup>	555.5	435.1	827.7
<b>Total</b>	<b>5,001.5</b>	<b>5,540.4</b>	<b>8,706.4</b>

1. Data for 2008 and 2009 have been revised due to the reallocation and reclassification of project expenses in supplier communities and the exclusion of amounts associated with one community that is no longer part of this group.

2. Sharing of benefits with the communities enabling access to Genetic Heritage and/or Associated Traditional Knowledge.

3. Corresponds to Funds and Sustainable Development Agreements voluntarily supported by Natura, for which disbursement has always been contingent on projects or sponsorship for infrastructure improvements.

4. Amounts paid by Natura for the use of images of community members in institutional publicity pieces or in marketing.

5. Includes Natura's payments to hold workshops and courses for communities to improve their sustainable production techniques.

6. Amounts invested in certification and stewardship plans in cultivation areas within supplier communities.

7. Includes reports and consulting services provided by specialists and NGOs contracted by Natura to work with supplier communities.

Growth in the amount of resources resulted from higher demand - driven by new product launches - but also by more benefit-sharing payment contracts coming due in 2010 than in previous years. For 2011, we expect total distribution to grow 25%, a lower percentage than last year.

In 2011, we intend to streamline our information system on the various different divisions of Natura that are part of this relationship, extending our control over this and other indicators associated with supplier communities.

## RESOURCES ALLOCATED PER FAMILY (R\$ THOUSANDS)

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct resources <sup>1</sup>	2.4	2.5	3.1
Supply <sup>2</sup>	1.4	1.5	2.0

1. Includes resources actually received by the communities: supply of inputs, benefit sharing, use of image, funding and support.

2. Sub-item of direct resources, highlighting the funding received for supply.

## BIOQLICAR PROGRAM

Our supplier communities take part in the BioQlicar Program, an initiative similar to the development program applied to the other suppliers.

Five years ago, we began to develop a program to monitor and improve the supply chain that provides us with ingredients from biodiversity. After a period of conceptual and methodological evaluation, by 2010 we had a more robust model consisting of two indicator categories: BIO (economic, physical, environmental, social and human resources); and Qlicar (monitoring the production performance of rural suppliers). We hope to use this program to promote an objective dialogue, streamline our partnerships and strengthen our business model. BioQlicar helps communities organize in different ways, stimulating their development and guiding their relations with the market as a whole. It also guides our procedures and relationship strategies to make supply chains more sustainable. This model considers two indicator categories: bio (economic, physical, environmental, social, and human resources) and Qlicar (monitoring the production performance of rural suppliers). In 2011, we will assess the program together with the communities, and our goal is to reach a score of 3.7 on a scale of 0 to 5.

We also conducted, for the first time, a complete survey of data from the communities for the program. This involved meetings in 23 of the 25 supplier communities and with 7 processing companies. The results were discussed with these two groups, enabling us to prepare joint action plans and improve the supply chains.

The construction of BioQlicar observed the seven principles of the BioTrade Program of the United Nations Conference on Trade and Development (UNCTAD), which addresses, among other things, the conservation of biodiversity, fair and equitable sharing of benefits, compliance with national and international regulations, and respect for the rights of all the actors involved.

## SHARING BENEFITS AND CULTURAL HERITAGE

We signed four new benefit sharing contracts in 2010, which were negotiated based on the principles of the Natura Policy for the Sustainable Use of Biodiversity and Associated Traditional Knowledge. In general, the amount of resources shared depends on the number of raw materials produced from the plant, and on the commercial success of the products.

The first contract was signed with the Ver as Ervas Association, from Belém in the state of Pará, for the traditional knowledge associated with the use of the ingredient pataqueira (*Conobea scoparioides*). According to the terms of the contract, the resources will be used in projects for the community, such as the renovation of the association's facilities.

We also signed a benefit sharing contract for genetic access to the species aperta-ruão (*Piper aduncum*) with the group Consórcio Terra Medicinal, from Barra do Turvo in the state of São Paulo, and the NGO Programa da Terra. The resources will be invested in improving the quality of life of family farmers involved in the process and to develop the production chain.

The third contract involved access to yellow passion fruit (*Passiflora edulis flavicarpa* Degener) and was signed with the Agroindustrial Cooperative of Farmers from Corumbataí do Sul and Region (Coaprocor), in the state of Paraná. The community has used the benefit sharing resources to make improvements to the production chains, such as purchasing land for its new facilities, training and mobilization events for farmers.

The final contract involves macela-do-campo (*Achyradine saturoides*), signed with the Bernardo Hakvoort Agroforestry Institute, located in the town of Turvo, also in the state of Paraná. The resources will be spent on the institutional strengthening of the organization and the local cooperative, through technical training and increasing the number of farmers associated with the projects of Natura.

## LOCAL DEVELOPMENT

Natura's relationship with the supplier communities is not restricted to commercial relations and production. The relationship also involves the promotion of actions geared towards sustainable local development. We try to invest in projects that strengthen the social fabric of the communities and help in matters such as environmental conservation, cultural promotion and the improvement of local infrastructure.

One example is the partnership with the Federation of Agencies for Social Welfare and Education (FASE) and Labor, in Benevides, which has generated a series of training courses for local producers (read more on page 68, Surrounding Communities).

Projects that contribute to the local development of supplier communities:

### MIXED COOPERATIVE OF EXTRACTIVIST PRODUCERS FROM THE SUSTAINABLE DEVELOPMENT RESERVE OF THE IRATAPURU RIVER – COMARU (AMAZONAS)

Offers scholarships for technical and higher education courses with funding from the Iratapuru Fund.

### COOPERATIVE OF AGROECOLOGICAL, ARTISANAL AND FORESTRY PRODUCERS OF TURVO – COOPAFLOA (PARANÁ)

We organized a training course on managing cooperatives and a meeting of youngsters from the region of Turvo, attended by more than 300 people. The purpose of the event was to encourage the young people to remain in the countryside, strengthening family farming and curbing rural migration.

The funds for these actions are provided by Natura's local development program.

### PARTNERSHIP FOR ECONOMIC REFORESTATION – RECA (RORAIMA AND ACRE)

We supported, with funding from the local development program, the construction of an agricultural school to provide a vocational education in the communities. The school currently has more than 70 students.

### COOPERATIVE OF AGROEXTRACTIVIST DEVELOPMENT AND ENERGY OF MÉDIO JURUÁ - CODAEMJ (AMAZONAS)

In partnership with the Small Business Support Agency (Sebrae) and the Chico Mendes Institute for the Conservation of Biodiversity, we supported a training course on how to run a cooperative for 40 people.

### BURITI PALM OIL PRODUCERS FROM THE MUNICIPALITY OF PALMEIRA DO PIAUÍ (PIAUÍ)

We staged training courses in citizenship, associativism and cooperativism, and agroforestry systems for 50 people, organized with the non-monetary shared benefits resulting from our access to the traditional knowledge and genetic heritage of the Buriti Palm.

### WOMEN'S MOVEMENT OF THE ISLANDS OF BELÉM (MMIB), COTIJUBA (PARÁ)

Using its own resources, Natura supported the final stages of construction of the MMIB's handicrafts facility, used to produce biojewelry, benefitting the 13 families that are members of the association.

### ASSOCIATION OF PRODUCERS OF BOA VISTA DO ACARÁ – (AMAZONAS)

We held a workshop to teach the skills needed for organizational management for the 23 families in the community. The initiative was organized with our own resources.

### VER AS ERVAS ASSOCIATION, BELÉM (PARÁ)

We organized training for 100 people in how to develop projects to support the association and raise money. Although the community does not supply Natura, the relationship involves the sharing of traditional knowledge. The initiative was organized with Natura's own resources.

# 4.7

## SURROUNDING COMMUNITIES

WE KNOW THAT OUR OPERATIONS **BRING ABOUT CHANGE** IN THE LOCATIONS WHERE WE OPERATE, SO **WE HAVE INVESTED** IN CLOSE RELATIONS WITH THE **COMMUNITIES AROUND OUR UNITS** IN CAJAMAR (SÃO PAULO), ITAPECERICA DA SERRA (SÃO PAULO), AND BENEVIDES (PARÁ).

However, we recognize that we must develop new strategies for ensuring smooth transitions in other communities as our operations grow in Brazil and abroad. For example, our relationship strategy should include places where we have distribution centers: Jundiá (São Paulo), Matias Barbosa (Minas Gerais), Jabotão dos Guararapes (Pernambuco), Canoas (Rio Grande do Sul), Simões Filho (Bahia), Uberlândia (Minas Gerais), and Castanhal (Pará). The same should apply to our international operations. Outsourced manufacturing in Argentina started at the end of 2010 and will be extended to Mexico and Colombia. Our aim is to contribute to the development of these regions through partnerships with the community, authorities and representatives of civil society.

In an effort to understand the needs of the communities surrounding our operations at Cajamar and Itapecerica da Serra, we held five dialogue panels involving representatives of civil society, government, associations, and nongovernmental organizations in 2010. At these events, we sought to learn the issues and challenges these communities face, understand how these groups interact with one another in the community, exchange experiences, and find joint solutions.

Investments in projects at Cajamar and Itapecerica da Serra totaled R\$438,700 in 2010, of which R\$408,700 were corporate-funded and R\$30,000 were revenues from the Natura Crer para Ver program. Natura also allocates 1% of its income tax to Municipal Councils for the Rights of Children and Adolescents, and we intend to build relationships with these bodies to monitor the use of these funds more closely (learn more on page 93, Creation of Social Value).

### INVESTMENT IN INFRASTRUCTURE AND SERVICES FOR PUBLIC BENEFIT (R\$ THOUSANDS) <sup>1</sup>

	2008	2009	2010
Investment in communities around Natura units – Natura funds	342.8	407.9	408.7
Investment in communities around Natura units – Crer para Ver program <sup>2</sup>	249.2	2.5	30.0
<b>Total</b>	<b>592.0</b>	<b>410.4</b>	<b>438.7</b>

1. Investments in the municipalities of Itapecerica da Serra and Cajamar.

2. This amount does not include funds intended for the Trilhas (Trails) project at Cajamar or the Encontros de Leitura (Reading) project at Itapecerica, both related to the Crer para Ver program.

In 2010, the number of employees living in Cajamar rose from 565 to 659. This increase was slightly below the rate of growth of Natura's staff as a whole. We have noted in past years that many people from our surrounding communities have sought employment with us but do not have the qualifications we require. This reflects shortcomings in educational and training facilities, which is a challenge not only in these locations but also in Brazil as a whole. In general, youngsters who applied to join Natura through our Young Apprentice program also demonstrated this lack of qualification. We believe there is an opportunity for us to take action in this respect, and in 2011 we will develop training programs for these groups to increase their own marketability, whether for positions at Natura or other companies in the community (learn more on page 31, High-priority Topics/Education).

### EMPLOYEES FROM THE SURROUNDING COMMUNITIES (%)<sup>1</sup>

	2008	2009	2010
Cajamar	18.2	17.4	16.6
Benevides <sup>2</sup>	96.0	98.0	94.5

1. Itapecerica da Serra does not have employees from the surrounding communities.

2. The municipalities near Benevides are also considered as surrounding communities.

Natura does not have any specific procurement policy for surrounding communities, although the new methodology for selecting suppliers to be used in 2011 considers location together with other technical and socio-environmental criteria (read more on page XX, Suppliers). In 2010, we recorded an increase in the volume of business with partners in the communities surrounding Natura's three main units, which is the result of maintaining partnerships with the current suppliers.

PURCHASES FROM SUPPLIERS FROM THE COMMUNITIES SURROUNDING THE UNITS <sup>1</sup> (R\$ MILLION)			
	2008	2009	2010
Cajamar <sup>2</sup>	52.0	69.9	73.6
Itapecerica da Serra <sup>2</sup>	1.2	1.2	1.3
Benevides <sup>3</sup>	34.4	44.6	46.5
<b>Total</b>	<b>87.6</b>	<b>115.7</b>	<b>121.4</b>

1. The values include taxes.

2. Purchases from suppliers located in the municipalities of Cajamar and Itapecerica da Serra, metropolitan region of São Paulo, Brazil.

3. Purchases from suppliers in the state of Pará exclusively the industrial unit of oils and soap mass located in Benevides, in northern Brazil.

## CAJAMAR

One of the highlights of Natura's performance at Cajamar in 2010 was the revision of the Municipal Education Plan. In 2003, we supported the local government's first plan, and once again we are part of this initiative. In 2003, community involvement was low, whereas now 300 representatives of civil society are involved — evidence that this group is more cohesive and participatory.

Last year, in conjunction with Cajamar's municipal government, we engaged a higher-education institution (Fundação Escola de Sociologia e Política de São Paulo) to help us to revise the plan. We covered 70% of the cost of the contract, and the municipal government paid the remainder. The project was planned jointly with the community through meetings held in all districts. The new plan covers education for municipal schools for the next 10 years — setting targets, strategies, and action plans. We also used funds from the Natura *Crer para Ver* (Believing is Seeing) program to produce a booklet to be distributed to the community, providing details on how the plan will work.

We have a partnership with the NGO Mata Nativa. In 2010, we commissioned the Institute of Socio-Environmental Research and Projects to advise on the process of improving and streamlining the NGO's management. Mata Nativa is a benchmark institution in the town, and it has been contacted by several industries seeking assistance with socio-environmental issues.

Also in partnership with Mata Nativa, in 2010 we completed a project to map the potential areas for reforestation in Cajamar. The study consisted of a general inventory of the local flora and an identification of protected areas (known as "Permanent Preservation Areas" and "Legal Reserves"), degraded areas and riparian forests. Technical reports and georeferenced maps were drawn up of the potential areas for reforestation found in the region. This project was widely publicized in the municipality and it can provide valuable insight for the creation of the municipality's Master Plan and Agenda 21. The initiative also received the support of the National Biomass Reference Center and the Advanced Studies Center in Applied Economics, both part of the University of São Paulo.

For the past four years, we have sponsored the publication "Cajamar em Verso e Prosa" (Cajamar in Verse and Prose), a project that encourages an appreciation for the written word and celebrates the memory of the town, organized by the Municipal Board of Education. We also sponsor the printing of newspapers for schools in the municipality.

Cajamar was included in the Trilhas (Trails) project of Natura's *Crer para Ver* (Believing is Seeing) program, which is organized in all the municipality's public schools catering to children from 4 to 6 years old in primary or pre-school. The project lasted two years and involved 16 municipal schools, 125 teachers and 2,863 pupils in 2009 and 2010 (read more on the Trilhas project on page 92, Creation of Social Value/*Crer para Ver*).

## ITAPECERICA DA SERRA

Our main activity in Itapecerica da Serra revolves around expanding the selective garbage collection program. Therefore, we support the Municipal Environment Department (Green Division) and the local recycling cooperative. The medium-term goal is for selective collection to cover the entire municipality through a mixed system involving motorized transport, collectors, and voluntary points of delivery.

In 2011 we will transfer our operations in Itapecerica da Serra to the city of São Paulo. We have outgrown our current facilities in Itapecerica da Serra, which no longer offer ideal working conditions (learn more on page 26, Structural Changes). We are aware that this decision will affect the community, and we are carrying out a transition process to minimize these impacts. We have maintained social investment in 2011 and are preparing the cooperative and the municipal government to independently manage the selective collection service. This has been the objective of this project since its outset; throughout the partnership, we have supported the reorganization of the cooperative, the structuring of its processes, the professionalization of the cooperative members, and the increase in the volume collected.

Natura lent its support by commissioning the Institute of Socio-Environmental Research and Projects to advise the cooperative and train its members. As a result, the cooperative has received more funding to expand its premises, structure its accounting and financial practices and understand the importance of the professionalization of its membership. The cooperative currently has 25 members and, in 2010, they all started to pay into the Brazilian Social Security System (INSS). The average monthly volume of recyclables handled by the cooperative increased from 50 metric tons in 2009 to 69 metric tons last year, and it also reported record earnings.

In 2010, the municipality of Itapeçerica da Serra also participated in the Encontros de Leitura (Reading Meetings) project of the Crer para Ver (Believing is Seeing) program. The project trains teachers who work with children of 4 and 5 years old in reading and writing activities. It was attended by 50 teachers from 29 schools and 37 technical professionals and school principals, benefiting 1,461 pupils.

## **BENEVIDES**

The Benevides plant has been in operation since 2006. It has the responsibility for training, negotiating, and maintaining relationships with farmers that supply some of the biodiversity ingredients it uses. These agroextractivist producers and communities (mostly grouped into cooperatives) are called "community enterprises" and are also part of our supplier communities (learn more on page 64, Supplier Communities). They are located in various towns and cities in the state of Pará, well beyond the municipality of Benevides.

In 2010, we worked with 11 associations and cooperatives comprising 1,100 families — 80% more than the 610 families in 2009. There was also growth in the amount of raw materials purchased, from 394 tons in 2009 to 500 tons in 2010. Our operations in Benevides will be expanded in 2011 with the construction of a new soap plant, which is expected to increase the production capacity of our local operations.

To achieve the significant growth that we report each year, we make an effort to improve the production systems of these associations and to promote the diversification of their products. For example, we organize development activities for these producers in partnership with the organizations Labor and the Federation of Agencies for Social Welfare and Education (FASE). These include the Workshop on Almond Quality, the Murumuru Stewardship Course, Health Workshops, the Course on Security and Environment for Extractivists, the Cooperativism Training Program and the Training Program in Cooperative Management. In addition, we stage technical consulting activities, lasting two days each, in which Natura visits the partners and gives lectures on production quality, environment, security and social organization.

In 2010, we launched a pilot project with the Coofruta cooperative, located in Abaetetuba, in the state of Pará, to decentralize the production of the oils we use in our products. Currently, the communities supply the inputs (such as seeds, almonds, etc.) to processing companies that produce the oil and deliver it to Natura. Our goal is to help the communities to produce the oil themselves, thereby increasing their earnings and diversifying their business, in addition to improving the logistics of the production process. To assess the results of this project, we are developing indicators to measure not only rising incomes, but also the social benefits associated with the new production opportunities (read more about the communities around Benevides on page 64, Supplier Communities).

# 4.8

## SHAREHOLDERS

SINCE NATURA WENT PUBLIC IN 2004, WE HAVE SOUGHT TO BUILD A **TRANSPARENT AND HIGH-QUALITY RELATIONSHIP** WITH OUR SHAREHOLDERS, INVESTORS, AND CAPITAL MARKET ANALYSTS BY **KEEPING THEM WELL INFORMED.**

We follow the recommendations of Brazil's Securities and Exchange Commission and the rules of the BM&FBovespa, where Natura shares are listed on the New Market segment.

Our Annual Shareholders' Meeting, in April 2010 at our Cajamar facility, brought together more than 200 shareholders. These individuals had an opportunity to develop closer contact with our company, our controlling shareholders, and our executives (learn more on page 17, Governance). This year, we also held the second Natura's Day, a meeting with 80 Brazilian and international capital market analysts and professionals.

To maintain close relations with this group during 2010, we conducted quarterly conference calls and took part in conferences and individual meetings in Brazil and abroad. We held 600 meetings with investors. We also redesigned our website ([www.natura.net/investidor](http://www.natura.net/investidor)), our main communication channel. The site's functionality has improved, facilitating better access to information and providing greater interactivity, such as an investment simulator and the section *Fale com RI* (Talk to IR). Since its launch in June, we have recorded an average of 16,000 visits per month.

### PROFILE OF SHAREHOLDERS

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Individuals	9,993	7,699	7,838
Brazilian legal entities	396	560	560
Foreign legal entities	538	668	850
<b>Total</b>	<b>10,927</b>	<b>8,927</b>	<b>9,248</b>

At the end of 2010, foreign corporate investors held 88% of outstanding shares. Brazilian corporate investors held 7% and individual investors held 5% of these shares.

### CAPITAL STRUCTURE

<u>SHAREHOLDERS</u>	<u>INTEREST</u>	<u>NUMBER OF SHARES</u>
Majority shareholders	59.88%	258,017,219
Treasury shares	0.00%	655
Management shares	0.57%	2,458,016
Outstanding shares	39.55%	170,405,526
<b>Total shares</b>	<b>100.00%</b>	<b>430,881,416</b>

### MAJORITY SHAREHOLDERS

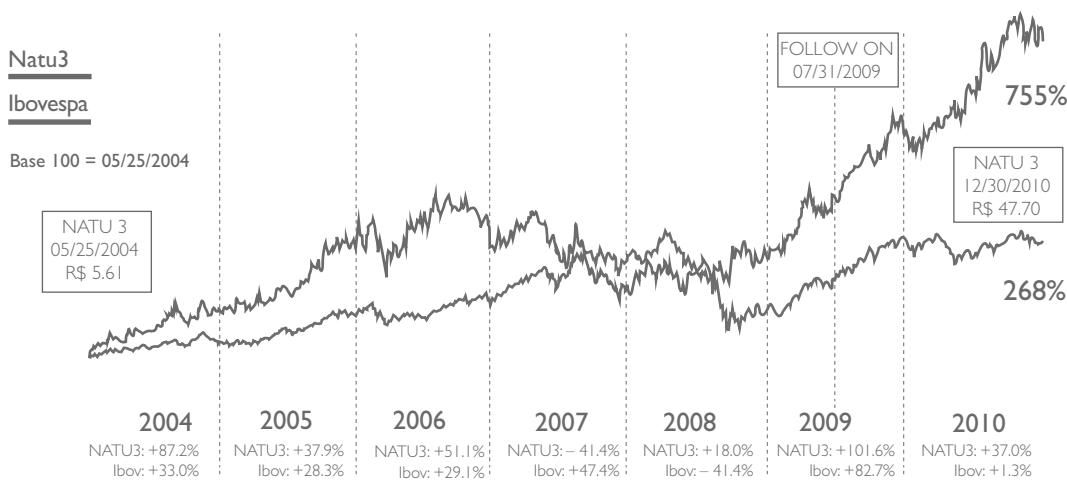
The capital stock of Natura consists exclusively of common shares. The table below shows the percentage of shares held in 2010 by shareholders that own 5% or more of the capital stock and by the Board.

<u>SHAREHOLDER</u>	<u>NUMBER OF COMMON SHARES</u>	<u>%</u>
<b>Lisis Participações S.A.</b> Controlled by Antonio Luiz da Cunha Seabra	95,946,968	22.27
<b>Utopia Participações S.A.</b> Controlled by Guilherme Peirão Leal	91,557,964	21.25
<b>Passos Participações S.A.</b> Controlled by Pedro Luiz Barreiros Passos	22,606,809	5.25

SHAREHOLDER	NUMBER OF COMMON SHARES	%
<b>ANP Participações S.A.</b> Controlled by Anizio Pinotti	22,583,608	5.24
<b>RM Futura Participações S.A.</b> Controlled by Ronuel Macedo de Mattos	15,918,754	3.69
<b>Antonio Luiz da Cunha Seabra</b>	3,628,920	0.84
<b>Guilherme Peirão Leal</b>	3,462,917	0.80
<b>Pedro Luiz Barreiro Passos</b>	855,038	0.20
<b>Anizio Pinotti</b>	854,160	0.20
<b>Ronuel Macedo de Mattos</b>	602,081	0.14

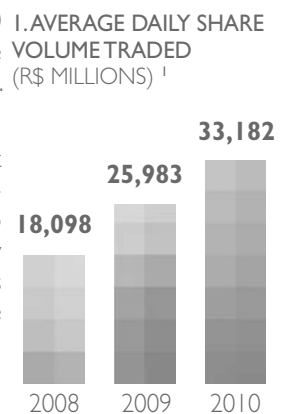
## NATURA SHARE PERFORMANCE

The price of Natura shares rose 37% in 2010, while Brazil's main stock market index (Ibovespa) ended the year just 1.3% higher. Trading volume also rose 30% from the previous year. Since 2004, when we went public, Natura shares have risen 754.7%, while the Ibovespa gained 267.9% in the same period.



We continue to be part of the leading Brazilian stock market indexes - Ibovespa, IBrX-50 (which lists the 50 most liquid shares on the exchange), the Tag Along Stock Index, the Corporate Governance Index, and the Corporate Sustainability Index, the latter of which uses sustainability criteria to select shares of companies. We are also listed on the Morgan Stanley Composite Index, a benchmark for foreign investors.

Particularly noteworthy last year was the inclusion of our shares on the BM&FBovespa's Carbon Efficient Index, which considers each company's greenhouse gas emissions. Created with the aim of encouraging companies to measure, monitor, and disclose their carbon emissions, the index incorporates indicators related to climate change issues. Consisting of companies that were already listed on the IBrX-50 and that voluntarily accepted these emissions standards, the new index requires companies to run periodic emission inventories to remain in the portfolio. Natura has been conducting emission inventories since 2007 (for more details, see page 62 in Creation of Environmental Value).



Source: Economática.

## PAYMENT OF DIVIDENDS

On February 23, 2011, Natura's Board of Directors approved a proposal for the payment of R\$659.6 million in dividends and R\$59.9 million in interest on capital (R\$50.9 million net of withholding tax) for the 2010 financial year. This proposal was to be shared at the Annual Shareholders' Meeting on April 8, 2011.

On August 12, 2010, Natura paid dividends amounting to R\$253.9 million and interest on capital of R\$30.1 million (net of withholding tax). The remaining balance, to be paid on April 14, 2011, following ratification by the Annual Shareholders' Meeting, will be R\$405.6 million in dividends and R\$20.7 million in interest on capital (net of withholding tax). These dividends and interest on capital referring to earnings for 2009 will represent net earnings per share of R\$1.65 (R\$1.37 per share in 2009), corresponding to 99% of free cash generation<sup>1</sup> and 95% of net income<sup>2</sup> for 2010.

1. (Internal cash generation) +/- (changes in working capital and long-term liabilities) - (acquisitions of property, plant and equipment).

2. Net income as defined by Law 6404/76.



# 4.9

## GOVERNMENT

**NATURA'S RELATIONSHIP WITH THE GOVERNMENT IS GUIDED BY OPEN, TRANSPARENT, AND UNBIASED DIALOGUE.** WE WANT TO BE RECOGNIZED AS AN IMPORTANT CONTRIBUTOR TO THE PROCESS OF FORMULATING PUBLIC POLICY, PLAYING A LEADING ROLE IN **SOCIAL TRANSFORMATION** ON ISSUES RELATED TO OUR BUSINESS AND OUR **WORLD VISION.**

The year 2010 was marked by two major events: the International Year of Biodiversity and the Brazilian presidential elections. These issues occupied our Agenda of Priority Topics for Government Relations, which also included the optimization of the tax burden, the regulation of solid waste and the development of strategic regional plans. The agenda lists the issues in which the Brazilian government's political and institutional sphere of influence affects Natura's Strategic Planning.

Once again, our main efforts were aimed at introducing a new legal framework for access to biodiversity and associated traditional knowledge, ensuring the conditions for sustainable use of the nation's genetic heritage and the traditions associated with it.

This matter has been on our agenda for 10 years. We believe that if Brazil is to create wealth from the sustainable use of its biodiversity, consolidating its global leadership in this area, legislation is required to provide guidance and protection to companies and researchers. Today, the issue is regulated by an incomplete and inconsistent Provisional Measure that does not guarantee institutional stability for the development of science and technology. We believe that building a model that brings together production, consumption, and conservation is the only way to contain loss of biological diversity. Establishing alternatives depends on the government resolving the current standoff.

Our action plan for moving this issue forward is focused on three priorities: communication, which can improve societal understanding and unite the community to demand action; engagement with communities to seek support for this effort; and influencing decision makers to move forward with the legal framework.

We believe that the bill, which has been stalled with the chief of staff of the President of the Republic since 2007, should be sent to Congress. Throughout 2010, we reaffirmed this belief. In the legislature, the bill will be discussed, negotiated, and adapted to provide an appropriate legal framework.

We staged hearings with federal congressmen and senators, and meetings with representatives of the Ministry of the Environment, the Ministry of Development, Trade and Industry, the Ministry of Science and Technology and the Office of the Chief of Staff. We were also one of the founding members of the Business Movement for the Conservation and Sustainable Use of Biodiversity, an initiative expressing the commitment of Brazilian companies to conserve biodiversity that has been signed up to by more than 60 companies and a number of civil society organizations. (Read more on the topic on page 29 and 79, Priority Topics/Biodiversity and Creation of Environmental Value).

As a result of Brazil's imperfect regulatory framework, in 2010 we received infraction notices from the Brazilian Institute for the Environment and Renewable Natural Resources (Ibama). We disagree with these findings and have formally challenged them (read more on page 64, Creation of Environmental Value).

Another topic on our agenda was the participation of Guilherme Leal, then co-chairman of the Board of Directors, in the 2010 presidential elections. (read more on page 18, Governance).

In relation to taxation, we worked with the Brazilian Association of Cosmetic, Toiletry and Fragrance Industry (Abihpec), to raise awareness in Congress about the effects of Provisional Measure 497 of July 2010. This measure would dramatically increase the tax burden on cosmetics companies. Taxation is already very high, and further increases would also have a significant impact on consumers.

Concerning state taxation, we support the efforts of the Brazilian Association of Direct Selling Companies (ABEVD) in the working group set up by the National Public Finance Policy Council (Confaz) to establish a common methodology for calculating Value Added Margin (VAM) in all Brazilian states. This would be a major breakthrough both for our process system and for the states, since it would reduce the likelihood of an inter-state tax war. Since no progress has been made on this issue, we continue to negotiate directly with state governments and we still have cases pending in court in the states of Paraná, Mato Grosso do Sul and the Federal District, where it has not been possible to reach an agreement on the method of calculating VAM.

On the matter of waste treatment, the publication of the National Policy on Solid Waste, following the approval of Law 12,305 of 2010, was a major breakthrough. The new policy paves the way for the consolidation of a system that involves the entire solid waste process, including manufacturers, government and consumers. However, there is still a great deal of work to be done to regulate the law, such as defining clear responsibilities and goals. In 2010, we met with industry representatives to forge a common understanding on the regulation of the National Policy. We shall continue, through Abihpec, to negotiate a sector-wide agreement to share the responsibilities for the treatment of waste. (read more on page 32, Priority Topics/Product Impact).

Among the challenges for 2011, Natura's expanding international business will require a more robust governance system for our relations with government, in order to guide our corporate and local relationships in environments with different political contexts and varying degrees of representativeness. One of our planned strategies is to regionalize our Priority Agenda, targeting our regional offices in Brazil and also our international operations. As a result, we shall remain closer to the issues that can impact our business.

We obtained financing from government agencies through tax incentives that reached just over R\$34 million in 2010. Tax benefits for our research and innovation projects represented the largest share of this funding. Law 11,196 of 2005, known locally as Lei do Bem (Law of the Good), provides incentives for companies developing technological innovations.

<b>GOVERNMENT FUNDS (R\$ MILLIONS)</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>
Tax incentives for support and sponsorship <sup>1</sup>	5.2	6.1	8.5
Lei do Bem (income tax and social contribution tax deductions on up to twice the amount spent on research and technological innovation) <sup>2</sup>	15.6	12.4	19.0
Subsidy for ICMS (state VAT) in Itapecerica da Serra	1.8	3.1	6.0
Incentive for extension of maternity leave <sup>3</sup>	0.0	0.0	0.6
<b>Total</b>	<b>22.6</b>	<b>21.6</b>	<b>34.1</b>

1. In 2010, Natura sponsored projects eligible for tax deduction under the Rouanet Law (Articles 18 and 26) and the Ancine program. Tax incentives were also received for Natura Musical – ICMS in the state of Minas Gerais.

2. Tax benefit related to the 2009 Lei do Bem was amended by the projects' review / audit process.

3. Created by Decree 7052/2009, this expense is not deductible from the calculation of taxable income or from CSLL social contribution tax, but it is fully deductible from corporate income tax (IRPJ).

## LOBBYING AND SOCIAL INFLUENCE

We favor the practice of political lobbying when it is done transparently and ethically. We support regulation of this activity, which is lawful and legitimate but lacks rules and limits. In attempting to fill this regulatory vacuum, we follow our own guidelines for government relations. Lobbying on behalf of our company is conducted by Daniel Serra, Elizabete Vicentini, Kassia Reis, Rodolfo Guttilla, and Thais Chueiri, who are all Natura employees.

In addition, we publish other documents outlining our positions and our conduct. We distribute these documents at our meetings with government representatives.

These documents are: the Integrity Policy against Corruption and Bribery, in which we condemn all illicit practices, and the Campaign Donation Policy, which clarifies our decision not to make donations to political parties or candidates, whether inside or outside election periods. For 2011, we are going to publish our policy on hiring lobbyists, since we believe that this is another good practice in transparency with our stakeholders.

To join forces and move forward on collective demands for our industry, Natura is a member of Abihpec and the Brazilian Direct Selling Association (ABEVD). Through these associations, we and our market competitors present a unified voice on issues related to our business and the competitiveness of our industry. Natura is also a member of the World Federation of Direct Selling Associations.

In 2010, this organization continued to implement its long-term strategic plan that was approved in 2009. Our membership secures Natura an important foothold in the international market, giving us the opportunity to learn in different countries and allowing us to broaden our global relationship network. We are also working to increase our role and influence in sector associations in Latin America, in virtue of our expansion in the region.

Continuing in our efforts to positively influence our stakeholders through open and transparent dialogue, we actively take part in networking opportunities, discussions and collaboration events both in Brazil and abroad.

In 2010, we were formally represented in 54 industry associations, entities, and organizations.

#### REPRESENTATION IN CLASS ENTITIES AND ASSOCIATIONS

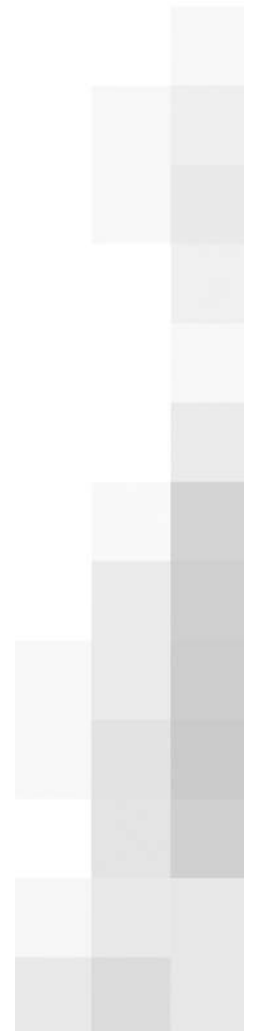
<u>Entity/Association</u>	<u>Natura Representative</u>	<u>Type of Representation</u>
ABA – Associação Brasileira de Anunciantes (Brazilian Association of Advertisers)	1. José Vicente Marino	1. Member of the National Executive Board
	2. Vanessa Giannotti	2. Representative of the Committee of Good Communication Practices
ABERJE – Associação Brasileira de Comunicação Empresarial (Brazilian Association of Corporate Communication) (www.aberje.com.br)	Rodolfo Guttilla	Chairman of the Decision-Making Council
	1. Rodolfo Guttilla	1. Vice Chairman
ABEVD – Associação Brasileira de Empresas de Vendas Diretas (Brazilian Association of Direct Selling Companies) (www.abevd.org.br)	2. Lucilene Prado	2. Coordinator of the Committee of Legal Affairs and Government Relations
	3. Daniel Serra	3. Vice Chairman of the Ethics Committee
ABIA – Associação Brasileira das Indústrias da Alimentação (Brazilian Association of Food Industries)	Rodolfo Guttilla	Director
ABIFRA – Associação Brasileira das Indústrias de Óleos Essenciais, Produtos Químicos Aromáticos, Fragrâncias, Aromas e Afins (Brazilian Association of Essential Oils, Aromatic Chemical Products, Fragrances, Aromas and Similar Industries)	Sérgio Gallucci	Representative
	1. Rodolfo Guttilla	1. Vice Chairman
	2. Lucilene Prado	2. Director
ABIHPEC – Associação Brasileira da Indústria de Higiene Pessoal, Perfumarias e Cosméticos (Brazilian Association of the Personal Hygiene, Perfume and Cosmetic Industries) (www.abihpec.org.br)	3. Elizabete Vicentini	3. Representative of the Technical and Regulatory Committee
	4. Thais Chueiri	4. Representative of the Environment Committee
	5. Luiz Felipe	5. Representative to the Labor Relations Group/Relações com Trabalho
ABNT – Associação Brasileira de Normas Técnicas (Brazilian Association of Technical Standards) (www.abnt.org.br)	Elizabete Vicentini	Representative
ABPI – Associação Brasileira da Propriedade Intelectual (Brazilian Association of Intellectual Property) (www.abpi.org.br)	Lucilene Prado	Representative
ABRASCA – Associação Brasileira das Companhias Abertas (Brazilian Association of Listed Companies) (www.abrasca.org.br)	Helmut Bossert	Representative
ABRH – Associação Brasileira de Recursos Humanos (Brazilian Association of Human Resources)	Denise Asnis	Representative
AIPPI – Association Internationale pour la Protection de la Propriété Intellectuelle (International Association for the Protection of Intellectual Property) (www.aippi.org)	Lucilene Prado	Representative
AMVD – Asociación Mexicana de Ventas Directas (Mexican Direct Selling Association)	Cecilia Riviello	Representative
ANPEI – Associação Nacional de Pesquisa, Desenvolvimento e Engenharia das Empresas Inovadoras (Brazilian Association of Research, Development and Engineering of Innovative Companies) (www.anpei.org.br)	Luciana Hashiba	Director
ASIPI – Asociación Interamericana de la Propiedad Industrial (Interamerican Association of Industrial Property) (www.asipi.org)	Lucilene Prado	Representative
Asociación Civil Argentina de Empresas Brasileñas (Argentine Civil Association of Brazilian Companies) (www.grupobrasil.com.ar)	Heriovaldo Silva	Deputy Treasurer

ASPI – Associação Paulista de Propriedade Intelectual (São Paulo Association of Intellectual Property) ( <a href="http://www.aspi.org.br">www.aspi.org.br</a> )	Lucilene Prado	Representative
Cámara de Comercio de Lima (Chamber of Commerce of Lima)	Daniel Gonzaga	Representative
Cámara Peruana de Venta Directa (Peruvian Chamber of Direct Selling)	Daniel Gonzaga	Representative
Cámara de Venta Directa do Chile (Direct Selling Chamber of Chile)	Hans Werner	Representative
CAMBRAS – Cámara de Comercio Argentino Brasileña (Argentine Brazilian Chamber of Commerce) ( <a href="http://www.cambras.org.ar">www.cambras.org.ar</a> )	Heriovaldo Silva	Representative
CANIPEC – Cámara Nacional de la Industria de Perfumería, Cosmética y Artículos de Tocador e Higiene (México) (Mexican National Chamber of the Perfumery, Cosmetics and Beauty and Personal Care Products Industry)	1. Carolina Muñoz	1. Representative
	2. Javier Herrero	2. Representative
CAPA – Cámara Argentina de la Industria de Cosmética y Perfumería (Argentine Chamber of the Cosmetics and Perfumery Industry)	Heriovaldo Silva	Deputy Member of the Accounts Review Commission
CASIC - Consejo de Asociaciones de la Industria de Cosméticos Latinoamericana (Council of the Latin America Cosmetics Industry Association)	Rodolfo Guttilla	Representative
CAVEDI – Cámara de Venta Directa de Argentina (Direct Selling Chamber of Argentina)	Pedro Gonzalez	Representative
CEMEFI – Centro Mexicano para la Filantropía ( Mexican Center for Philanthropy)	1. Javier Herrero	1. Representative
	2. Rosana Bertozzi	2. Representative
CIESP – Centro das Indústrias do Estado de São Paulo (Center of Industries of the State of São Paulo) ( <a href="http://www.ciesp.org.br">www.ciesp.org.br</a> )	Rodolfo Guttilla	Director
CONAR – Conselho Regional de Autoregulação Publicitária (Regional Council for Advertising Self-regulation)	José Vicente Marino	Member of the Higher Board
CONSOCIAL – Conselho Superior de Responsabilidade Social (Higher Board of Social Responsibility) (FIESP)	Maria Lucia Guardia	Council Member
ETHOS – Institutos Ethos de Empresas e Responsabilidade Social (Ethos Institute of Companies and Social Responsibility) ( <a href="http://www.ethos.org.br">www.ethos.org.br</a> )	In definition	
	2. Marcelo Cardoso	2. Member of Ethos Steering Group 10 Years
FNQ – Fundação Nacional da Qualidade (Brazilian National Foundation on Quality) ( <a href="http://www.fnq.org.br">www.fnq.org.br</a> )	Pedro Luiz Passos	Vice Chairman of the Board of Trustees
FUNBIO – Fundo Brasileiro para a Biodiversidade (Brazilian Fund for Biodiversity) ( <a href="http://www.funbio.org.br">www.funbio.org.br</a> )*	In definition	
Fundação SOS Mata Atlântica (SOS Atlantic Forest Foundation)	Pedro Luiz Passos	Member of the Board
GIFE – Grupo de Institutos, Fundações e Empresas (Group of Institutions, Foundations and Companies)	Maria Lucia Guardia	Representative
Global Compact - Caring for Climate	Marcos Vaz	Member of Steering Committee
GRI - Global Reporting Initiative ( <a href="http://www.globalreporting.org">www.globalreporting.org</a> )	Rodolfo Guttilla	Member of the Stakeholder Council and Co-chair of the Brazilian National Annex
IBGC – Instituto Brasileiro de Governança Corporativa (Brazilian Institute of Corporate Governance) ( <a href="http://www.ibgc.org.br">www.ibgc.org.br</a> )	Moacir Salztein	Representative
IBRI – Instituto Brasileiro de Relações com Investidores (Brazilian Institute of Investor Relations) ( <a href="http://www.ibri.org.br">www.ibri.org.br</a> )	Helmut Bossert	Representative
IEDI – Instituto de Estudos para o Desenvolvimento Industrial (Institute of Studies for Industrial Development) ( <a href="http://www.iedi.org.br">www.iedi.org.br</a> )	Pedro Luiz Passos	Chairman of the Board
IIRC - International Integrated Reporting Committee	Roberto Pedote	Member of Steering Committee
Instituto Empreender Endeavor Brasil (Endeavor Brazil Entrepreneur Institute) ( <a href="http://www.endeavor.org.br">www.endeavor.org.br</a> )	Pedro Luiz Passos	Member of the Board
Instituto São Paulo Contra a Violência (São Paulo Institute Against Violence) ( <a href="http://www.spcv.org.br">www.spcv.org.br</a> )	Rodolfo Guttilla	Representative

INTA - International Trademark Association	Lucilene Prado	Representative
IPT – Instituto de Pesquisas Tecnológicas (Institute of Technological Research) (www.ipt.br)	Pedro Luiz Passos	Member of the Board
LIDE – Grupo de Líderes Empresariais (Business Leaders Group)	1. Alessandro Carlucci	1. Representative
	2. Rodolfo Guttilla	2. Representative
MBC – Movimento Brasil Competitivo (Competitive Brazil Movement) (www.mbc.org.br)	Pedro Luiz Passos	Member of the Board
Movimento Nossa São Paulo (Our São Paulo Movement) (www.nossasaopaulo.org.br)	In definition	
PCPC Council - Personal Care Products Council (www.personalcarecouncil.org)	Elizabeth Vicentini	Representative
Rede Social São Paulo (São Paulo Social Network)	Maria Lucia Guardia	Member of the Management Committee
SIPATESP – Sindicato da Indústria de Perfumaria e Artigos de Toucador do Estado de São Paulo (Perfume and Beauty Products Industry Union in the State of São Paulo)	1. Rodolfo Guttilla	1. Vice Chairman
	2. Lucilene Prado	2. Deputy Director
The Arthur W. Page Society (www.awpagesociety.com)	Rodolfo Guttilla	Representative
UEBT - Union For Ethical Biotrade	Marcos Vaz	Vice-Chairman
WBCSD - World Business Council for Sustainable Development (www.wbcsd.org)	Alessandro Carlucci	Conselheiro
WFDSA - World Federation of Direct Selling Associations	1. Alessandro Carlucci	1. Treasurer
	2. Rodolfo Guttilla	2. Counselor
WWF Brasil (www.wwf.org.br)*	In definition	

# 5. WHAT FOOTPRINT **WE LEAVE**

WE WANT TO  
CREATE VALUE  
FOR ALL THOSE DIRECTLY  
OR INDIRECTLY INVOLVED  
WITH OUR COMPANY BY  
**REDUCING  
OUR ENVIRONMENTAL  
I M P A C T**  
WHILE GENERATING  
ECONOMIC AND SOCIAL  
B E N E F I T S



# 5.1 NATURA VALUE CHAIN

NATURA'S MAIN PERFORMANCE INDICATORS IN 2010 RELATED TO THE STAGES OF OUR VALUE CHAIN.

## 1. EXTRACTION AND TRANSPORTATION OF RAW MATERIALS AND PACKAGING (DIRECT AND INDIRECT SUPPLIERS)

**R\$ 3.7 BILLION** distributed to suppliers for the purchase of ingredients, raw materials, and services

**81%** of suppliers were satisfied

**36 CERTIFIED INGREDIENTS** used

**106,144 METRICTONS** of greenhouse gases emitted related to the extraction and transportation of raw materials and packaging

**24,775 METRICTONS** of greenhouse gases emitted by our direct suppliers (process and transportation to Natura)

## 4. USE OF PRODUCTS AND DISPOSAL OF PACKAGING.

**16.9%** of refills on items billed in Brazil

**65.4 millipoints/kg** is the environmental impact of packaging per quantity of products<sup>1</sup>

**58,509 metric tons** of greenhouse gas emissions related to the final disposal of products and packaging

*1. This includes the impact of extraction and manufacturing of packaging.*

## 2. INDUSTRIAL AND INTERNAL PROCESSES.

**R\$ 769.2 MILLION** distributed to employees as benefits and salaries

**R\$ 139.7 MILLION** invested in innovation

**0.47 LITER of water** consumed per unit billed

**443.8 KILOJOULES** of energy consumed per unit billed

**25.7 GRAMS** of waste generated per unit billed

**25,611 METRICTONS** of greenhouse gases emitted in internal processes

## 3. PRODUCT SALES (TRANSPORTATION AND DISTRIBUTION).

**R\$ 2.7 BILLION** distributed to consultants as sales-related earnings

**1.2 MILLION** consultants in all operations

**21%** consultant loyalty index

**168** new products launched

**38,275 METRICTONS** of greenhouse gases emitted transporting products to consultants and consumers

## CROSS-SECTIONAL INDICATORS

**R\$744.1 MILLION** in net income

**R\$5.1 BILLION** in net revenues

EBITDA of **R\$1.2 BILLION**

EBITDA margin of **24.5%**

**R\$80 MILLION** invested in corporate responsibility

**R\$1.4 BILLION** paid to the government in direct and indirect taxes

**R\$646.9 MILLION** distributed to shareholders as dividends and interest on capital

# 5.2

## CREATION OF ENVIRONMENTAL VALUE

OUR MAIN CHALLENGE IS TO **BALANCE THE GROWTH** OF OUR BUSINESS WITH OUR USE OF NATURAL RESOURCES LEADING US TO **DEVELOP INNOVATIVE TOOLS AND PRACTICES** TO **REDUCE THE IMPACT** OF OUR OPERATIONS AND PRODUCTS.

We continue to build on our initiatives related to waste generation and efficient uses of water and energy. In 2009, we made a decision to be mindful not only of our own impacts on the environment, but to consider the environmental performance when evaluating potential supply chain partners. As such, our calculation of our key indicators – water and electricity consumption and waste generation – included data from contracted suppliers. In 2010, we began to include the performance of our distribution centers and other Natura facilities in these indicators. Our challenge now is to include the results of our international operations in these data. Through these initiatives, we can glean a more accurate portrayal of the impact generated by our business, devise more comprehensive action plans, and influence our suppliers to take measures to ensure environmentally balanced production.

### CARBON NEUTRAL

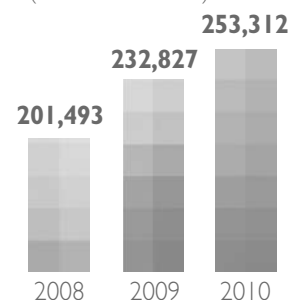
In 2007, we started our Carbon-Neutral Program to significantly reduce our emissions of greenhouse gases (GHGs). This initiative compels us to find alternatives for improving our efficiency and ensures our success by mitigating the environmental impacts of our rapid growth.

Starting the program was the first step of a commitment we made to society: to reduce the company's GHG emissions by 33% within five years, using our 2006 emissions as a baseline. Since then, we reached a 21% reduction and induced a profound transformation in the processes of our business, besides we neutralized our emissions by supporting social-environmental projects. Through a diagnosis, in 2010 we reviewed the program deadline for achieving the goal of 2011 to 2013 (read more on next page).

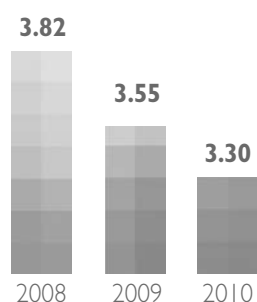
Last year, Natura's absolute emissions totaled 253,312 metric tons of CO<sub>2</sub>e, continuing the trend we set in recent years for emissions to grow at a slower pace than our business output. In relative terms, there was a 7.3% decline in GHG emissions, due primarily to significant process improvements in our order cycle (which involves product distribution), international operations, and business management.

Three core components form the heart of the Carbon-Neutral Program: expanding the scope of our inventory; reducing GHG emissions; and offsetting those that cannot be avoided (graphs 1 and 2).

1. TOTAL CO<sub>2</sub>e EMISSIONS<sup>1 2</sup> (IN METRIC TONS)



2. RELATIVE EMISSIONS (KG OF CO<sub>2</sub>E/KG PRODUCTS INVOICED)<sup>1 2</sup>



TOTAL EMISSIONS CO<sub>2</sub>e (METRIC TONS)<sup>1 2 3</sup>

	2008	2009	2010
Direct GHG emissions (Scope 1)	5,469	6,104	7,969
Indirect GHG emissions from energy (Scope 2)	1,692	1,135	2,249
Other indirect GHG emissions (Scope 3)	194,332	225,587	253,094
<b>Total</b>	<b>201,493</b>	<b>232,827</b>	<b>253,312</b>

1 CO<sub>2</sub>e (or CO<sub>2</sub> equivalent), a measure used to express GHG emissions, based on their global warming potential.

2 The inventory calculation model was upgraded in 2010. The 2009 base has been recalculated to ensure comparability, and the 2008 base has been maintained because the variation did not exceed the 5% recalculation threshold defined by the GHG protocol.

3. The scope of Natura's inventory has a life cycle view, and it includes all direct and indirect emissions, considering the entire value chain, from extraction of raw materials to final product disposal.

1. CO<sub>2</sub>e (or CO<sub>2</sub> equivalent): measure used to express greenhouse gas emissions, based on the global warming potential of each one. 2. The inventory calculation model was enhanced in 2010 to ensure more accurate methods, particularly emission factors used in calculations. The 2009 base has been recalculated to enable accurate assessment of performance in 2010. The 2008 base has been maintained because the improvement made in 2010 did not exceed the recalculation threshold of 5% variation defined by the GHG protocol.



## EMISSIONS INVENTORY

To calculate our inventory, we take into account the total volume of our emissions related to scope 1, 2 and 3 – in other words, the survey covers the extraction of raw materials in nature to the final disposal of the product. Our inventory follows the standards of the Greenhouse Gas Protocol Initiative and ABNT standard NBR ISO 14064-1, which set out the rules for conceiving, developing, managing and preparing them. PwC, an independent auditing and consulting firm, conducts specific verification (limited assurance) of the data in the 2010 Natura Consolidated GHG Inventory Report.

Periodically, we make improvements to streamline the process of calculating the inventory and speed up the access to the information. In 2010, the analysis started to be made on a quarterly basis, instead of the previous practice of every four months. This shorter cycle allows for the identification of improvement opportunities throughout the inventory process, making it possible to correct distortions throughout the year to achieve the targeted results. Since last year, we have been using a new methodology that allows an evaluation of the impacts of each Natura product.

Our operations do not emit or use substances that damage the ozone layer. Emissions of particulate matter and NO<sub>x</sub> and SO<sub>x</sub> gases are monitored and are not significant.

## REDUCTION

Only carbon-emissions cuts will contain climate change and its impacts. That is why reducing our GHG emissions is central to the Carbon Neutral Program.

The complexity of the actions, which involve a deep transformation of how we do business, partly explain the revised deadline for attaining the target reduction of 33%. Several forecasts made at the outset of the program in 2007 turned out to be incorrect or were overly ambitious to achieve the goal in five years. We also found ourselves behind schedule in implementing some of our projects, partly because of a slower-than-expected technological evolution of the market. Among the difficulties we currently face is a low supply of raw materials from plant origin, like biopolymers used in manufacturing lower-impact plastic packaging, and a shortage of commercially viable recycled materials with traceable chains for use in the manufacturing of packaging.

To accelerate carbon-emission reductions in the years ahead, we launched the Less Carbon, More Productivity program in 2010. This initiative is structured on five action fronts: staff engagement, education, and training, identification of projects, improvements in processes, and connecting with the business. In the last three pillars, significant advances have been made in incorporating the carbon impact into business decisions by creating policies for prioritizing materials and new measurement tools.

We also now generate detailed analyses of the emissions from Natura's major processes. We have a tool capable of estimating gas emissions from each process, which enables managers to understand the impact of their activities on the company's emission inventory and to make more conscientious decisions as a result. In the new product development area, we have created a tool for estimating emissions from products and packaging beginning with their conception. In other words, based on specific data, this tool can forecast a potential product's future environmental impact in addition to making comparisons with items of the same category and Business Unit.

On another front of the Less Carbon More Productivity program, we identified 10 projects with new reduction opportunities and we created eight rules for the development of new products. One of these rules, for example, establishes that the launch of new items or modifications to existing ones must have GHG emissions that are equal or lower than the product they are replacing or the average of the category the item belongs to. If emissions are higher, it must be submitted to analysis by the Product Committee, which reports to Natura's Executive Committee.

The program also encompasses education and engagement, seeking to disseminate knowledge on climate change among employees from different levels and departments of Natura.

These efforts have resulted in the formation of a portfolio of projects with the potential for us to achieve our target to cut GHG emissions by 33% by 2013. They have also prompted a shift in our management, which now incorporates carbon reduction criteria into our business processes. Moreover, carbon has also been incorporated into Natura's key processes, such as the strategic growth plan for product categories and the Natura Project Management Methodology.

We have already begun to reap the fruit of this process by exceeding the relative emissions reduction target, having achieved 7.3% in 2010 compared to a projected target of 4.4%. The decline is primarily due to significant reductions in several processes like the Order Cycle (which involves the distribution of our products), international operations and Business Management.

- Consolidation of the regional distribution centers (we have opened three new centers since 2009) and greater incentives for these centers to use maritime transport. These logistical changes have brought us closer to our consultants and cut diesel and gasoline consumption by transportation companies delivering orders.
- Use of smaller boxes in product distribution, permitting more efficient loading of cars and trucks.
- In our international operations, the sharp rise in product billings (nearly 60%), driven primarily by the operations in Argentina and Colombia, contributed to the reduction of relative emissions, since carbon emissions did not rise proportionally.
- Advances in the sale of products with a lower carbon index than the average of Natura products in the skin/body care category: soaps and oils, in addition to the launch of the new refill.

We also face the additional challenge of reducing absolute GHG emissions by 10% between 2008 and 2012. This target refers to direct emissions and electricity consumption (the so-called scopes 1 and 2 of our Brazilian operations). We are sticking to our commitment, although we have not yet reached the expected results given the delay in implementing projects, in addition to external factors. Because of the delay in release of the environmental license, we postponed by almost a year the installation of a flex boiler, which began operating at the end of 2010. Another postponed initiative was the adoption of ethanol-powered vehicles for the sales force, implemented beginning March 2011, eight months after the initial period. These two initiatives will produce results this year and represent over 60% of the emissions to be cut.

A further difficulty involves the increased use of coal-fired thermal power plants in Brazil. With a more polluting energy matrix, the emission factor of the electricity grid was increased by over 100% in the composition of total GHG emissions.

## OFFSETTING

Emissions that cannot be avoided are offset through projects that focus on energy efficiency, the exchange of fossil fuels for renewable energy, and the reforestation of degraded areas. Methods are selected using a biannual public tender available throughout Brazil.

In the process for the 2009–2010 two-year period, six projects were selected in Brazil, from among the 82 submitted, which were expected to neutralize 465,237 metric tons of CO<sub>2</sub>e emissions in 2009 and 2010. Part of these emissions were offset by purchasing credits and others will be offset with future credits. In 2011, a new contract is expected to be concluded that will include a project to offset emissions in Latin America.

GHG emission offset projects supported by Natura – 2009/2010 series

### ENERGY PROJECTS

#### USE OF RENEWABLE BIOMASS SUSTAINABLE CARBON CONSULTING

The project promotes the use of sawdust, woodchips and sugarcane bagasse to replace native firewood taken from Brazil's cerrado savannah region for the furnaces of the ceramic roof tile company Cerâmica Santorini in Ituiutaba, in the state of Minas Gerais. We have purchased 35,634 metric tons of CO<sub>2</sub> already generated and sealed a partnership to offset another 102,200 metric tons in seven years.

#### USE OF RENEWABLE BIOMASS SUSTAINABLE CARBON CONSULTING

The project intends to replace native wood used in furnaces, which has added to the deforestation of Brazil's caatinga thorn forest, with inputs such as coconut shells, pruned branches of cashew trees, sugarcane bagasse and sawdust. The project is developed at ceramics company Cerâmica JL Silva, in Lajedo, in the state of Pernambuco. It has offset 74,880 metric tons of CO<sub>2</sub>e in four years.

#### ENERGY EFFICIENT STOVES IN THE RECÔNCAVO BAIANO II PERENE INSTITUTE

The project expands the 2009 initiative to replace rudimentary wood-burning stoves for more efficient versions in rural households in Bahia. The initiative will install 5,000 new stoves in the region. Rudimentary stoves consume more wood, emit more greenhouse gases and add to the degradation of the Atlantic Forest, and they are also a health hazard due to the smoke they release. The project will offset 94,000 metric tons of CO<sub>2</sub>e in eight years.

#### REPLACING FUEL OIL WITH SEBUM EQAQ CONSULTING

The reduction in emissions results from the partial replacement of fossil fuels (oil) with renewable fuel (sebum) used in the boilers of the textile company Companhia de Fiação e Tecidos Santo Antônio, in Pirapora, in the state of Minas Gerais. The project has offset 13,523 metric tons of CO<sub>2</sub>e in one year.

## FORESTRY PROJECTS

### EMAS-TAQUARI BIODIVERSITY CORRIDOR CARBON PROJECT ORÉADES GEOPROCESSING CENTER

The project will restore 200 hectares of degraded forest – of a total area of 600 hectares – with native species around the Emas National Park and the River Taquari Springs State Park (in the states of Goiás and Mato Grosso do Sul). The forecast is for the project to offset 70,000 metric tons of CO<sub>2</sub>e in 30 years.

### XINGU SOCIO-ENVIRONMENTAL CARBON SUSTAINABLE XINGU ASSOCIATION, SOCIOAMBIENTAL INSTITUTE (ISA) AND CENTRO DE VIDA INSTITUTE (ICV)

The objective of this project is to restore 220 hectares of degraded land earmarked for preservation around the source of the Xingu River in the state of Mato Grosso. The project will offset 75,000 metric tons of CO<sub>2</sub> in 30 years.

GHG emission offset projects in progress – 2007/2008 series

## FORESTRY PROJECTS

### CARBON, BIODIVERSITY AND COMMUNITY IN THE PAU-BRASIL ECOLOGICAL CORRIDOR (2008 SERIES) BIOATLÂNTICA INSTITUTE (IBIO)

Reforestation project in the Pau-Brasil National Park and the Monte Pascoal National Park, in Porto Seguro, in the state of Bahia. It will offset 79,050 metric tons of CO<sub>2</sub> for Natura in 30 years.

Status in 2010 – The project should be fully implemented in 2011 and the first carbon credits are forecast for 2015.

### XINGU SOCIO-ENVIRONMENTAL CARBON (2008 SERIES) SOCIOAMBIENTAL INSTITUTE (ISA) AND CENTRO DE VIDA INSTITUTE (ICV)

Recovery of 116 hectares of degraded riparian forest and springs at the source of the Xingu River in the state of Mato Grosso. It will offset 40,000 metric tons of CO<sub>2</sub> in 30 years.

Status in 2010 – The project should be fully implemented in 2011 and the first carbon credits are forecast for 2014.

### FOREST CARBON – RECOVERY AND PRESERVATION OF NATURAL RESOURCES (2007 SERIES) ECOLÓGICA INSTITUTE

The project is working to recover nearly 150 hectares of degraded land, by planting native species of trees in the protected areas (“Permanent Preservation Areas” and “Legal Reserves”) of two rural settlements in the region of Cantão, in the state of Tocantins. When complete, the project will have offset 60,000 metric tons of CO<sub>2</sub>e in 20 years.

Status in 2010 – The project has been implemented and the first carbon credits are forecast for 2013.

### LANDSCAPE RESTORATION AND AGROFORESTRY SYSTEMS (2007 SERIES) ECOLOGICAL RESEARCH INSTITUTE (IPÊ)

Restoring the vegetation and protecting the diversity of species in an area of 55 hectares, in addition to implementing 129 hectares of agroforestry systems for the production of coffee. The project will commercially benefit the rural producers in Pontal do Paranapanema, in the state of São Paulo. The final offset will be 60,000 metric tons of CO<sub>2</sub>e in 30 years.

Status in 2010 – The project has been fully implemented and the first carbon credits are forecast for 2011.

## ENERGY PROJECTS

### ENERGY EFFICIENT STOVES IN THE RECÔNCAVO BAIANO (2008 SERIES) PERENE INSTITUTE

The project provides for the replacement of rudimentary wood-burning stoves for families living in the rural communities of the Recôncavo Baiano region of the state of Bahia with more efficient stoves. The target is to offset 18,880 metric tons of CO<sub>2</sub>e in eight years.

Status in 2010 – The project should be fully implemented in 2011 and the first carbon credits are forecast for 2014.

Completed projects

## ENERGY

### USE OF RENEWABLE BIOMASS (2007 SERIES): ECOLÓGICA ASSESSORIA

Use of renewable biomass for firing ceramics at four companies in the states of Pará and Tocantins (60,000 metric tons of CO<sub>2</sub>e offset)

#### SMALL HYDROELECTRIC POWER PLANT COOPERATIVES (2007 SERIES):

Generation of renewable energy by the cooperatives Cveral, Cooperluz and Ceriluz in the state of Rio Grande do Sul (which resulted in the offsetting of 14,000 metric tons of CO<sub>2</sub>e).

#### REPLACING FUEL OIL WITH CERTIFIED BIOMASS (2007 SERIES):

Replacing oil-based fossil fuel for renewable fuel from woodchips certified by the Forest Stewardship Council (FSC) at AMC Têxtil in the state of Santa Catarina (30,000 metric tons of CO<sub>2</sub>e offset).

#### USE OF RENEWABLE BIOMASS (2008 SERIES):

##### SUSTAINABLE CARBON

Use of renewable biomass for firing ceramics in the state of Alagoas (60,000 metric tons of CO<sub>2</sub>e offset).

## BIODIVERSITY

The United Nations declared 2010 as the International Year of Biodiversity. We strengthened our actions in support of a policy that leads to sustainable development through the use of biodiversity assets and the creation of a new Brazilian legal framework for access to genetic heritage and its associated traditional knowledge.

Since 2008, we have relied on the Natura Policy for the Sustainable Use of Biodiversity and Traditional Knowledge. This policy establishes directives for the use of raw materials and the sharing of benefits, such as raw material extraction with the mandatory use of sustainable stewardship through extractivist family agriculture-based systems. It is the fruit of the experience acquired as part of a group that plunged into little-explored complex topics and followed the principles of the Convention on Biological Diversity established by the United Nations. It presents action guidelines for all internal departments involved in product research and development on the basis of genetic resources and/or their associated traditional knowledge. In the case of our relationship network, it serves, among other purposes, as an instrument to support decision making by upholding our values and the manner in which we work (learn more on page 30, High-Priority Topics/Biodiversity).

## SANCTIONS APPLIED BY IBAMA

In November and December 2010, Natura received 68 infraction notices from the Brazilian Institute of the Environment and Renewable Natural Resources (Ibama) with fines of R\$22 million for allegedly irregular access to biodiversity for research and product development. Other local and foreign companies, scientists, and public research institutions also received notices.

Natura does not agree with these actions and has formally challenged them. We believe that the need for authorization from the government to start research is a barrier to the development of science and does not uphold the rights of traditional communities nor does it guarantee protection of biomes. In addition, the time taken to analyze an application, usually about two years, would mean that pure or applied research by business would not be feasible.

We believe that our activity complies with the principles of the Convention on Biological Diversity (CBD), the United Nations treaty on which Natura bases its policy for the sustainable use of biodiversity and traditional knowledge. Natura has prior approval from all suppliers of biological materials, has signed contracts with them, and shares benefits from the commercial exploitation of species, and does so fairly and equitably.

In 2010, we received important endorsements, particularly from abroad, that attest to our commitment. The World Business Council for Sustainable Development selected, from among 2,000 companies around the world, 24 case studies in the responsible use of biodiversity. Natura was identified by the study as the only company that manages to comply with the three principles of the Convention on Biological Diversity (CBD): prior consent, sharing of benefits and environmental conservation. We were also mentioned in *The Economics of Ecosystems and Biodiversity*, published by the United Nations Environment Program, currently the most important study on the economics of ecosystems and biodiversity.

We view the notifications as a positive opportunity, however, to discuss the urgency of developing a legal framework for biodiversity.

## CERTIFICATION OF INGREDIENTS

We certified six more ingredients in 2010 used in perfumes and cosmetics and in our Frutífera line of fruit teas. They include Cinnamon, Cloves and Dog Rose. We also modified the status of one ingredient to uncertified in virtue of the changes in the renewal process for organic certification.

We ended the year with 36 certified species, which means that more than 60% of the biodiversity assets used by Natura have certified production and origin.

This process is part of our Program for the Certification of Ingredients, which is a statement of our commitment to respecting the ecological limits to the production of ingredients we acquire from supplier communities. This program guarantees that production remains within the levels the environment is capable of supporting.

#### NUMBER OF ASSETS LICENSED <sup>1</sup>

	2008	2009	2010
Total assets licensed (units)	26	31	36
Percentage of total licenses <sup>2</sup> (%)	54	58	61

1. Includes vegetable inputs in the form of waxes, oils, extracts, essential or fresh oils (cosmetics and teas).

The certifications include family farmers and the traditional communities whose production is certified by three different protocols: organic agriculture (the Biodynamics Institute, Ecocert, the International Agricultural Organization, and the Ecological Market Institute); sustainable agriculture (the Sustainable Agriculture Network); and forestry (the Forest Stewardship Council).

Natura does not use invasive species or engage in habitat conversion, which involves transforming a natural environment to cater to production interests. We look for raw materials in places where they occur naturally, we avoid monoculture and we give preference to products that are pesticide-free, in accordance with organic production models.

One of the prerequisites of certification is production traceability, a process in which producers document and provide information on the origin of all their production.

#### STATUS OF THE NATURA INGREDIENT CERTIFICATION PROGRAM 2010

Ingredient/Ekos (State)	Start	End	Start	End	Start	End	Production System
Andiroba <i>Carapa guianensis</i> (Amazonas)	X	X	X				Manejo tradicional
Açaí Berry <i>Euterpe precatoria</i> (Rondônia)	X	X	X	X	X	X	Agroforestry system SAN
Lemongrass (F) <i>Cymbopogon citratus</i> (Paraná and São Paulo)	X	X	X	X	X	X	Cultivation ECOCERT
Brazil Nut <i>Bertholletia excelsa</i> (Amapá)	X	X	X	X	X	X	Traditional stewardship Imaflora
Cacau <i>Theobroma cacao</i> (Bahia)	X	X	X	X	X	X	Agroforestry system IBD
White Pitch <i>Protium pallidum</i> (Amapá)	X	X	X	X	X	X	Traditional stewardship Imaflora
Cupuaçu <i>Theobroma grandiflorum</i> (Rondônia)	X	X	X	X	X	X	Agroforestry system SAN
Passion Fruit <i>Passiflora edulis</i> (Minas Gerais)	X	X					Cultivation
Yerba Mate <i>Ilex paraguaiensis</i> (Rio Grande do Sul)	X	X	X	X	X	X	Traditional stewardship Imaflora
Murumuru Palm <i>Astrocaryum murumuru</i> (Amazonas)	X	X	X				Traditional stewardship
Pitanga <i>Eugenia uniflora</i> (São Paulo and Paraná)	X	X	X	X	X	X	Cultivation and organic stewardship ECOCERT
Priprioca <i>Cyperus articulatus</i> (Pará)	X	X	X	X	X	X	Cultivation IBD

Ingredient/Other	STAGE I		STAGE II		STAGE III		Notes	
	Start	End	Start	End	Start	End		
Arabica Coffee <i>Coffea arabica</i> (Minas Gerais)	X	X	X	X	X	X	Cultivation	SAN
Fragrant Granadilla <i>Passiflora alata</i> (São Paulo)	X	X	X	X	X	X	Cultivation	IBD
Paramela <i>Adesmia buronioides</i> (Patagônia, Argentina)	X	X	X	X	X	X	Stewardship	OIA
Poejo <i>Cunilla galioides</i> (Rio Grande do Sul)	X	X	X	X	X	X	Cultivation	ECOCERT
Carnaúba Palm <i>Copernicia cerifera</i> (Rio Grande do Norte)	X	X	X	X	X	X	Stewardship	IBD
Palo Santo <i>Bursera graveolens</i> (Ecuador)	X	X	X	X	X	X	Stewardship	ECOCERT
Copaíba <i>Copaifera spp</i> (Amazonas)	X	X	X	X	X	X	Cultivation	ECOCERT
Green Tea (F) <i>Camelia sinensis</i> (Paraná)	X	X	X	X	X	X	Stewardship	ECOCERT
Candeia <i>Eremanthus erythropappus</i> (Minas Gerais)	X	X	X	X	X	X	Stewardship	Imaflora
Lemon Balm (F) <i>Melissa officinalis</i> (Paraná)	X	X	X	X	X	X	Organic cultivation	ECOCERT
Carqueja (F) <i>Bacharis genisteloides</i> D.C. (Paraná)	X	X	X	X	X	X	Cultivo orgânico	ECOCERT
Peppermint (F) <i>Mentha piperita</i> L. (Paraná)	X	X	X	X	X	X	Organic cultivation	ECOCERT
Chamomile (F) <i>Chamomilla recutita</i> (Paraná)	X	X	X	X	X	X	Organic cultivation	ECOCERT
Fennel (F) <i>Foeniculum vulgare</i> Miller (Paraná)	X	X	X	X	X	X	Organic cultivation	ECOCERT
Cinnamon (F) <i>Cinnamomum zeylanicum</i> Ness (Alemanha)	X	X	X	X	X	X	Organic cultivation	IMO
Cloves (F) <i>Caryophyllus aromaticus</i> L. (Bahia and Germany)	X	X	X	X	X	X	Organic cultivation	IMO
Dog Rose (F) <i>Rosa canina</i> L. (Germany)	X	X	X	X	X	X	Organic cultivation	IMO
Paracress <i>Spilanthes oleracea</i> (São Paulo)	X	X	X	X	X	X	Organic cultivation	IBD
Lemon Brazil <i>Ocimum americanum</i> (Pará)	X	X	X	X	X	X	Organic cultivation	IBD

1. We have nine certified ingredients that are part of the portfolio of products that have not yet been launched on the market. They are not, therefore, listed in this table.

2. The raw materials marked with an (F) are part of the Frutifera organic fruit tea line.

3. Stage I: Internal process of identification and selection of a potential supplier area. This phase is characterized by the typology of producers, the organization of the community and the existing type of stewardship (agricultural or forestry).

4. Stage II: Preparation of certification strategies, involving discussion of the processes with plant product suppliers, choice of the certification agency and preliminary analysis of the supplier area by this agency (when necessary).

5. Stage III: Inspection of certification in the supplier areas, implementation of the action plan to meet the compliance requirements of the certification agencies and opinion of the certification agency to obtain the seal.

\* Forest Certification, Forest Stewardship Council (FSC) seal (partner certification agency - IMAFLORA)

Sustainable Agriculture Certification, Sustainable Agriculture Network (SAN) seal (partner certification agency - IMAFLORA)

Organic Certification, Biodynamics Institute (IBD) seal (partner certification agency - IBD)

Organic Certification, Ecocert seal (partner certification agency - ECOCERT)

Organic Certification, International Agricultural Organization (OIA) seal (partner certification agency in Argentina)

Organic Certification, Ecological Market Institute (IMO) seal (partner certification agency - IMO)

Of all the inputs used by Natura, two are developed from species on the endangered list compiled by the Brazilian Institute for the Environment and Renewable Natural Resources (Ibama) and the International Union for the Conservation of Nature and Natural Resources (IUCN). These are Brazil Nut (*Bertholletia excelsa*) and Yerba Mate (*Ilex paraguariensis*). For this reason, we have funded studies in partnership with Embrapa Genetic Resources and Biotechnology to preserve these species. Furthermore, we only purchase these raw materials from areas certified by the FSC.

## AREAS OF OPERATION

Natura works with suppliers of species of Brazilian biodiversity from across the country. Some of them are situated in areas protected by the National System of Preservation Units, such as the Médio Juruá Extractivist Reserve, in the state of Amazonas, and the São Francisco Community, located in the Iratapuru Sustainable Development Reserve, in the state of Amapá.

In the Médio Juruá Extractivist Reserve, which comprises 253,000 hectares of protected land, Andiroba and Murumuru Palm stewardship occurs in an area smaller than 1% of the total reserve.

The sustainable stewardship of Brazil Nuts, Copaiba and White Pitch, meanwhile, occurs in an area of approximately 4,000 hectares, less than 0.5% the 842,000 hectares of the Médio Juruá Extractivist Reserve. All production has the approval of these Preservation Units.

Natura's head office is located in an area of 646,000 square meters inside an Environmental Protection Area off the Anhanguera Highway, in the municipality of Cajamar, in Greater São Paulo. A stewardship plan developed by Natura has been removing exotic species, restoring the native forest and increasing the local biodiversity. In 2010, some 3,500 trees of 90 species native to the Atlantic Forest were planted. The project also controls and monitors the species of flora and fauna.

Our facility in the municipality of Itapeverica da Serra, in the state of São Paulo, alongside the Régis Bittencourt Highway, stands on an area of 96,543 square meters inside the Protection and Recovery Area of the Springs of the Guarapiranga Water Basin. In 2008, we completed a project to restore riparian forest and, since 2009, we have been handling the maintenance of the area.

The restoration projects developed at Cajamar and Itapeverica da Serra are monitored by the São Paulo State Natural Resources Protection Department, the government agency responsible for this issue. Both units have permanent preservation reserves. Although administrative activities are conducted at both units, production occurs in Cajamar. All these operations are in full compliance with applicable legal requirements.

## PRODUCT IMPACT

We monitor the impact of our product packaging using the Life Cycle Assessment (LCA) tool, in addition to carbon emissions. This tool enables us to quantify and monitor the ecological impact of packaging materials from the extraction of the raw materials through production, use, and disposal (graphs 1 and 2)

To reduce this impact, Natura invests in innovative technologies and employs the concepts of ecological design, which includes reducing the mass of packaging and using recycled and recyclable materials. (Read more on our position on page 32, Priority Topics/Product Impact).

### TOTAL MATERIAL USED BY TYPE (EXCEPT WATER) IN THOUSANDS <sup>1</sup>

	2008	2009	2010
Kilograms	22,434.4	27,991.3	22,475.3
Liters	8,792.0	10,813.9	11,016.7

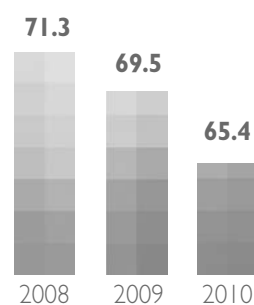
*1. Refers to the Cajamar site. Consumables reported are inputs (raw materials and packaging) for processing of finished and semi-finished products.*

In 2010, we launched in Brazil the first cosmetic product with green polyethylene packaging: refills for Natura Erva Doce hand soap. Manufactured from sugar cane, a renewable source, green polyethylene is 100% recyclable and reduces (GHG) emissions by 58% compared with conventional plastic, according to Natura internal studies.

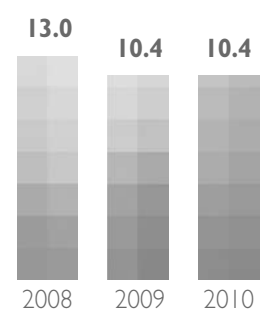
We also launched a new refill for the Todo Dia (Everyday) moisturizer. Internal studies showed 66% less environmental impact in comparison with the previous refill, 83% less plastic than in regular packaging, and a 97% reduction in waste generated.

In spite of these advances, we saw a decline in the use of refills in comparison with all items billed by Natura. We sought to achieve a target an 18.5% of the total of these items; our rate in 2010 was 16.9%. This development was due in part to greater representativeness of sales of items in special or seasonal kits that cannot be refilled. The potential for increasing refills is significant. While 40% of our products have a refill option, they represent 55% of our billed products. In our international operations, use of refills is increasing in most countries except Mexico, with a consistent recovery in Argentina and Chile. For 2011, our challenge is to increase the awareness of refill options for our consumers outside Brazil.

### 1. ENVIRONMENTAL IMPACT OF PACKAGING BY QUANTITY OF PRODUCT (MPT/KG)



### 2. RECYCLED MATERIALS USED (%)<sup>1</sup>



*1. The indicator considers packaging materials and distribution materials (magazines, distribution boxes, and bags) recycled after use.*

## REFILLS PERCENTAGE OF ITEMS BILLED (%)<sup>1</sup>

	2008	2009	2010
Brazil	19.9	18.4	16.9
Argentina	20.7	15.9	18.3
Chile	16.1	11.7	13.9
Colombia	12.1	12.2	13.2
France	9.3	8.5	9.8
Mexico	11.6	11.5	11.3
Peru	21.4	18.6	18.9

1. Corresponds to total refills billed divided by total items billed.

Since 2007, we have been compiling an environmental table for our products, raising the awareness of our consumers by providing information on the origin, the manufacturing process and the percentage of certified raw materials, in addition to the use of recycled and recyclable materials and the number of refills.

## PRODUCT

	2008	2009	2010
% material of renewable plant origin	77.4	79.2	81.5
% material of natural plant origin	8.0	5.2	6.6
% material with certificate of origin	20.3	16.1	16
Packaging			
% recycled material after use	0.7	0.7	0.8
% recyclable material	85.8	85.9	85.7

1. More information on the environmental table at <http://www2.natura.net/Web/Br/Inst/src/TabMeioAmbiente.asp>

2. Certificate of origin 99% organic farming and 1% forest stewardship

We comply with all legal requirements on the provision of information on product ingredients, instructions for use, declared benefits and outsourced production. Our labels observe all applicable legislation and respect all the cosmetics-related regulations issued by Anvisa in Brazil, as well as the regulatory agencies of other countries where we operate. We also compile an environmental table for our products, which provides information on their environmental impact.

## WASTE MANAGEMENT

Solid waste management at Natura includes separation, classification, conditioning, collection, transportation, and final disposal, with the aim of reducing volume, expanding recycling, and being particularly careful with hazardous waste. In 2010, we began to develop an extensive solid waste management project covering the entire life cycle of our products, from the extraction of raw materials to the disposal of packaging and the reuse of materials (learn more on page 33, High-Priority Topics/Product Impact).

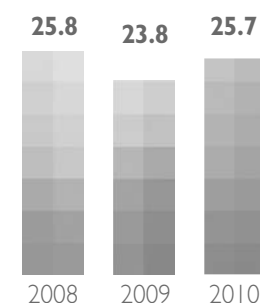
We recorded an increase of 19.8% in total waste generated last year and 8.2% in the relative index, which compares the quantity of waste per product unit billed. This increase can be attributed to the inclusion of data in the indicator from four distribution centers and the Natura Houses in Brazil. Had these areas not been included, the index would have remained at the same level as the previous year. Our increase in production and the higher disposal of obsolete products also affected waste generation. These developments present a glimpse of the challenge we face in improving our waste management processes (graph 1).

We also recorded an increase in the generation of hazardous waste, due primarily to the amount of discontinued or expired cosmetics products in stock. This was prompted by our efforts to improve the quality of service. We increased our inventories in 2009 in an attempt to avoid product shortages for our consultants, causing us to register a higher loss index in 2010. We have reviewed this practice to avoid such high losses again.

To reverse this situation, we have established an action plan that includes alternatives that minimize the environmental impact of the primary waste-generating processes, periodic verification of the indicator, and a review of items currently incinerated or sent to landfills so as to define alternative recycling methods. We also plan to standardize data collection at Natura and third-party units. The goal of this is to improve the quality of the information collected and initiate waste monitoring in our international operations. Our target for 2011 is to reduce the total weight of waste per unit billed by 3%.

With new alternatives for disposing of materials that were previously incinerated, and through a partnership with our cardboard supplier to recycle 100% of this material in Cajamar, we increased the percentage of recycled waste by 8.3%. Today, 92.1% of all waste produced at Natura is recycled.

### I. TOTAL QUANTITY OF WASTE PER UNIT BILLED (GRAMS/UNIT)<sup>1</sup>



1. Before 2008, the indicator was calculated considering only the waste generated at Natura units. In 2010, we included main contractors and improved the calculation basis to match the indicators of water and energy. For this reason, the historical record was recalculated.



We have been running a pilot recycling project in Colombia since 2009, in which our consultants assist by collecting recyclable material. In 2010, we more than doubled the amount of material collected, reaching 97,285 metric tons. This increase can be attributed to the introduction of the Natura Changemaker Consultant program, which encourages consultants to get involved in their communities (housing complexes, department stores, etc.) to install recycling banks for these materials. We also seal partnerships with local companies to support the project with logistical and administrative assistance.

#### TOTAL AMOUNT OF WASTE BY TYPE (mt) AND LOCATION GENERATED <sup>1 2</sup>

	2008	2009	2010
Class I <sup>3</sup>	1,348.3	1,436.6	2,128.2
Class II-A	4,330.7	4,817.8	4,717.5
Class II-B	1,444.6	1,390.5	1,308.0
Waste at the Cajamar and Itapecerica da Serra sites	7,123.6	7,618.9	8,153.7
Waste at other Natura sites <sup>4</sup>	224.5	251.4	1,412.1
Waste at Natura contracted manufacturers <sup>5</sup>	1,286.8	1,241.6	1,346.5
Total weight of waste disposed of	8,634.9	9,111.9	10,912.3

1. According to NBR 10.004/2004: Class I Waste: hazardous waste (outdated cosmetics, clinical and laboratory waste and alcohol); Waste Class II-A, non-inert waste (physico-chemical and biological effluent treatment plant sludge, paper, cardboard); Waste Class II-B: inert waste (metals, plastics).

2. Natura does not include in this indicator waste generated in construction works (debris) carried out on its sites.

3. Refers to Class I waste, deemed hazardous under the Basel Convention, transported and treated. We do not import, export or transport such waste internationally.

4. Refers to the generation of waste from the industrial unit at Benevides - Pará, opened in May 2007, and the Administrative Unit of Barueri (Alphaville), in the distribution centers of Matias Barbosa (MG), Recife (PE), Salvador (BA), Canoas (RS), the outpost of Uberlândia (MG), the hub at Jundiá (SP), and in Natura houses.

5. Contracted manufacturers are companies that make (or are involved in the final stage of production of) finished products with the Natura brand. We monitor the 10 main contracted parties responsible for approximately 90% of the units produced outside Cajamar.

#### WASTE DISPOSAL <sup>1</sup>

	2008	2009	2010
Incinerated			
(%)	2.5	1.9	1.2
(mt)	176.3	142.4	101.0
Dumped in landfill			
(%)	8.8	6.6	6.7
(mt)	627.8	510.3	546.5
Recycled			
(%)	88.7	91.5	92.1
(mt)	6,319.5	6,958.3	7,535.7

1. Waste at the Cajamar, Itapecerica da Serra and Alphaville sites

#### RECYCLING OF WASTE BY DISPOSAL METHOD (mt) <sup>1</sup>

	2008	2009	2010
Composting	942.5	1,284.8	1,112.7
Co-processing	727.8	1,288.1	1,635.8
Transformation	4,649.2	4,385.4	4,787.3

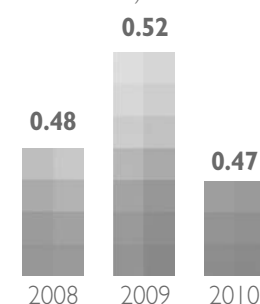
1. Waste at the Cajamar, Itapecerica da Serra and Alphaville sites

## WATER AND EFFLUENTS

Following the implementation of efficiency projects, awareness programs and water consumption control, we achieved a 10% reduction in relative consumption per unit billed. Our absolute consumption of water remained stable, even as our production rose. The improvements implemented in waste management also resulted in gains in water reuse and recycling in 2010. Knowing that sustainable use of water is a major global challenge, we have made progress in analyzing our water footprint (learn more on page 33, High-priority Topics/Product Impact).

The reduction in relative water consumption was motivated by reductions at Cajamar and Itapecerica da Serra, which reduced consumption by 5%. However, there was a 17% increase in water use in other Natura areas, the result of having incorporated the Simões Filho Distribution Center, in the state of Bahia, into the indicator. We also recorded an increase of 3.5% in absolute consumption at outsourced companies, stemming from an increase in units purchased (graph 2).

#### 2. WATER CONSUMPTION PER UNIT BILLED (LITERS/UNIT BILLED)<sup>1</sup>



1. The indicator takes into account the volume of water used by Natura and the major contracted parties

#### WATER CONSUMPTION BY SOURCE AT THE MAIN NATURA SITES

	2008	2009	2010
Cajamar and Itapecerica da Serra sites (m <sup>3</sup> ) <sup>1</sup>	112,342	123,012	116,883
Other Natura sites in Brazil (m <sup>3</sup> ) <sup>2</sup>	11,894	27,813	32,600
Contracted Natura manufacturers (m <sup>3</sup> ) <sup>3</sup>	37,090	49,783	51,507
<b>Total water consumption (m<sup>3</sup>)</b>	<b>161,326</b>	<b>200,608</b>	<b>200,991</b>

1. Consumption in the two units includes all administrative and production activities and events at the sites.

2. Water consumption at other Natura Brasil sites refers to the units of Alphaville, Benevides, Natura Houses, Distribution Centers (DCs) and Outposts. For the 2010 calculation, one more DC was included.

3. Contracted manufacturers are companies that manufacture finished products on behalf of Natura; the indicator covers 95% of all units purchased by Natura.

The percentage of reused water increased from 35% to 38% of the total amount used in our operations. The volume of recycled and reused water in 2010 was 49,700 cubic meters, nearly 40% more than in 2009. This increase occurred in virtue of Natura's decision to reuse residual water from the treatment system, redirecting it to supply the site in observance of all standards and controls required by law.

#### PERCENTAGE AND TOTAL VOLUME OF WATER RECYCLED AND REUSED

	2008	2009	2010
Recycled and reused water (m <sup>3</sup> ) <sup>1</sup>	35,824.0	35,838.0	49,734.0
Percentage of reused water of total treated water at effluent treatment plant (%) <sup>2</sup>	38.0	35.0	38.0
Percentage of reuse over total water drawn (%)	32	29	43

1. Recycled water is water extracted from waste water generated at the Cajamar site that, after physiochemical and biological treatment at the Effluent Treatment Plant, is used for irrigation, urinals, floor cleaning and ponds. Reused water is water that returns from the process with sufficient quality to be used in the supply process.

2. This percentage refers to the volume of reused water from the treatment plant compared to the total volume of water treated at the Cajamar and Itapecerica da Serra treatment plants.

#### SIGNIFICANT DISCHARGES TO WATER (m<sup>3</sup>)<sup>1</sup>

	2008 <sup>2</sup>	2009	2010
Total volume of treated effluent	100,979.0	101,672.0	102,903.0

1. Refers to the Cajamar and Itapecerica da Serra sites.

2. The information was revised because of a calculation error.

For our everyday consumption, given the absence of a public supply system, the water used at our facilities in Cajamar and Itapecerica da Serra is drawn from two artesian wells. Our underground water source is a crystalline aquifer, and the water extraction meets the regulations of the São Paulo State Water and Electrical Energy Department (DAEE). In 2010, following a risk analysis conducted by Natura, we applied for a permit to build a third well as a contingency to support the growth of production. We have a permit to draw water from our artesian wells up to the following limits: 8m<sup>3</sup>/h in Itapecerica, 12m<sup>3</sup>/h at the first well in Cajamar and 15m<sup>3</sup>/h at the second well in Cajamar.

A study completed in 2010 identified that the region possesses water in sufficient quantities to supply our current demand without running the risk of compromising our activities or those of the surrounding area. New studies will be conducted based on the company's forecast growth for the next few years.

In Benevides, water is obtained from artesian wells and captured rainwater. At our other facilities, such as Natura Houses and Distribution Centers, it is provided by the public water supply system.

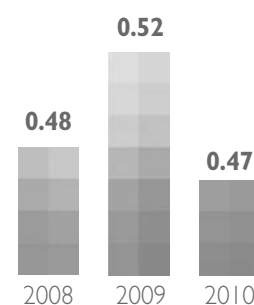
In 2010, we registered no incidents of significant spills or accidents involving products or substances causing an environmental impact as a result of our operations.

Before being discharged, all our effluents pass through the Effluent Treatment Station (ETE). The quality fully meets the applicable legal requirements, respecting all discharge conditions and standards provided for in Brazilian legislation. In the town of Cajamar, the treated effluent is discharged into the Juqueri River, which is considered a class 3 river, meaning its water may be used in household supply after conventional treatment. In 2010, the Cajamar ETE was modernized, improving even further the quality of the operation's effluent treatment system.

The Itapecerica da Serra ETE, meanwhile, is located in a spring water preservation area, and after conventional treatment the effluents filter through the soil. The efficiency of the organic matter removal is, on average, 96.9%.

At the Benevides Industrial Plant, we have a system to capture industrial wastewater, which is treated externally by a contracted company. After treatment, domestic effluent is channeled to a septic tank. We intend to install an ETE in Benevides in 2011, but this depends on the Municipal Environment Department releasing the necessary licenses.

#### 4. WATER CONSUMPTION PER UNIT BILLED (LITERS/UNIT BILLED)<sup>1</sup>



1. The indicator takes into account the volume of water used by Natura and the major contracted parties

CAJAMAR PERMEATE				
	Legal parameter	2008	2009	2010
BOD (mg/L)	60	5.5	6.0	7.4
COD (mg/L)	150	43.6	43.0	45.0
Oils and greases (mg/L)	120	7.8	7.1	15.4

TREATED EFFLUENT ITAPECERICA DA SERRA				
	Legal parameter	2008	2009	2010
BOD (mg/L)	60	19.6	20.2	25.4
COD (mg/L)	150	73.2	69.0	65.2
Oils and greases (mg/L)	120	8.1	7.5	14.8

## ENERGY

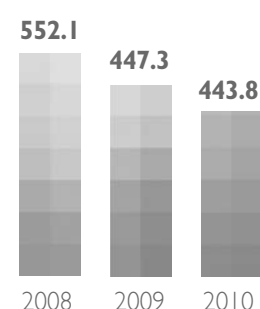
In 2010, we reduced relative energy consumption (consumption per unit billed) by 0.8%. To achieve this result, we implemented several improvements, primarily at Cajamar, in addition to efficiency gains from better energy resource management. In absolute terms, the Cajamar and Itapecerica da Serra units registered a 2.8% combined increase in consumption, owing to the installation of new manufacturing equipment. The 22.1% increase in other Natura areas was the result of having incorporated the Simões Filho Distribution Center, in Bahia, in this indicator, as well as the modernization of three other distribution centers. Total consumption by major subcontractors parties rose by 30.8% because of the greater number of units acquired (graph 1).

We registered a 74% decline in diesel oil consumption in our generators, due to fewer power outages at our head office. This means there was less demand for generators.

### 2010 ENERGY MATRIX (CAJAMAR AND ITAPECERICA) (%)

	2008	2009	2010
Electricity	75.9	75.9	77.3
LPG	22.0	23.1	22.4
Diesel	2.1	1.0	0.3
Solar energy	0.01	0.01	0.02

### I. ENERGY CONSUMPTION PER UNIT BILLED (KILOJOULES)<sup>1</sup>



<sup>1</sup> The indicator takes into account the energy used by Natura and major contracted parties.

We encourage the use of energy generated from renewable and alternative sources. In 2010, we introduced the Encouraged Energy Sales Contract, which stipulates that electrical energy supplied to our facilities in Cajamar and Itapecerica come from the primary encouraged sources (wind, biomass, solar and small hydroelectric power stations). In previous years, electrical energy was purchased from the Brazilian energy grid, which is generated from both renewable and non-renewable sources.

In Cajamar, we also use a system of solar energy that now provides lighting for the parking lot and heats water in the changing rooms and in the kitchen. The solar energy represents 0.03% of our energy matrix. In December 2010, we substituted 80% of the LP gas used in our boilers in Cajamar for alcohol, which will result in an emissions reduction of around 1,360 metric tons of CO<sub>2</sub> per year, starting in 2011.

### DIRECT ENERGY USE, SEGMENTED BY PRIMARY SOURCES (JOULES X 10<sup>12</sup>)

	2008	2009	2010
Primary source of electricity	95.9	94.0	98.9
Self-generated electricity (diesel generator)	0.03	0.03	0.03
Diesel fuel used in generators	2.7	1.6	0.41
Consumption of LPG	27.8	28.9	28.6
<b>TOTAL</b>	<b>126.4</b>	<b>124.5</b>	<b>127.9</b>

### DIRECT ENERGY CONSUMPTION (JOULES X 10<sup>12</sup>)

	2008	2009	2010
Renewable sources	0.03	0.03	0.03
Non-renewable sources	30.50	30.50	29.01

### INDIRECT ENERGY CONSUMPTION (JOULES X 10<sup>12</sup>)

	2008	2009	2010
Primary electricity source	95.9	94.0	98.9

ENERGY SAVED BY USING SOLAR ENERGY (JOULESX10 <sup>9</sup> )			
	2008	2009	2010
Consumption of solar energy (joules)	19.96	19.96	19.96

ENERGY SAVED BY ENERGY EFFICIENCY PROJECTS (JOULESX10 <sup>9</sup> ) <sup>1</sup>			
	2008	2009	2010
	n.a	1.95	2.55

1. Projects intended to reduce the consumption of electrical energy, diesel oil or LPG

## IMPACTS FROM MAIN SUPPLIERS

We are also analyzing the impacts of our suppliers, with the intention of stepping up the monitoring of our value chain for water and energy consumption and waste generation. (Learn more on this issue at [www.natura.net/relatorio](http://www.natura.net/relatorio)).

In 2010, we analyzed 58 partners and we can assert that their investments have improved their energy efficiency and kept the indicator almost stable in spite of the increased demand for production. An improvement was observed in the water indicator after one supplier installed a water reuse system. The same performance was not seen in the generation of waste, however, which rose 28%, the result of the increase in production and the lack of efficiency gains.

We withdrew the data from our distribution centers that were previously included in this indicator: Matias Barbosa, Jaboatão and Canoas. The change is due to our decision to incorporate consumption by the distribution centers into Natura's own performance indicators. This process is part of the adjustments we have made to provide a more accurate diagnosis of the impact of our operations. The information on our main outsourced suppliers that produce some of our products is also excluded from this analysis, since their data are also included in the performance indicators of Natura.

LEADING NATURA SUPPLIERS OF PACKAGING AND RAW MATERIALS <sup>1 2</sup>			
	2008	2009	2010
Number of suppliers evaluated	46	58	58
<b>Energy Consumption (joules x 10)</b>			
Primary source of electricity - electricity consumption	127.0	210.6	146.2
Self-generated electricity - diesel generator	4.6	4.2	0.1
Consumption of LPG	1.8	4.7	4.9
Other - natural gas	113.8	140.3	207.1
Total energy consumed	247.2	359.8	358.3
<b>Water consumption (m<sup>3</sup>)</b>			
Total water consumption (thousand)	118.1	155.4	135.5
<b>Waste generation by leading Natura suppliers (tonnes)</b>			
Total waste generated	1,752	2,669	3,419

1. Leading input suppliers of the following categories: accessories, packaging, graphics, fragrances, raw materials, printing services and Natura boxes. The numbers are estimated: suppliers are requested to allocate their energy, water consumption and waste generation, taking into account the percentage production for Natura.

2. In 2010, the numbers for three distribution centers (Matias Barbosa, Jaboatão and Canoas) were redirected to Natura internal indicators. To ensure comparability of indicators, we reviewed the numbers for 2008 and 2009, excluding those DCs.

# 5.3 CREATION OF SOCIAL VALUE

OUR GOAL IS TO **CREATE SOCIAL BENEFITS** BY INVESTING IN EDUCATION, SHARING THE GENERATED RESOURCES AND **SUPPORTING PEOPLE** AND INSTITUTIONS THAT ARE COMMITTED TO THE CONSTRUCTION OF A **SUSTAINABLE SOCIETY**.

## NATURA INSTITUTE

We have made systematic private social investments since the 1990s because we believe this is a way to express our Essence: that the value and longevity of a company are related to its ability to contribute to the evolution of society and its sustainable development.

In 2010, we took an important step forward by founding the Natura Institute, an independent nonprofit organization, to extend and strengthen our initiatives, and improve internal management and governance processes and practices for our social initiatives. Fostering education - a priority for sustainability in Natura's view - is also the pillar that supports all the activities of the new organization.

The Institute was founded with the participation of members of our Board of Directors and executives. In 2011, we will make progress in its administrative organization and set up an audit committee and an advisory board, as well as define a strategic plan for the institution. The institute is given 0.5% of Natura's annual net income in addition to funds from Natura's *Crer para Ver* (Believing is Seeing) program.

## CRER PARA VER (BELIEVING IS SEEING) PROGRAM

The highlight of our societal activity in 2010 was the record amount of funds raised by the Natura *Crer para Ver* program. We had committed to reaching R\$6 million, but by the end of the year we had reached R\$10 million, the largest amount raised by the program since its inception in 1995. In 2010, the program invested more than R\$3.9 million in projects. This amount is the result of a R\$2.1 million savings from the year's investment plan, estimated at R\$6 million, through partnerships and exchanges. Therefore, the difference of more than R\$5 million between the amount we collected and what we spent in the year is available in cash holdings for use in 2011 and will help us expand the current projects.

The goal of *Crer para Ver* is to improve the quality of public schooling. The program funds literacy initiatives in preschools and elementary schools, as well as for young adults. Our consultants actively participate in the program by selling the exclusive *Crer para Ver* product line, receiving no commission for doing so. The Natura Institute has assumed the administration of our investments in educational initiatives.

### INVESTMENT IN EDUCATION FOR PUBLIC BENEFIT IN BRAZIL (R\$ THOUSANDS)

	2008	2009	2010
Net funds raised by the <i>Crer para Ver</i> program <sup>1</sup>	3,767.0	3,768.2	10,098.5
Total amount of projects developed and supported <sup>2</sup>	3,381.0	4,075.6	3,876.4

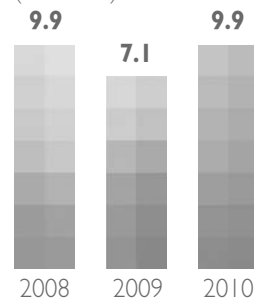
1. Refers to income before income tax (IR) deduction for the *Crer para Ver* program's fund. Until 2009, net funds raised by the program had referred to net profit after IR tax.

2. Refers to the total actually contributed in the year (from the fund and directed to projects and their implementation).

The strong growth in the funds allocated to the program was prompted by a review of our operational strategy. We have upgraded our portfolio, launched new products with a stronger sales appeal and conducted a diagnosis to identify new sub-brand visibility opportunities.

In 2010, participation in the program by our consultants in Brazil reached 9.9%, higher than the figure in 2009 but still lower than our expectations to engage 12% of consultants. For 2011, we intend to further increase this participation. We realize that this is a major challenge and, to overcome it, we shall continue to step up our awareness-raising actions with consultants.

### I PENETRATION - CRER PARA VER (% CYCLE)<sup>1</sup>



1. This percentage is based on the number of consultants that purchased at least one item of the *Crer para Ver* line within a cycle divided by the total number of consultants that placed orders during the same cycle.

Using funds raised by the *Natura Crer para Ver* program, we extended its reach to 100 new municipalities. The program now invests in 350 municipalities across Brazil and benefits nearly 450,000 people, namely students, teachers, coordinators, and principals in 5,690 public schools.

Our international operations implemented this program in 2009. Net revenues reached R\$1.3 million in 2010, compared with R\$430,000 in the previous year. Funds in these countries are invested in teacher training and benefit vulnerable populations. In Chile, for instance, some of these funds are helping to rebuild schools destroyed by the February 2010 earthquake.

The main initiative of the *Crer para Ver* program in Brazil is the *Trilhas* (Trails) Project. This project benefits 310,000 children and 15,000 educators in 4,300 schools. The *Trilhas* Project is designed for children ages 4–6 and provides instructional materials and support for teachers and school principals to help students develop reading, writing, and speaking skills. In 2010, we signed a technical cooperation agreement with the Ministry of Education, enabling the ministry to share this methodology with other municipalities and institutions — transforming the project into a public initiative.

In 2010, we questioned 60% of the principals and teachers from the schools involved, in all regions of the country, to evaluate the project. The principals and teachers gave an average score of 9.46 and 9.19, respectively, when asked about the contribution of *Trilhas* to improving education. More than 80% of the educators considered the teaching activities to be adequate for children and almost half of them confirmed that they started to read more to their pupils after the project started.

## OTHER **CRER PARA VER** PROJECTS

In 2010, we invested in projects such as *Encontros de Leitura* (Reading Meetings), *Formar em Rede* (Networking) and the *Chapada* Project. Since we believe that the first two projects have achieved their goals, they have been withdrawn from the program, which will invest in new initiatives in 2011. We also support the improvements being made to the Municipal Education Plan in *Cajamar*, where our head office is located.

### ENCONTROS DE LEITURA (READING MEETINGS)

The project is run in partnership with the Education and Documentation Center for Community Action, and last year it continued to operate in the same 226 schools that were involved in 2009. It benefitted 1,200 teachers and 14,000 pupils in 10 municipalities in the following states: Goiás, Rio Grande do Norte, Bahia, Amazonas, São Paulo, Santa Catarina, Sergipe, Acre and Espírito Santo. The project consists of meetings between education specialists, school principals, supervisors and teachers to discuss and develop actions to encourage reading among children from 4 to 6 years old.

### FORMAR EM REDE (NETWORKING)

Developed by the *Avisa Lá* Institute and the *Razão Social* Institute, this project is supported by *Natura* in 6 municipalities. The initiative establishes virtual communities formed by education specialists and teachers from the public school system, with the objective to improve the quality of pre-school education for children up to 6 years old. These communities organize in-person and distance actions to improve, develop and disseminate practices in the field of reading, caring and playing.

### CHAPADA PROJECT

This initiative has received technical and financial support from the *Natura Crer Para Ver* program since 1997. Run by the *Chapada* Institute of Research and Education, the project aims to improve the quality of public primary education in 24 municipalities in the *Chapada Diamantina* region of Bahia. To achieve this, it stages ongoing training for educational directors, supervisors and other teaching professionals. In 2010, the project worked with 600 schools, nearly 5,300 educators and more than 92,000 pupils.

We also conducted the second overall evaluation of the project, listening to the opinions of nearly 4,200 pupils and more than 500 educators. This process identified progress in important areas of education, namely how well the children are learning and the definition of the role of educational directors, supervisors and local coordinators in training actions.

## CRER PARA VER ACTIONS IN 2010

	Action Front/ Project	Name of partner organization	Municipalities served	Number of schools served	No. of partici- pating teachers, coordinators and principals	No. of students benefited	Investment R\$
<b>Projects Developed</b>	El - Reading Meetings Project	Centro de Educação e Documentação para Ação Comunitária (Education and Docu- mentation Center for Community Action)	10	226	1,201	14,236	972,661.05
	El - Trilhas Project	Education and Docu- mentation Center for Community Action	310	4,378	15,245	309,684	2,297,120.16
<b>Projects supported</b>	EF - Chapada Project	Chapada Institute	24	600	5,339	92,973	483,626.07
	EF - Training Network	Avisa Lá Instituto and Razão Social Institute	6	486	1,076	10,792	85,279.98
	Cajamar Municipal Education Plan Update	CENPEC – Centro de Estudos e Pesquisas em Educação, Cultura e Ação Comunitária (Center for Studies and Research in Education, Culture and Community Action)  FESPSP – Fundação Escola de Sociologia e Política de São Paulo (School of Sociology and Politics Foundation of São Paulo)	-	-	-	-	37,784.87
	<b>Total</b>		<b>350</b>	<b>5,609</b>	<b>22,861</b>	<b>427,685</b>	<b>3,876,472.13</b>

1. El – Pre-School

2. EF – Primary School

Our business expansion has allowed us, for another year running, to increase the generation and distribution of wealth to our main audiences.

## DISTRIBUTION OF WEALTH

Our growing business has enabled us to generate wealth and distribute it to our main stakeholders again this year. This is the result of Natura's growth and the expanding market in which we operate. Revenues to suppliers in particular increased, thanks to the growth of output in 2010.

### DISTRIBUTION OF WEALTH (R\$ MILLIONS)<sup>1</sup>

	2008	2009	2010
Shareholders <sup>2</sup>	425.9	551.9	646.9
Consultants	2,023.8	2,302.5	2,738.2
Employees	556.4	643.0	769.2
Suppliers <sup>3</sup>	2,357.2	3,087.5	3,707.4
Government <sup>3</sup>	1,276.7	1,147.4	1,476.5

1. More details of value-added statements may be found in the Accounting Statements (page 75, 78, 79 and 103).

2. The amount of wealth distributed to shareholders refers to dividends and interest on capital for the period.

3. Data have been revised from last year's report because we identified an inconsistency in the classification criteria used.

In relation to government, transfers were higher due to the growth of Natura's gross revenue in the period, which is the calculation base for sales taxes, and there was also a larger taxable income base for income tax (IR) and social contribution tax (CSLL).

## INVESTMENT MATRIX

In 2010, we maintained our level of investment in corporate responsibility at 1.3% of net revenues. These investments include increased spending on the education and training of our consultants and employees, in line with our educational strategy (learn more on page 26 in High-Priority Topics, Education). We also increased our investments to support civil society organizations (learn more below). Total investments with respect to the environment were lower because negotiations on carbon emissions-offsetting projects have yet to be finalized. We concluded negotiations for five environmental projects for the 2009/2010 season, and negotiations for five others are expected to be concluded in the first quarter of 2011.

**MATRIX FOR INVESTMENT IN CORPORATE RESPONSIBILITY<sup>1</sup> (R\$ THOUSANDS)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Employees, family members, and others	18,729.3	17,251.3	20,159.9
Consultants	2,566.8	3,563.4	4,800.0
Consumers	270.9	480.3	600.0
Suppliers	212.8	243.8	329.8
Supplier communities	647.0	1,424.6	1,805.7
Surrounding communities	342.8	407.9	408.7
Society <sup>2</sup>	8,827.4	15,772.0	23,387.0
Environment	5,467.2	8,073.6	6,638.7
<b>TOTAL invested in stakeholders</b>	<b>37,064.2</b>	<b>47,217.0</b>	<b>58,130.2</b>
Management expenses	7,148.3	4,045.7	4,972.0
<b>TOTAL Natura funds</b>	<b>44,162.5</b>	<b>51,162.7</b>	<b>63,032.2</b>
Percentage of net revenue	1.2%	1.2%	1.3%
Net amount raised by consultants for the Crer para Ver (Believing Is Seeing) program	3,767.0	3,768.2	10,098.5
Tax-deductible investments under Roaunet Law	2,852.8	2,422.2	3,095.1
Audiovisual Law / ANCINE	400.0	920.0	1,100.0
State VAT tax (ICMS) in Minas Gerais	2,000.0	645.0	823.4
State VAT tax (ICMS) in São Paulo <sup>3</sup>	622.1	0	0
1% Income Tax to CMDCA <sup>4</sup>	0	0	319.0
1% Income Tax to Condeca <sup>5</sup>	1,015.0	938.00	1,682.0
<b>GRAND TOTAL</b>	<b>54,869.4</b>	<b>59,956.0</b>	<b>80,220.1</b>

1. Amounts invested in support and sponsorship are included in this matrix, but are shown as they were divided among beneficiaries. The matrix includes investments in projects or actions that are not intrinsic to Natura's business and go beyond legal requirements.

2. The data on society were revised since we added one resource that was not previously considered.

3. Due to an error reported last year, the 2008 data was revised.

4. CMDCA = Municipal Council for Rights of Children and Adolescents. Since 2008, 1% of income tax (IR) has been allocated to the CMDCA.

5. Condeca = Council for Rights of Children and Adolescents.

## SUPPORT AND SPONSORSHIPS

Our social investments not only express our *well-being well* concept, but also reiterate the underlying drivers of our corporate behavior. In 2010, we allocated R\$24.3 million to initiatives that fall under three broad themes: strengthening civil society organizations, supporting sustainable development, and promoting Brazilian culture with a focus on music.

Our business model entails the expansion of relationships with organizations that are committed to building a sustainable society, which is why we invest in organizations that share our vision for the world and that support causes that are significant to our industry. For instance, we sponsored several programs of the Ethos Institute for Business and Social Responsibility. These Ethos programs included the Sustainable Amazon Forum, Sustainable Connections, Corporate Responsibility in the Media, and Promotion of Integrity and Fighting Corruption.

In 2010, we participated once again in the Global Entrepreneurship Week, coordinated by the Endeavor Institute, which is located in Brazil. As the largest global movement focused on entrepreneurship, the event took place simultaneously in 102 countries for seven days of talks, competitions, workshops, games, fairs, and awareness-building activities.

We continued to support the Global Reporting Initiative (GRI), which develops international guidelines and standards for compiling sustainability reports. We sponsored GRI's Amsterdam Global Conference on Sustainability and Transparency (May 26–28, 2010), at which our stakeholders met to discuss sustainability and transparency-related issues.

We enjoy a partnership with Associação Brasileira de Comunicação Empresarial (Brazilian Association of Corporate Communication – Aberje). This organization presented an event designed to help Brazilian companies develop guiding principles for communicating with the news media and key opinion leaders. Natura sponsored this event and presented its connection with biodiversity, focusing on its relationship with supplier communities.

We also sealed a partnership with the United Nations Conference on Trade and Development (UNCTAD) to disseminate good business practices related to social biodiversity. We supported the organization's schedule of events for the International Year of Biodiversity, attending the Global Expo, in Shanghai, and the Global Business of Biodiversity Symposium, in London, and also participating in the 10th Conference of the Parties (COP-10) to the Convention on Biological Diversity (CBD), held in Nagoya, Japan.



See below other highlights of 2010:

## HUMAN RIGHTS

We support the Human Rights Fund, an institution that promotes the defense of human rights in Brazil, by creating sustainable grant mechanisms. Each year, the institution stages a selection process to give financial support to a regionally diverse range of projects, preferably benefiting those with less access to traditional funding sources. Natura supported four of these projects, in the Amazon region, with the intention of strengthening local movements and offering social development opportunities.

## CONSERVATION OF BRAZILIAN FLORA

The project "Plants of Brazil: An Historic Recovery and Virtual Herbarium for the Knowledge and Conservation of Brazilian Flora", coordinated by the National Council of Scientific and Technological Development (CNPq), retrieves images and information on samples of Brazilian flora that were collected up until the 20th century by foreign missions and taken to museums and herbariums around the world. The repatriated digital files will form the database of the Authenticated Virtual Herbarium of Species of Brazilian Flora (Reflora).

## HISTORICAL HERITAGE

We have donated funds for the reconstruction of the Artistic Culture Theater, which began in March 2010 and should be complete by 2012. This historical theater, located in downtown São Paulo, was inaugurated in 1950 and was partially destroyed by a fire in 2008. This investment by Natura is intended to help preserve Brazilian culture, represented by this important building.

We continue to underwrite initiatives that increase societal awareness about sustainable development. One such example is our support of the documentary *Tudo mudo pode mudar o mundo* (Everyone Can Change the World). This film, by Mara Mourão, presents stories of societal leaders and the Afro-Reggae cultural group.

See below some highlights of 2010:

## SOCIAL ACTIONS

We continued to sponsor the AfroReggae group, from Rio de Janeiro. Among the projects supported by the group is the television program *Conexões Urbanas* (Urban Connections), aired on the Multishow channel, which addresses violence, citizenship and sustainability. The NGO also runs more than 70 social projects that impact the lives of more than 10,000 residents in communities in the city.

We also kept up our support for the Pamáali Indian Municipal School – run by the Baniwa and Coripaco indigenous peoples and attended by native Brazilian groups from the region of Alto Rio Negro in São Gabriel da Cachoeira, in the state of Amazonas. The school caters to some 3,000 people from the community. The funding pays for research by the students, the publication of teaching and outreach material, network meetings, training workshops for teachers and sustainability activities in the field of food security.

## DESIGN

The 3rd Brazilian Design Biennial was held from September 14 to October 31, at different venues in the Paraná state capital of Curitiba, under the theme "Design, Innovation and Sustainability". During this exhibition, the city's streets and parks were transformed into a stage for the event, interacting with residents and visitors.

## FILMMAKING

"Everyone can change the world" is a Brazilian documentary that tells the story of social leaders around the planet, showing the social impacts of their work, the obstacles they encounter and the gratification they derive from their work.

The Natura Musical (Musical Natura) program continues as our primary expression of support for Brazilian culture. A national call for projects and another regional call in the state of Minas Gerais allowed us to choose projects from different artistic areas, as well as those selected directly by the program. In 2010, we supported 17 projects. Since Natura Musical began in 2005, we have supported more than 140 such initiatives.

The components of the program include: support for music, sponsorship of national tours, the Natura Musical (Musical Natura) portal ([www.naturamusical.com.br](http://www.naturamusical.com.br)), an on-line radio, a radio show broadcast across the country and the Natura Nós (Natura Us) Festival. The funding comes from incentive laws and contributions by Natura.

See more details about the projects:

## FILMS AND DVDS

The film "Music according to Tom Jobim" celebrates the work of the singer and songwriter, interpreted by various Brazilian and foreign artists, as a project to document and preserve the memory of the songwriter.

We also supported the recording on DVD of the concert "Pra Nhá Terra", by the musical groups Ponto de Partida and Meninos de Araçuari, and the feature length documentary "Lê lê lê", made from a four-part television series with music by Arnaldo Antunes.

## INTERNET

In the project "Mestres Navegantes" (Master Mariners), we recorded the work of regional musicians who preserve the customs, folklore and cultural traditions in the Vale do Paraíba region of São Paulo. The project has released CDs, photos, videos and personal pages on each musical act on the internet, in addition to organizing free workshops on the musicians for young people in the historical town of São Luiz do Paraitinga, in São Paulo.

## CONCERTS AND TOURS

Natura supported the recording and the tour of the singers Vanessa da Mata and Carlinhos Brown, and seven free performances by the São Paulo State Symphony Orchestra Choir (OSESP) in the city of São Paulo.

To raise awareness about the topic of sustainability through art and culture, we organize the Natura Nós (Natura Us) Festival. In 2010, it was held in October, in the city of São Paulo, and featured acts such as Air, Snow Patrol, Jamiroquai and the Brazilians Vanessa da Matta, Céu, Karina Buhr, Cidadão Instigado, Móveis Coloniais de Acaju and Marcelo Jeneci. The first day of the festival was dedicated to children, with performances by Adriana Partimpim, Pequeno Cidadão, Palavra Cantada and Pato Fu.

## SUPPORT AND SPONSORSHIPS – INVESTMENTS BY TOPIC (R\$ THOUSANDS) <sup>1</sup>

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sustainable development <sup>2</sup>	3,382.0	2,174.0	2,052.4
Promoting Brazilian culture with a focus on music <sup>3</sup>	6,077.0	7,833.0	15,442.5
Civil society and governmental organizations	2,247.1	2,725.6	6,809.9
<b>Sustainable Development</b>			
Total funds invested by Natura	1702.4	1600	2832
Total funds from incentives	550	574	350
Federal Cultural Incentive Law (Rouanet Law)	450.00	474.00	250.00
Law on investment in production and co-production of cinematographic and audiovisual projects, and in infrastructure for production and exhibition (Audiovisual Law/Ancine)	100.00	100.00	100.00
<b>Promoting Culture</b>			
Total funds from Natura	1327.403	4844	10720.6
Total funds from incentives	4749.6158	2989	4721.9
Federal Cultural Incentive Law (Rouanet Law)	2227.542	1524	2898.5
State Cultural Incentive Law, Minas Gerais	1600	645	823.4
State Cultural Incentive Law, São Paulo <sup>4</sup>	622.07	0.0	0.0
Law on investment in production and co-production of cinematographic and audiovisual projects, and in infrastructure for production and exhibition (Audiovisual Law/Ancine)	300.00	820.00	1.000.00
<b>Strengthening Civil Society Organizations</b>			
Total funds from Natura	1771.879	2102.066	6279.93
Total funds from incentives	475.2655	623.5	530
Federal Cultural Incentive Law (Rouanet Law)	475.27	623.50	530.00

<sup>1</sup> Includes funds invested by Natura and funds from incentive legislation.

<sup>2</sup> Funds related to sustainable development have been revised from previous reports, given that we included a sponsorship that was not previously included in figures reported.

<sup>3</sup> Data on promoting Brazilian culture has been revised from previous reports due to a reporting error.

<sup>4</sup> The amount of funds resulting from the São Paulo State Cultural Incentive Law in 2008 was revised, since we identified an error in the reported figure.

# 5.4 CREATION OF ECONOMIC VALUE

NATURA'S STRONG PERFORMANCE, COUPLED WITH THE **GROWTH OF THE COSMETIC, TOILETRY, AND FRAGRANCE MARKET** RESULTED IN **POSITIVE ECONOMIC AND FINANCIAL INDICATORS.**

Consolidated net revenue in 2010 was R\$5.136 billion, an increase of 21.1% over 2009. EBITDA (earnings before interest, taxes, depreciation, and amortization) was R\$1.256 billion with an EBITDA margin of 24.5%. Net income was R\$744.1 million. This performance reflects the strength of our marketing strategy, the launch of new products, and an 18% increase in the number of consultants — who now total more than 1,221,000 in our operations in Brazil and overseas.

## COSTS AND EXPENSES

We reduced the costs of goods sold (COGS) from 30.5% in 2009 to 30.3% in 2010. Inflationary pressure remained under control, the exchange rate was favorable during this period, and our strategy for increasing prices proved to be efficient, with less dispersion among the categories. These positive effects, however, were partly offset by higher product losses in Brazil — the result of additional inventories generated in the final quarter of 2009. For 2011, the loss-prevention process is being strengthened, and we expect a significant improvement in this indicator.

We also recorded a reduction in sales expenses, accounting for 33.2% of net revenues in 2010 (35.3% in 2009). We made greater investments in marketing, which provides vigorous support for product launches, as well as training and events for the sales force. This increase was mitigated by greater logistical efficiency and the dilution of sales force costs. The highlight was the percentage of orders placed over the Internet in Brazil, which stood at 86% in 2010 (71.2% in 2009).

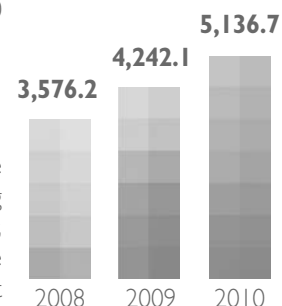
Administration and general expenses accounted for 11.8% in 2010 (10.6% in 2009). The increase in the year-over-year comparison, which was in line with our forecasts, is due to higher expenditures for research and development (rising from 2.5% of net revenues in 2009 to 2.8% in 2010); higher investments in projects that enable the company to grow, primarily in the areas of information technology, logistics, and leadership development; a higher head count to support the advance of the model of Management by Process, Business Units, and Regional Units; and the cost of maintaining investments made in information technology.

## EBITDA AND NET INCOME

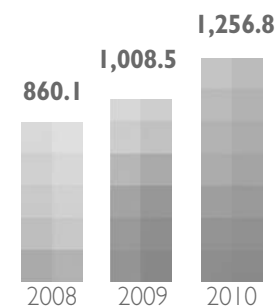
In 2010 our consolidated net income stood at R\$744.1 million, which represents growth of 8.8% compared with the previous year. In 2009, we recorded a lower effective IR/CSLL rate as a result of having accelerated the fiscal amortization of goodwill in the period. This fiscal benefit ended last year. This year, the effective tax rate was 33.5%.

Consolidated EBITDA stood at R\$1.256 billion in 2010, up 24.6% over 2009. The margin rose from 23.8% to 24.5% in 2010 (graph 2).

1. CONSOLIDATED NET REVENUE (R\$ MILLIONS)



2. CONSOLIDATED EBITDA (R\$ MILLIONS)



## SUMMARY OF CASH FLOW

Free cash generation for the year was R\$716.3 million versus R\$418.6 million in 2009. This 71.1% increase resulted from more efficient working capital management by extending payment terms for suppliers; reducing inventory coverage; reducing the balance of recoverable taxes; and making the change from annual to quarterly income tax assessments and payments. We are refining cash flow management processes, which should result in even more efficiency in 2011.

Internal cash generation was R\$832.9 million for the year. This growth of 7.3% over the previous year is in line with the growth of 8.8% recorded in net income for the period.

### SUMMARY OF CONSOLIDATED CASH FLOWS (R\$ MILLIONS)

	2009	2010	Var. %
<b>Net income for financial year</b>	<b>683.9</b>	<b>744.1</b>	<b>8.8</b>
(+) Depreciation and amortization	92.4	88.8	(3.9)
<b>Internal cash generation</b>	<b>776.3</b>	<b>832.9</b>	<b>7.3</b>
(Increase)/decrease in Working Capital	(189.9)	99.6	(152.4)
Non-cash items (exchange variation)	(27.5)	20.7	(175.3)
<b>Operational cash generation</b>	<b>558.9</b>	<b>953.2</b>	<b>70.5</b>
Additions of intangible assets	(140.4)	(236.9)	68.7
<b>Free cash generation<sup>1</sup></b>	<b>418.6</b>	<b>716.3</b>	<b>71.1</b>

1 (Internal cash generation) +/- (changes in working capital and long-term liabilities) – (acquisitions of property, plant and equipment).

Investments in property, plant, and equipment in 2010 totaled R\$236.9 million and were concentrated in information technology, manufacturing capacity, and logistics infrastructure. Investments in property, plant and equipment in 2011 are estimated at R\$300 million and will concentrate on the ongoing development of our information technology platform, including a sound base for the international area, in addition to continuing our project to improve logistics and increase our industrial capacity.

## PRO FORMA RESULTS PER OPERATION BLOCK

The profit margin achieved on exports from Brazil to international operations was deducted from the COGS of the respective operations, revealing the real impact of these subsidiaries on the company's consolidated results. Accordingly, the Pro Forma Statement of Results for Brazil shows only sales in the domestic market.

The performance of our operation in Brazil remained strong, with growth of 20.6% in net revenues, reaching R\$4.764 billion. The EBITDA in Brazil was R\$1.335 billion compared to R\$1.085 billion in 2009, representing growth of 23%. Margins were 28% in 2010 and 27.5% in 2009.

### PRO FORMA FINANCIAL HIGHLIGHTS, BRAZIL (R\$ MILLION)

	2009	2010	Var %
Total number of consultants - end of period (thousands)	875.2	1,028.7	17.5
Product units for resale (millions)	348.1	378.7	8.8
Gross revenue	5,418.5	6,489.6	19.8
Net revenue	3,949.5	4,764.6	20.6
Gross profit	2,761.4	3,356.4	21.5
Gross margin (%)	69.9	70.4	0.5pp
Selling expenses	(1,300.5)	(1,487.4)	14.4
General and administrative expenses	(376.5)	(516.2)	37.1
Employee profit sharing	(55.8)	(70.4)	26.1
Management compensation	(14.1)	(14.4)	2.5
Other operating income / (expenses), net	(15.8)	(15.7)	(1.0)
Financial income / (expenses), net	(40.9)	(47.9)	17.1
Earnings before taxes	957.8	1,204.4	25.7
Net income	778.6	836.0	7.4
EBITDA	1,085.9	1,335.2	23.0
EBITDA Margin (%)	27.5	28	0.5pp

1. Number of consultants by the end of the 18<sup>th</sup> cycle of sales.

The year 2010 was positive for our international operations and marked a new phase in business expansion. International operations represented 7.2% of Natura's consolidated net revenues last year. Net revenues from these operations grew by 37.3% in local currency (27.2% in Brazilian reais). The sales channel expanded by 20.8%, enabling us to achieve the figure of 192,000 consultants in the region.

**PRO FORMA EBITDA PER OPERATION BLOCK (R\$ MILLIONS)**

	<b>2009</b>	<b>2010</b>	<b>Var %</b>
Brazil	1,085.9	1,335.2	23.0
Argentina, Chile and Peru	8.9	13.1	47.8
Mexico and Colombia	(42.3)	(32.5)	(23.2)
Other investments	(44.1)	(59.1)	34.1
<b>Total</b>	<b>1,008.5</b>	<b>1,256.8</b>	<b>24.6</b>

The operations under consolidation (Argentina, Chile, and Peru) showed growth of 27.4% in local currency (17% in Brazilian reais) in net revenue. The result was influenced by several negative factors, such as the earthquake in Chile in February of 2010, which partially destroyed our facilities and interrupted billings for 22 days.

The pro forma EBITDA of this group of operations showed positive consolidation at R\$13.1 million for the year, a growth of 47.8% over 2009. This reflected a dilution in sales and administrative expenses in spite of the increasing investment in our brand in these countries.

Operations under implementation (Mexico and Colombia) showed high growth rates of 69.2% in local currency (64.5% in Brazilian reais), disregarding the revenue from the operation in Venezuela, which was closed in 2009. Pro forma EBITDA showed a loss of R\$32.5 million (versus R\$42.3 million in 2009), reflecting recent and continuing investments to expand these operations.

**PRO FORMA FINANCIAL HIGHLIGHTS - OPERATIONS UNDER CONSOLIDATION  
(ARGENTINA, CHILE, PERU) - (R\$ MILLIONS)**

	<b>2009</b>	<b>2010</b>	<b>Var %</b>
Total consultants - end of period <sup>1</sup> (thousands)	113.6	129.6	14.1
Product units for resale (millions)	22.5	28.4	26.2
Gross revenue	285.4	335.9	17.7
Net revenue	218.5	255.7	17.0
Gross profit	138.1	157.3	13.9
Gross margin (%)	63.2%	61.5	-1.7pp
Selling expenses	(109.3)	(124.4)	13.8
General and administrative expenses	(23.4)	(21.5)	(8.1)
Other operating income / (expenses), net	1.4	(1.7)	na
Financial income / (expenses), net	0.3	(0.8)	na
Earnings before taxes	7.1	8.9	25.6
Net income / (loss)	(1.1)	3.7	na
EBITDA	8.9	13.1	47.8
Ebitda margin (%)	4.1	5.1	1.1pp

**PRO FORMA FINANCIAL HIGHLIGHTS - OPERATIONS UNDER  
IMPLEMENTATION (MEXICO AND COLOMBIA)<sup>1</sup> (R\$ MILLIONS)**

	<b>2009</b>	<b>2010</b>	<b>Var %</b>
Total consultants - end of period <sup>1</sup> (thousands)	44.2	60.2	36.3
Product units for resale (millions)	7.1	13.1	83.6
Gross revenue	76.3	114.0	49.4
Net revenue	66.5	98.3	47.8
Gross profit	41.8	56.3	34.8
Gross margin (%)	62.8	57.3	-5.5pp
Selling expenses	(69.7)	(76.0)	9.0
General and administrative expenses	(16.1)	(14.8)	(7.9)
Other operating revenues / (expenses), net	(0.2)	(0.1)	(54.3)
Financial income / (expenses), net	(1.3)	(1.0)	na
Earnings before taxes	(45.5)	(35.6)	(21.8)
Net income / (loss)	(48.0)	(36.0)	(25.0)
Ebtida	(42.3)	(32.5)	(23.2)
Ebitda margin (%)	(63.6)	(33.1)	30.5pp

1. Number of consultants by the end of the 18<sup>th</sup> cycle of sales.

# 6. ATTACHMENTS

Financial Statements  
DNV Statement  
About This Report  
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## FINANCIAL STATEMENTS

### NATURA COSMÉTICOS S.A.

Financial statements related to fiscal year ended at December 31, 2010 and auditors' report.

In accordance with the legal and statutory rules we submit, to the appreciation of your honour, the balance sheet and the financial statements related to the fiscal year ended at December 31, 2010. Together with the information included in the footnotes here in, the Company's Management is entirely available to the shareholders to any other clarification.



Índice Brasil 50 **IBRX 50**

Índice de Ações com Tag Along Diferenciado **ITAG**

Índice de Ações com Governança Corporativa Diferenciada **IGC**

Índice de Sustentabilidade Empresarial 2009-2010 **ISE**

**MSCI**

Índice Carbono Eficiente 2010-2011 **ICO2**

## Balance Sheets

As of december 31, 2010

(In thousands of Brazilian reais - R\$)

ASSETS	Note	Company (BRGAAP)		Consolidated (BRGAAP e IFRS)	
		2010	2009	2010	2009
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	5	206,125	254,463	560,229	500,294
Trade accounts receivable	6	493,692	414,645	570,280	452,868
Inventories	7	185,092	94,338	571,525	509,551
Recoverable taxes	8	34,799	93,760	101,464	191,195
Related parties	28.1.	25,361	26,757	-	-
Other receivables		52,470	27,620	66,399	62,454
<b>Total current assets</b>		<b>997,539</b>	<b>911,583</b>	<b>1,869,897</b>	<b>1,716,362</b>
<b>NONCURRENT ASSETS</b>					
Long-term assets:					
Recoverable taxes	8	4,921	33,697	109,264	63,931
Deferred income tax and social contribution	9.a)	87,491	82,952	180,259	146,146
Escrow deposits	10	289,070	187,656	337,007	232,354
Other noncurrent assets	11	20,052	90	44,904	7,429
Investments	12	1,099,188	1,000,600	-	-
Property, plant and equipment	13	92,175	50,375	560,467	492,256
Intangible assets	13	18,586	11,527	120,073	82,740
<b>Total noncurrent assets</b>		<b>1,611,483</b>	<b>1,366,897</b>	<b>1,351,974</b>	<b>1,024,856</b>
<b>TOTAL ASSETS</b>		<b>2,609,022</b>	<b>2,278,480</b>	<b>3,221,871</b>	<b>2,741,218</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Company (BRGAAP)		Consolidated (BRGAAP e IFRS)	
		2010	2009	2010	2009
<b>CURRENT LIABILITIES</b>					
Borrowings and financing	15	60,086	469,590	226,595	569,366
Trade and other payables	16	113,232	84,471	366,494	255,282
Suppliers - related parties	28.1	246,589	211,591	-	-
Payroll, profit sharing and related taxes		63,769	56,750	162,747	130,792
Taxes payable	17	205,361	85,161	371,815	239,574
Provision for tax, civil and labor risks	18	-	1,465	-	1,465
Derivatives	4.2	3,340	6,869	4,061	8,652
Other payables		54,471	26,339	64,747	30,219
<b>Total current liabilities</b>		<b>746,848</b>	<b>942,236</b>	<b>1,196,459</b>	<b>1,235,350</b>
<b>NONCURRENT LIABILITIES</b>					
Borrowings and financing	15	368,356	25,707	465,068	134,992
Taxes payable	17	169,912	113,383	209,316	150,280
Provision for tax, civil and labor risks	18	53,282	54,384	73,784	71,432
Allowance for investment losses	12	-	565	-	-
Provision for healthcare plan	24.2.	13,123	2,384	19,742	9,342
<b>Total noncurrent liabilities</b>		<b>604,673</b>	<b>196,423</b>	<b>767,910</b>	<b>366,046</b>
<b>SHAREHOLDERS' EQUITY</b>					
Capital	19.a)	418,061	404,261	418,061	404,261
Capital reserves		149,627	142,993	149,627	142,993
Earnings reserves		282,944	253,693	282,944	253,693
Treasury shares	19.c)	(14)	(14)	(14)	(14)
Proposed additional dividend	19.b)	430,079	357,611	430,079	357,611
Other comprehensive losses		(23,196)	(18,723)	(23,196)	(18,723)
<b>Total equity attributable to owners of the Company</b>		<b>1,257,501</b>	<b>1,139,821</b>	<b>1,257,501</b>	<b>1,139,821</b>
Noncontrolling interests		-	-	-	-
<b>Total shareholders' equity</b>		<b>1,257,501</b>	<b>1,139,821</b>	<b>1,257,502</b>	<b>1,139,822</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,609,022</b>	<b>2,278,480</b>	<b>3,221,871</b>	<b>2,741,218</b>

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

## Statement of Income

For the year ended December 31, 2010

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

	Note	Company (BRGAAP)		Consolidated (BRGAAP e IFRS)	
		2010	2009	2010	2009
<b>NET REVENUE</b>	21	<b>5,514,315</b>	<b>4,593,165</b>	<b>5,136,712</b>	<b>4,242,057</b>
Cost of sales		(2,283,926)	(1,956,558)	(1,556,806)	(1,294,565)
<b>GROSS PROFIT</b>		<b>3,230,389</b>	<b>2,636,607</b>	<b>3,579,906</b>	<b>2,947,492</b>
<b>OPERATING (EXPENSES) INCOME</b>					
Selling	22	(1,292,365)	(1,062,579)	(1,704,322)	(1,496,125)
Administrative and general	22	(837,808)	(698,241)	(605,442)	(450,868)
Employee profit sharing	22	(18,174)	(21,049)	(70,351)	(55,784)
Management compensation	28	(14,417)	(13,139)	(14,417)	(14,063)
Equity in subsidiaries	12	25,764	(2,830)	-	-
Other operating (expenses) income, net	26	456	961	(17,468)	(14,624)
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL (EXPENSES) INCOME</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Financial income	25	17,515	56,794	53,639	84,176
Financial expenses	25	(58,237)	(83,805)	(103,375)	(126,050)
<b>INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION</b>		<b>1,053,123</b>	<b>812,719</b>	<b>1,118,169</b>	<b>874,154</b>
Income tax and social contribution	9.b)	(309,073)	(128,795)	(374,120)	(190,230)
<b>NET INCOME</b>		<b>744,050</b>	<b>683,924</b>	<b>744,050</b>	<b>683,924</b>
<b>ATTRIBUTABLE TO:</b>					
Owners of the Company		744,050	683,924	744,050	683,924
Noncontrolling interests		-	-	-	-
<b>EARNINGS PER SHARE - R\$</b>					
Basic	27.1.	1,7281	1,5926	1,7281	1,5926
Diluted	27.2.	1,7219	1,5880	1,7219	1,5880

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

## Statement of Comprehensive Income

For the year ended December 31, 2010

(In thousands of Brazilian reais - R\$)

	Note	Company (BRGAAP)		Consolidated (BRGAAP e IFRS)	
		2010	2009	2010	2009
<b>NET INCOME</b>		<b>744,050</b>	<b>683,924</b>	<b>744,050</b>	<b>683,924</b>
Other comprehensive losses-					
Losses from translation of financial statements of foreign subsidiaries	12	(4,473)	(23,884)	(4,473)	(23,884)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>739,577</b>	<b>660,040</b>	<b>739,577</b>	<b>660,040</b>
<b>ATTRIBUTABLE TO</b>					
Owners of the Company		739,577	660,040	739,577	660,040
Noncontrolling interests		-	-	-	-

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



## Statement of Changes in Shareholders' Equity

For the year ended December 31, 2010

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

	Note	Capital reserve				Additional paid-in capital	Treasury shares	Proposed additional dividend	Accumulated losses	Other comprehensive income (losses)	Equity attributable to owners of the Company	Noncontrolling interest	Total shareholders' equity
		Capital	Share premium	Share incentive reserve	Tax								
				Investment grants	Legal	incentives	Retained earnings						
<b>BALANCES AS OF DECEMBER 31, 2008</b>		<b>391,423</b>	<b>101,853</b>	<b>17,378</b>	<b>19,423</b>	<b>18,650</b>	<b>1,816</b>	<b>155,018</b>	<b>(7,924)</b>	<b>5,161</b>	<b>1,014,109</b>	<b>1,014,110</b>	
Net income	12	-	-	-	-	-	-	-	-	-	-	683,924	
Other comprehensive income		-	-	-	-	-	-	-	-	-	-	(23,884)	
Total comprehensive income		-	-	-	-	-	-	-	-	-	-	660,040	
2008 dividends and interest on capital approved at the Annual Shareholders' Meeting of March 23, 2009	19.b	-	-	-	-	-	-	-	-	-	(311,680)	(311,680)	
Absorption of accumulated losses with profit retention reserve		-	-	-	-	-	-	(7,924)	7,924	-	-	-	
Sale of treasury shares due to exercise of stock options		-	-	-	-	-	-	-	-	-	-	-	
Capital increase through subscription of shares	19.a	12,838	-	-	-	-	-	-	-	355	355	355	
Changes in stock option plans:													
Grant of stock options	23.2	-	-	-	4,339	-	-	-	-	-	4,339	4,339	
Exercise of stock options	23.2	-	1,767	(1,767)	-	-	-	-	-	-	-	-	
Allocation of net income:													
Recognition of tax incentive reserve		-	-	-	-	3,145	-	-	-	-	-	-	
Interim dividends - R\$0.50 per outstanding share	19.b	-	-	-	-	-	-	-	(3,145)	-	-	(3,145)	
Proposed interest on capital - R\$0.06 per outstanding share	19.b	-	-	-	-	-	-	-	(2,151,152)	-	(2,151,152)	(2,151,152)	
Proposed dividends on February 24, 2010	19.b	-	-	-	-	-	-	-	(25,028)	-	(25,028)	(25,028)	
Proposed interest on capital on February 24, 2010	19.b	-	-	-	-	-	-	-	(339,385)	-	(339,385)	(339,385)	
Retained earnings reserve	19.f	-	-	-	-	-	-	82,988	(82,988)	-	-	-	
<b>BALANCES AS OF DECEMBER 31, 2009</b>		<b>404,261</b>	<b>103,620</b>	<b>17,378</b>	<b>21,995</b>	<b>18,650</b>	<b>4,961</b>	<b>230,082</b>	<b>(18,723)</b>	<b>1,139,821</b>	<b>1,139,821</b>	<b>1,139,822</b>	
Net income	12	-	-	-	-	-	-	-	-	-	-	744,050	
Other comprehensive income		-	-	-	-	-	-	-	-	-	-	(4,473)	
Total comprehensive income		-	-	-	-	-	-	-	-	-	-	739,577	
2009 dividends and interest on capital approved at the Annual Shareholders' Meeting of April 6, 2010	19.a	-	-	-	-	-	-	-	-	-	(357,611)	(357,611)	
Capital increase through subscription of shares		13,800	-	-	-	-	-	-	-	13,800	-	13,800	
Changes in stock option plans:													
Grant of stock options	23.2	-	-	-	11,288	-	-	-	-	-	11,288	11,288	
Exercise of stock options	23.2	-	-	-	(4,654)	-	-	4,654	-	-	-	-	
Allocation of net income:													
Recognition of tax incentive reserve		-	-	-	-	-	5,973	-	(5,973)	-	-	-	
Interim dividends and interest on capital	19.b	-	-	-	-	-	-	-	(289,374)	-	(289,374)	(289,374)	
Proposed dividends on February 23, 2011	19.b	-	-	-	-	-	-	-	(405,623)	-	(405,623)	(405,623)	
Proposed interest on capital on February 23, 2011	19.b	-	-	-	-	-	-	-	(24,456)	-	(24,456)	(24,456)	
Retained earnings reserve	19.f	-	-	-	-	-	-	18,624	(18,624)	-	-	-	
<b>BALANCES AS OF DECEMBER 31, 2010</b>		<b>418,061</b>	<b>103,620</b>	<b>17,378</b>	<b>28,629</b>	<b>18,650</b>	<b>10,934</b>	<b>253,360</b>	<b>(23,196)</b>	<b>1,257,501</b>	<b>1,257,501</b>	<b>1,257,502</b>	

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

**Statement of Cash Flows**  
**For the year ended December 31, 2010**  
(In thousands of Brazilian reais - R\$)

	Note	Company (BRGAAP)		Consolidated (BRGAAP e IFRS)	
		2010	2009	2010	2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net income		744,050	683,924	744,050	683,924
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	13	15,305	11,918	88,848	92,426
Provision for losses on swap and forward contracts		5,477	(4,539)	8,787	(4,004)
Provision for tax, civil and labor contingencies	18	106	12,188	3,545	9,090
Interest and inflation adjustment of escrow deposits		(15,318)	(10,266)	(18,129)	(13,240)
Income tax and social contribution	9.a	309,073	128,795	374,120	190,230
(Gain) Loss on sale on property, plant and equipment and intangible assets	26	(468)	(702)	32,620	19,834
Equity in subsidiaries		(25,764)	2,830	-	-
Interest and exchange rate change on borrowings and financing and other liabilities	25	(4,668)	33,662	(5,137)	10,825
Stock options plans expenses		4,081	4,339	11,288	8,573
Provision for discount on sale of ICMS credits		-	-	465	2,414
Allowance for doubtful accounts	6	9,005	8,211	9,149	10,051
Allowance for inventory losses	7	3,981	3,635	30,132	9,650
Provision for healthcare plan	24.2	10,739	2,384	10,400	9,342
		<u>1,055,598</u>	<u>876,379</u>	<u>1,290,137</u>	<u>1,029,115</u>
<b>(INCREASE) DECREASE IN ASSETS</b>					
Current:					
Trade accounts receivable		(88,052)	5,565	(126,561)	7,482
Inventories		(77,360)	(56,996)	(92,106)	(185,569)
Recoverable taxes		58,961	(60,485)	89,731	(83,912)
Other receivables		(23,433)	4,081	(3,945)	8,734
Noncurrent:					
Recoverable taxes		38,703	(13,509)	(44,597)	(30,441)
Other receivables		(19,962)	(45)	(37,475)	(108)
<b>Subtotal</b>		<u>(111,143)</u>	<u>(121,389)</u>	<u>(214,953)</u>	<u>(283,814)</u>
<b>INCREASE (DECREASE) IN LIABILITIES</b>					
Current:					
Domestic and foreign suppliers		28,761	(29,302)	111,212	45,499
Payroll, profit sharing and related taxes, net		7,019	1,688	31,955	86
Taxes payable		18,197	(70,140)	(8,192)	(94,059)
Other payables		63,130	1,433	34,528	(1,005)
Noncurrent:					
Taxes payable		56,529	113,383	59,036	150,280
Provision for tax, civil and labor contingencies		(2,673)	(22,184)	(2,658)	(22,216)
Other payables		(565)	(14,439)	-	(10,652)
<b>Subtotal</b>		<u>170,398</u>	<u>(19,561)</u>	<u>225,881</u>	<u>67,933</u>
<b>OTHER CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Payments of income tax and social contribution		(221,535)	(128,758)	(269,001)	(184,365)
Payments of derivatives		(9,006)	(13,924)	(13,378)	(16,255)
Payment of interest on borrowings and financing		(35,405)	(4,574)	(44,902)	(19,919)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<u>848,906</u>	<u>588,173</u>	<u>973,784</u>	<u>592,695</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Acquisition of property, plant and equipment and intangible assets	13	(66,870)	(30,568)	(236,876)	(140,632)
Proceeds from sale of property, plant and equipment and intangible assets		3,174	4,323	9,864	6,066
Escrow deposits		(86,096)	(55,272)	(86,524)	(55,858)
Dividends received from subsidiaries		30,000	-	-	-
Investments in subsidiaries	12	(117,486)	(154,720)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(237,278)</u>	<u>(236,237)</u>	<u>(313,536)</u>	<u>(190,424)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Payments of borrowings and financing - principal		(592,075)	(634,274)	(781,931)	(827,121)
Proceeds from borrowings and financing		565,293	988,310	819,275	1,109,497
Payment of dividends and interest on capital	19.b	(646,985)	(551,860)	(646,985)	(551,860)
Capital increase through subscription of shares	19.a	13,800	12,838	13,800	12,838

continue...

**Statement of Cash Flows**  
**For the year ended December 31, 2010**  
(In thousands of Brazilian reais - R\$)

<i>...continuation</i>	Note	Company (BRGAAP)		Consolidated (BRGAAP e IFRS)	
		2010	2009	2010	2009
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(659,967)</b>	<b>(184,986)</b>	<b>(595,840)</b>	<b>(256,646)</b>
Gains (losses) on translation of foreign-currency cash and cash equivalents		-	-	(4,473)	4,172
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(48,338)</b>	<b>166,950</b>	<b>59,935</b>	<b>149,797</b>
Cash and cash equivalents at the beginning of the year		254,463	87,513	500,294	350,497
Cash and cash equivalents at the end of the year		206,125	254,463	560,229	500,294
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(48,338)</b>	<b>166,950</b>	<b>59,935</b>	<b>149,797</b>
Additional statements of cash flows information:					
Restricted cash	11	-	-	6,155	5,769
Bank overdrafts - unused		147,900	197,720	265,500	242,145

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

**Statement of Value Added**  
**For the year ended December 31, 2010**  
(In thousands of Brazilian reais - R\$)

	Note	Company (BRGAAP)		Consolidated (BRGAAP)					
		2010	2009	2010	2009				
<b>REVENUES</b>		<b>6,394,783</b>	<b>5,333,613</b>	<b>6,850,225</b>	<b>5,705,072</b>				
Sales of products and services		6,477,739	5,402,269	6,951,106	5,789,313				
Other operating (expenses) income, net		456	961	(17,468)	(14,624)				
Allowance for doubtful accounts		(83,412)	(69,617)	(83,412)	(69,617)				
<b>INPUTS PURCHASED FROM THIRD PARTIES</b>		<b>(4,278,970)</b>	<b>(3,590,406)</b>	<b>(3,707,385)</b>	<b>(3,087,532)</b>				
Cost of sales and services		(2,488,991)	(2,133,895)	(2,355,631)	(1,957,104)				
Materials, electricity, services and others		(1,789,979)	(1,456,511)	(1,351,754)	(1,130,427)				
<b>GROSS VALUE ADDED</b>		<b>2,115,813</b>	<b>1,743,207</b>	<b>3,142,841</b>	<b>2,617,540</b>				
<b>RETENTIONS</b>		<b>(15,305)</b>	<b>(11,918)</b>	<b>(88,848)</b>	<b>(92,426)</b>				
Depreciation and amortization	13	(15,305)	(11,918)	(88,848)	(92,426)				
<b>VALUE ADDED GENERATED BY THE COMPANY</b>		<b>2,100,508</b>	<b>1,731,289</b>	<b>3,053,993</b>	<b>2,525,114</b>				
<b>TRANSFERRED VALUE ADDED</b>		<b>66,933</b>	<b>53,964</b>	<b>53,639</b>	<b>84,176</b>				
Equity in subsidiaries	12	25,764	(2,830)	-	-				
Financial income - includes inflation and exchange rate variations		41,169	56,794	53,639	84,176				
<b>TOTAL VALUE ADDED TO BE DISTRIBUTED</b>		<b>2,167,440</b>	<b>1,785,253</b>	<b>3,107,632</b>	<b>2,609,290</b>				
<b>DISTRIBUTION OF VALUE ADDED:</b>		<b>(2,167,440)</b>	<b>100%</b>	<b>(1,785,253)</b>	<b>100%</b>	<b>(3,107,632)</b>	<b>100%</b>	<b>(2,609,290)</b>	<b>100%</b>
Employees and social charges		(222,957)	10%	(191,654)	11%	(769,245)	25%	(642,954)	21%
Taxes and contributions		(1,111,331)	51%	(818,464)	46%	(1,476,512)	47%	(1,147,364)	52%
Financial expenses and rentals		(89,102)	4%	(86,349)	5%	(117,825)	4%	(130,187)	4%
Dividends		(659,570)	31%	(554,537)	11%	(659,570)	21%	(554,537)	7%
Interest on capital		(59,883)	3%	(43,254)	2%	(59,883)	2%	(43,254)	1%
Retained earnings		(24,597)	1%	(90,995)	25%	(24,597)	1%	(90,995)	15%

**Supplemental statement of value added information**

R\$454,114 and R\$424,222 are included in caption 'Taxes and contribution' in 2010 and 2009, respectively, and refer to reverse charge State VAT (ICMS) levied on the estimated profit margin set by the State Departments of Finance based on sales made by Natura consultants to final customer.

For the analysis of this tax impact on the statement of value added, these amounts should be deducted from those recorded in 'Sales of products and services' and 'Taxes and contributions', since sales revenue does not include the estimated profit attributable to Natura consultants on the sale of products, in the amounts of R\$2,738,227 and R\$2,302,549 in 2010 and 2009, respectively, considering an estimated profit margin of 30%.

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

# Notes to the Financial Statements

For the year ended December 31, 2010

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

## I. GENERAL INFORMATION

Natura Cosméticos S.A. (the "Company") is a publicly-traded company, headquartered in Itapeverica da Serra, State of São Paulo, registered in the São Paulo Stock Exchange (BM&FBOVESPA), under the ticker "NATU3".

The Company's and its subsidiaries' activities ("Natura's Group" or the "Group") include the development, production, distribution and sale, substantially through direct sales by Natura Beauty Consultants, of cosmetics, fragrances, and hygiene products. The Company also holds equity interests in other companies in Brazil and abroad.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

### 2.1. Statement of compliance and basis of presentation

The Company's financial statements include:

- The consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB and the accounting practices adopted in Brazil, identified as Consolidated – IFRS and BR GAAP.
- The Parent's individual financial statements prepared in accordance with the accounting practices adopted in Brazil, identified as Company – BR GAAP.

The accounting practices adopted in Brazil include those established in the Brazilian Corporate Law as well as the Pronouncements, Instructions and Interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM).

The individual financial statements include investments in subsidiaries, joint ventures and associates which are measured under the equity method, as required by the legislation prevailing in Brazil. Therefore, these individual financial statements are not fully compliant with IFRS, which requires that these investments be stated at fair value or acquisition cost. Since there is no difference between the consolidated shareholders' equity and the consolidated net income attributable to the Company's shareholders recorded in the consolidated financial statements prepared under IFRS and the accounting practices adopted in Brazil, the Company elected to present the individual and the consolidated financial statements as a single set in the side-by-side comparison format.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The main accounting practices adopted in preparing these consolidated financial statements are summarized below. These practices are consistent with those adopted in the prior reporting period, except otherwise indicated.

### 2.2. Consolidation

#### a) Subsidiaries and joint-controlled entities

Subsidiaries are all the entities in which the Company has the power to govern financial and operating policies of an entity so as to obtain benefits from its activities and that the Company owns half or more of the interest. In the applicable cases, the existence and the effect of potential voting right, currently exercisable or convertible, are taken into consideration to determine if the Company controls or not another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Company and cease to be consolidated, when applicable, when control no longer exists.

In the cases control is jointly held, the consolidation of the financial statements is made proportionally to the interest percentage.

b) Consolidation criteria and subsidiaries included in the consolidated financial statements

	Interest holding - %	
	2010	2009
<b>Direct interest:</b>		
Indústria e Comércio de Cosméticos Natura Ltda.	99.99	99.99
Natura Cosméticos S.A. - Chile	99.99	99.99
Natura Cosméticos S.A. - Peru	99.94	99.94
Natura Cosméticos S.A. - Argentina	99.97	99.97
Natura Brasil Cosmética Ltda. - Portugal	-	98.00
Natura Inovação e Tecnologia de Produtos Ltda.	99.99	99.99
Natura Cosméticos y Servicios de Mexico, S.A. de C.V.	99.99	99.99
Natura Cosméticos de Mexico, S.A. de C.V.	99.99	99.99
Natura Distribuidora de Mexico, S.A. de C.V.	99.99	99.99
Natura Cosméticos C.A. - Venezuela	-	99.99
Natura Cosméticos Ltda. - Colômbia	99.99	99.99
Flora Medicinal J. Monteiro da Silva Ltda.		
– under dissolution	-	99.99
Natura Cosméticos España S.L. - Espanha	100.00	100.00
Natura (Brasil) International B.V. - Holanda	100.00	100.00
Natura Cosméticos y Vestimentas S.A. - Uruguai	-	99.99

#### Indirect interest:

Through Indústria e Comércio de Cosméticos Natura Ltda.:		
Natura Logística e Serviços Ltda.	99.99	99.99
Through Natura Inovação e Tecnologia de Produtos Ltda.:		
Ybios S.A. (proportional consolidation - joint control)	42.11	33.33
Natura Innovation et Technologie de Produits SAS - France	100.00	100.00
Through Natura (Brasil) International B.V. - The Netherlands:		
Natura Brasil Inc. - EUA - Delaware	100.00	100.00
Natura International Inc. - EUA - Nova York	100.00	100.00
Natura Worldwide Trading Company - Costa Rica	100.00	100.00
Natura Brasil SAS - França	100.00	100.00
Natura Brasil Inc. - EUA - Nevada	100.00	100.00
Natura Europa SAS - França	100.00	100.00

The consolidated financial statements have been prepared based on the financial statements as of the same date and consistent with the Company's accounting practices. Investments in subsidiaries were proportionally eliminated against shareholders' equity and net income of the respective subsidiaries. Intercompany balances and transactions and unrealized profits, net of taxes, were also eliminated.

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 Ltda. - Colombia, Natura Europa SAS - France, Natura Cosméticos de Mexico, S.A. de C.V., and Natura Cosméticos C.A. - Venezuela.

- Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Cosméticos C.A. - Venezuela, Natura Cosméticos Ltda. - Colombia and Natura Distribuidora de Mexico, S.A. de C.V.: their activities are an extension of the activities conducted by the parent company Natura Cosméticos S.A. - Brazil.

- Natura Inovação e Tecnologia de Produtos Ltda.: its activities consist of product and technology development and market research. It is the only owner of Natura Innovation et Technologie de Produits SAS - France, a research and technology satellite center opened in 2007 in Paris.

- Natura Europa SAS - France and Natura Brasil SAS - France: engaged in the purchase, sale, import, export and distribution of cosmetics, fragrances in general, and hygiene products.

- Natura Cosméticos de Mexico, S.A. de C.V.: imports and sells cosmetics, fragrances in general and hygiene products to Natura Distribuidora de Mexico, S.A. de C.V.

- Natura Cosméticos y Servicios de Mexico, S.A. de C.V.: provides administrative and logistics services to Natura Cosméticos de Mexico, S.A. de C.V. and Natura Distribuidora de Mexico, S.A. de C.V.

- Natura Cosméticos España S.L. - Spain: company in start-up stage and its activities will be an extension of the activities developed by the parent company Natura Cosméticos S.A. - Brazil.
- Flora Medicinal J. Monteiro da Silva Ltda. – under dissolution: used to be engaged in the sale of phytotherapeutic and phytocosmetic products of its own brand. Since 2005 this company has had no activities. On March 31, 2008, after the merger of Nova Flora Participações Ltda., Flora Medicinal J. Monteiro da Silva Ltda. became a direct subsidiary of Natura Cosméticos S.A. - Brazil. In December 2010, the company has obtained approval for dissolution and its net assets were absorbed by Natura Cosméticos S.A.
- Natura Logística e Serviços Ltda.: engaged in the provision of administrative and logistics services to Natura Group companies based in Brazil.
- Natura Innovation et Technologie de Produits SAS - France: engaged mainly in research activities developed for in vitro tests, an alternative to tests in animals, for safety and efficacy testing of active compounds, skin care and new packaging materials.
- 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.

As Ybios S.A. is a jointly-owned subsidiary whose financial statements were proportionally included in the Company's consolidated financial statements, the main assets, liabilities and statement of income accounts, which were included in the consolidated financial statements at the ratio of 42.11% of interest (33.33% in December 31, 2009) after ownership elimination adjustments, are stated below:

	2010	2009
Current assets	630	409
Property, plant and equipment	98	197
Current liabilities	87	282
Net losses	(682)	(630)

- Natura Europa SAS - France and Natura Cosmetics USA Co.: in January 2009, the shares in these subsidiaries' capital stock were assigned as a capital contribution to the holding company Natura (Brasil) International B.V. - The Netherlands, and the Company became the indirect holder of such interests through this holding company in The Netherlands.

#### c) Discontinuation of subsidiaries' operations

The Board of Directors' Meetings held in July and October 2009 approved the discontinuation of the operations of subsidiaries Natura Cosméticos C.A. - Venezuela, Natura Brasil Cosmética Ltda. - Portugal and Natura Cosméticos y Vestimentas S.A. - Uruguay. As of December 31, 2009, these companies' winding up is in progress, except for the subsidiaries in Uruguay and Portugal, which were still in start-up stage when the discontinuation of their operations was decided. The operations of the subsidiary in Venezuela were discontinued in the third quarter of 2009, and thus the recognition of an allowance for impairment losses was required.

On December 31, 2010, the net assets balance of Natura Cosméticos C.A. - Venezuela, recorded in the Company's consolidated financial statements, less allowances for asset impairment losses and collection of liabilities during the operation termination process, was R\$273.

#### 2.3. Business segment report

Reporting on operating segments is consistent with the internal report provided to the chief operating decision maker. The chief operating decision maker, responsible for allocating resources to the operating segments and assessing their performance, is represented by the Company's Executive Committee.

#### 2.4. Translation into foreign currency

##### a) Functional and reporting currency

Items included in financial statements of the Company and each one of the subsidiaries included in the consolidated financial statements are measured using the currency of the main economic environment in which the companies operate ("functional currency").

##### b) Foreign currency transactions and balances

The financial statements are presented in Reais (R\$), which corresponds to the Group's presentation currency.

Foreign currency-denominated transactions are translated into the Company's functional currency - Brazilian reais - at exchange rates prevailing on the dates of the transactions. Balance sheet accounts are translated at the exchange rates prevailing at the balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and the translation of monetary assets and monetary liabilities denominated in foreign currency are recognized through the statement of income, under the captions "Financial income" and "Financial expenses".

##### c) Translation

In preparing the consolidated financial statements, the statements of income

and cash flows, and all other changes in assets and liabilities are translated into Brazilian reais at the average monthly exchange rate, which approximates the exchange rate prevailing at the date of the underlying transactions. Balance sheets are translated into Brazilian reais at the exchange rates prevailing at year end.

The effects of the exchange differences resulting from these translations are presented in line item "Other comprehensive income", in shareholders' equity. In case of disposal or partial disposal of interest in a Group company, through sale or as a result of capital payment, the cumulative exchange difference is recognized in the statement of income as part of the gain or loss on the disposal of the investment.

#### 2.5. Cash and cash equivalents

Include cash, demand deposits and short-term investments redeemable in up to 90 days from the investment date, highly liquid or convertible to a known cash amount and subject to immaterial change in value, which are recorded at cost plus income earned through the balance sheet dates and do not exceed their market or realization value.

#### 2.6. Financial instruments

##### 2.6.1. Categories

The category depends on the purpose for which the financial assets and liabilities were acquired or contracted and is determined upon initial recognition of the financial instruments.

The Company classifies its financial assets under the following categories:

##### Financial assets measured at fair value through profit or loss

The financial assets are measured at fair value through profit or loss when they are acquired for such purpose, principally in the short term. Derivative financial instruments are also classified as held for trading. Assets in this category are classified as current assets.

In the case of the Company, this category encompasses only derivative financial instruments. The balances related to gains or losses on unsettled transactions are classified in current assets or current liabilities, and gains or losses arising from changes in fair value are recorded under "Financial income" or "Financial expenses".

##### Financial assets held-to-maturity

Comprise investments in certain financial assets classified by treasury at their inception as held-to-maturity, which are measured at acquisition cost plus income earned according to contractual terms and conditions.

##### Available-for-sale financial assets

When applicable, available-for-sale financial assets include non-derivative financial assets, which are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held for trading or (c) financial assets at fair value through profit or loss. As of December 31, 2010 and 2009, the Company did not have assets recorded in the financial statements under this classification.

##### Loans and receivables

Includes non-derivative financial assets with fixed or determinable receipts that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as noncurrent assets. As of December 31, 2010 and 2009, include cash and cash equivalents (note 5) and trade accounts receivable (note 6).

Financial liabilities held by the Company are classified into the following categories:

##### Financial liabilities measured at fair value through profit or loss

Financial liabilities are classified as measured at fair value through profit or loss when they are held for trading or designated as fair value through profit or loss.

##### Other financial liabilities

Other financial liabilities are measured at the amortized cost using the effective interest method. As of December 31, 2010 and 2009 other financial liabilities comprised borrowings and financing (note 15) and trade and other payables.

##### 2.6.2. Measurement

Regular purchases and sales of financial assets are recognized upon the date transactions occur; i.e., on the date the Company agrees to buy or sell the asset. Financial assets at fair value through profit or loss are initially recognized at their fair value, and transaction costs are recognized through the statement of income. Loans and receivables are accounted for at the amortized cost.

Gains or losses resulting from changes in the fair value of financial assets measured at fair value through profit or loss are recognized in the statement of income in caption "Financial income" or "Finance expenses", respectively, in the period in which they occur. As regards financial assets classified as "Available for sale", if applicable, these changes are recorded in caption "Other comprehensive income", within equity, until they are settled, when they are reclassified to the statement of income.

##### 2.6.3. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet when there is a legally enforceable right to

set off recognized amounts and the intent to either settle them on a net basis, or to recover the asset and settle the liability simultaneously.

#### 2.6.4. Derivative financial instruments and hedge accounting

Derivative transactions contracted by the Company and its subsidiaries are limited to swaps and currency Non Deliverable Forwards (NDFs) intended exclusively to hedge against the currency risks related to the positions in the balance sheet plus projected cash outflows in foreign currency for capital increases in foreign subsidiaries

They are measured at fair value, and changes in fair value are recognized through profit or loss, except when they are designated as cash flow hedges, to which changes in fair value are recorded in 'Other comprehensive income' within shareholders' equity.

The fair value of derivatives is measured by the Company's treasury department based on the information on each contracted transaction and the related market information at the balance sheet dates, such as interest rate and foreign exchange coupon. When applicable, such information is compared with the positions reported by the trading desks of each involved financial institution.

Even though the Group uses derivatives for hedging purposes, it does not apply hedge accounting.

The fair values of derivatives are disclosed in note 4.

#### 2.7. Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are stated at their nominal value, less the allowance for doubtful accounts, which is recognized based on an analysis of past experience with losses, in an amount considered sufficient to cover possible losses, as described in note 6.

#### 2.8. Inventories

Stated at the lower of average cost of acquisition or production and net realizable value. The details are shown in note 7.

#### 2.9. Investments in subsidiaries, associates and joint-controlled entities

The Group holds interest in subsidiaries, associates and joint-controlled entities. Subsidiaries are entities that are controlled by the Company. Control is the power to govern the financing and operating policies so as to obtain benefits from its activities, what usually means the capacity to exercise the majority of voting rights. The potential voting rights are considered in the evaluation of control exercised by the Group in another entity, when they are exercisable at the time of such evaluation

Associates are entities over which the Company has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policies of the investee without exercising individual or joint control on these policies.

Joint-controlled entities are entities where the venturers have a contractual agreement which establishes joint control on its economic activities.

Investments in subsidiaries, associates and joint-controlled entities are accounted for using the equity method. The financial statements of subsidiaries, associates and joint-controlled entities are prepared on the same date as the Company's financial statements. Adjustments are made, if necessary, to comply their accounting policies with the ones adopted by the Company.

Under the equity method the Group's interest on the investee's net income or loss is recorded in the statement of income under the caption "Equity in subsidiaries". Unrealized gains and losses resulting from transactions between the Company and its investees are eliminated based on its interest on each investee. Investee's other comprehensive income are recorded directly in the Company's equity under the caption "Other comprehensive income".

#### 2.10. Property, plant and equipment

Stated at acquisition cost and/or construction, plus interest capitalized during construction period, when applicable, for the case of eligible assets and reduced by accumulated depreciation and by impairment losses, if applicable. Depending on the nature of the asset and the time it was purchased, cost refers to the historic cost of purchase or the historic cost of purchase adjusted for the effects of hyperinflation until December 31, 1997, when the Brazilian economy was considered hyperinflationary for IFRS purposes.

Rights in tangible assets that are maintained or used in the operations of the Company and its subsidiaries, originated from finance leases, are recorded as purchase financing, and a fixed asset and a financing liability are recognized at the beginning of each transaction, where assets are also submitted to depreciation calculated based on the estimated useful lives of the assets.

Land is not depreciated. Depreciation of the other assets is calculated under the straight-line method to distribute their cost over their useful lives, as follows:

	Years
Buildings	25
Machinery and equipment	13
Molds	3
Facilities and leasehold improvements	5 - 13
Furniture and fixtures	14
Vehicles	3

Useful lives are revised annually.

Gains and losses on disposals are calculated by comparing the proceeds from the sale with the carrying amount, and are recognized in the statement of income.

#### 2.11. Intangible assets

Software and ERP systems licenses purchased are also capitalized and amortized at the rates also described in note 13, and expenses on the software maintenance are recognized as expenses when incurred.

Expenses ERP systems purchase and implementation are capitalized as intangible assets when there is evidence that future economic benefits will flow through the Company, taking into consideration their economic and technologic viability. Expenses on software development recognized as assets are amortized under the straight-line method over its estimated useful life. The expenses related to software maintenance are expensed when incurred. Separately purchased trademarks and patents are stated at their historic cost. Trademarks and patents acquired in a business combination are recognized at fair value on the acquisition date. Amortization is calculated under the straight-line method at the annual rates described in note 13.

#### 2.12. Expenses on product research and development

In view of the high level of innovation and the turnover rate of the products in the Company's sales portfolio, the Company adopts the accounting policy of recognizing product research and development expenditure as expenses for the year, when incurred. Details are disclosed in note 22.

#### 2.13. Leases

Lease classification is made at the inception of the lease. Leases where the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

Leases where the Company and its subsidiaries retain substantially all the risks and rewards incidental to ownership are classified as finance leases. These leases are capitalized in balance sheet at the commencement of the lease term at the lower fair value of the leased asset and the minimum lease payments.

Each lease payment is apportioned between liabilities and the finance charge so as to permit obtaining a constant rate on the outstanding liability. The corresponding obligations, less finance charge, are classified in current liabilities and noncurrent liabilities, according to the lease term. Property, plant and equipment items purchased through finance leases are depreciated over the shorter of their economic useful lives, as described in item 2.10 or the lease term.

#### 2.14. Impairment assessment

Property, plant and equipment, intangible assets and, when applicable, other noncurrent assets are annually tested to identify evidences of impairment, or also significant events or changes in circumstances that indicate that their carrying amounts will not be recovered. When applicable, when there is a loss, arising from situations where the carrying amount of an asset exceeds its recoverable amount, defined as the higher of its value in use and its fair value less costs to sell, this loss is recognized in the statement of income.

Assets are grouped in their lowest levels for which there are separately identifiable cash flows - Cash Generating Units (CGUs) - for recoverable amount evaluation purposes.

#### 2.15. Trade payables

They are recognized initially at its nominal amounts. They are subsequently carried at amortized cost, i.e., plus interest, monetary and exchange variations incurred through the balance sheet dates.

#### 2.16. Loans and financings

Initially recognized at fair value of proceeds received less transaction costs. They are subsequently carried at amortized cost, i.e., plus charges, interest, inflation and exchange rate changes incurred through the balance sheet dates, as shown in note 15.

#### 2.17. Provisions for tax, civil and labor contingencies

The provisions for contingent liabilities are recognized when the Company and its subsidiaries have a legal or constructive obligation as a result of past events, where it is probable that disbursements will be required to settle the obligation, and its present value can be reliably estimated. Provisions are quantified at the present value of the expected disbursement to settle the obligation using the appropriate discount rate, according to related risks.

Adjusted for inflation through the balance sheet dates to cover probable losses, based on the nature of contingencies and the opinion of the Company's legal counsel. The basis and nature of the reserves for tax, civil and labor contingencies are described in note 18.

#### 2.18. Income tax and social contribution - current and deferred

Current and deferred income tax and social contribution are recognized in the statement of income, except, when applicable, in the proportion related to items recognized directly in shareholders' equity. In this case, taxes are recognized directly in shareholders' equity, in "Other comprehensive income". Except for the subsidiaries located abroad, which apply the tax rates prevailing in the country where they are based, income tax and social contribution of

the Company and its subsidiaries in Brazil are calculated at the tax rates of 25% and 9%, respectively, to income tax and social contribution.

Current income tax and social contribution expense is calculated using the law enacted at the balance sheet date, pursuant to Brazilian tax regulations. Management periodically measures the positions assumed in the income tax return regarding the situations where applicable tax regulations are subject to possibly different interpretation and, when appropriate, recognizes provisions based on the amounts it expects to pay tax authorities.

Deferred income tax and social contribution are calculated based on deductible temporary differences between tax and financial reporting basis of assets and liabilities. Deferred income tax and social contribution are calculated using the tax rates enacted on the balance sheet date and that must be applied when the corresponding deferred income tax and social contribution assets are realized or deferred income tax and social contribution liabilities are settled.

Deferred income tax assets are recognized only to the extent that there is a reasonable certainty that future taxable income will be available and against which temporary differences can be offset.

The amounts of deferred income tax and social contribution assets and liabilities are only offset when there is a legally enforceable right to offset tax assets against tax liabilities and/or when deferred income tax and social contribution assets and liabilities are related to the income tax and social contribution levied by the same tax authorities on the taxable entity or different taxable entities, where there is intention to settle the net balances. Details are disclosed in note 9.

#### 2.19. Stock option plans

The Company offers equity-settled share-based compensation plans to its employees and executives based on the Company's shares.

The fair value of the options granted is recognized as an expense in the statement of income during the vesting period, and options are vested after certain specific conditions are fulfilled. At the balance sheet dates, the Company's Management reviews its estimates on the number of options vested based on the conditions fulfilled and, when applicable, recognizes in the statement of income as a contra entry to shareholders' equity the effect arising from the revision of the initial estimates.

#### 2.20. Profit sharing

The Company recognizes a profit-sharing liability and expense based on a formula that takes into consideration the taxable income attributable to the owner of the Company after certain adjustments, which is linked to the achievement of operational goals and specific objectives, established and approved at the beginning of each year.

#### 2.21. Dividends and interest on capital

The proposed dividends and interest on capital made by the Company's Management included in the portion equivalent to minimum dividends is recorded in caption "Other payables" in current liabilities, as it is considered as a legal liability provided for by the Company's bylaws. However, the portion of dividends exceeding minimum dividends declared by Management after the reporting period but before the authorization date for issuance of these financial statements is recorded in caption "Proposed additional dividend" within equity, and its effects are presented in note 19.b).

For corporate and accounting purposes, interest on capital is stated as allocation of income directly in shareholders' equity.

#### 2.22. Actuarial gains and losses of healthcare plan and other costs related to employees' benefit plans

The costs related to the contributions made by the Company and its subsidiaries to defined contribution retirement plans are recognized on the accrual basis. Actuarial gains and losses recorded in the retirees' healthcare expansion plan are recorded in the statement of income in accordance with IAS 19 and CPC 33, based on the actuarial calculation prepared by an independent actuary, as detailed in note 24.2.

#### 2.23. Results of operation and revenue recognition

Income and expenses are recorded on the accrual basis. Revenue from sales is recognized in income when all risks and rewards incidental to product ownership are transferred to the customer.

Income from tax incentives, received in the form of a monetary asset, is recognized in the statement of income when received as a contra account to costs and investment already incurred by the Company in the jurisdiction where the tax incentive is granted. There are no established conditions to be met by the Company that might affect the recognition of tax incentives.

#### 2.24. Effective interest method

Effective interest method is used to calculate the amortized cost of a debt instrument and allocate its interest income over the related period. The effective interest rate is the rate that discounts exactly the estimated future cash receipts (including fees paid or received that are an integral part

of the effective interest rate, transaction costs and other premiums or discounts) throughout the estimated useful life of the debt instrument or, when applicable, by a shorter period, for the net carrying amount on the date of initial recognition.

Income is recognized based on the effective interest of debt instruments not classified as financial assets at fair value through profit or loss.

#### 2.25. Statement of value added

The purpose of this statement is to disclose the wealth created by the Company and its distribution during a certain reporting period, and is presented by the Company, as required by the Brazilian Corporate Law, as an integral part of its individual financial statements, and as additional disclosure of the consolidated financial statements, since this statement is not required by IFRSs.

The statement of value added was prepared using information obtained in the same accounting records used to prepare the financial statements and pursuant to the provisions of CPC 09 Statement of Value Added. The first part of this statement includes the wealth created by the Company, represented by revenue (gross sales revenue, including taxes levied thereon, other income, and the effects of the allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchase of materials, electricity, and services from third parties, including taxes levied at the time of the acquisition, the effects of impairment losses, and depreciation and amortization), and the value added received from third parties (equity in subsidiaries, financial income, and other income). The second part of the statement of value added presents the distribution of wealth among personnel, taxes, fees and contributions, remuneration of third parties capital and shareholders' equity.

#### 2.26. New standards, changes and interpretation of standards

a) Standards, interpretations and revised standards effective on December 31, 2010 which did not have a material impact on the Company's financial statements.

The following interpretations and revised standards were issued and were effective on December 31, 2010. However, they did not have a material impact on the Company's financial statements:

<u>Standards</u>	<u>Main requirements</u>	<u>Effective date</u>
Improvements to IFRSs - 2009	Amendment of several standards	Effective for annual periods beginning on or after January 1, 2010
Amendments to IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	Effective for annual periods beginning on or after July 1, 2010
Amendments to IFRS 1	Additional exemptions for first-time adopters	Effective for annual periods beginning on or after January 1, 2010
Amendments to IAS 32	Classification of issue rights	Effective for annual periods beginning on or after February 1, 2010
Amendments to IFRS 2	Intragroup share-based payments settled in cash	Effective for annual periods beginning on or after January 1, 2010
IFRIC 19	Extinguishing liabilities by issues of equity instruments	Effective for annual periods beginning on or after January 1, 2010

In August 2010, CVM issued Resolution 636/10, which approves pronouncement CPC 41 - Earnings per Share, issued based on IAS 33 - Earnings per Share. CPC 41 provides for the disclosure of earnings per share, without impact on recognition, measurement and presentation of individual financial statements. The Company adopted CPC 41 in its individual and consolidated financial statements for the year ended December 31, 2010.

b) Standards, interpretations and revised standards not yet effective and which were not early adopted by the Company.

The following standards and revised standards have been issued and are mandatory for reporting periods beginning on or after January 1, 2011. However, the Company did not early adopt these standards and revised standards.

Standards	Main requirements	Effective date
Improvements to IFRSs - 2010	Amendment of several standards	Effective for annual periods beginning on or after January 1, 2011
IFRS 9 (as changed in 2010)	Financial instruments	Effective for annual periods beginning on or after January 1, 2013
Amendments to IAS 24	Related-party disclosures	Effective for annual periods beginning on or after January 1, 2011
Amendments to IFRS 1	Removal of fixed dates for first-time adopters	Effective for annual periods beginning on or after July 1, 2011
Amendments to IFRS 7	Disclosures - transfers of financial assets	Effective for annual periods beginning on or after July 1, 2011
Amendments to IAS 12	Deferred taxes - recovery of the underlying assets when an asset is measured using the fair value model in IAS 40	Effective for annual periods beginning on or after January 1, 2012
Amendments to IFRIC 14	Prepayments of minimum funding requirements	Effective for annual periods beginning on or after January 1, 2011

IFRS 9 Financial Instruments (effective beginning January 1, 2013). The publication is part of the improvement project of IASB on the measurement, classification and recognition of financial instruments issued in November 2009 and replaces the part of IAS 39 related to the measurement and classification of financial assets. This standard prescribes the classification of financial assets into two categories: assets measured at fair value and assets at amortized cost, where the classification is determined at the time of recognition of the asset and in accordance with the entity's business model and features of the contracted financial instrument. Due to the features of the financial instruments currently contracted by the Company, no significant effects are expected at the time of adoption of this standard beginning January 1, 2013.

Considering the current operations of the Company and its subsidiaries, management does not expect that the adoption of these new rules, interpretations and changes will have a relevant effect on the financial statements.

The Accounting Pronouncements Committee - CPC has not yet issued the pronouncements and amendments related to the new and revised IFRSs above. Because of the CPC's and the Comissão de Valores Mobiliários - CVM's commitment to keep the set of standards issued updated according to the changes made by the International Accounting Standards Board - IASB, we expect that such pronouncements and amendments be issued by the CPC and approved by the CVM by the date they become effective.

### 3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires Management to use certain significant accounting estimates and judgment in applying the accounting policies.

Accounting estimates and assumptions, reviewed on an ongoing basis, are based on historical experience and other factors, including expectations of future events that are considered to be reasonable in the circumstances. These estimates and assumptions could differ from actual results. The effects of the accounting estimates revisions are recognized in the period in which they occur.

These significant assumptions and accounting estimates are follows:

a) Income tax, social contribution and other taxes

The Company recognizes deferred tax assets and liabilities based on differences between the carrying amount stated in the financial statements and the tax base assets and liabilities using statutory tax rates. The Company reviews regularly deferred tax assets in terms of possible recovery, considering historical profit generated and projected future taxable income, based on a technical feasibility study.

b) Provision for tax, civil and labor contingencies

The Company is a party to several lawsuits and administrative proceedings, as described in note 18. Provisions are recognized for all contingencies arising from lawsuits that represent probable losses and that can be reasonably estimated. The probability assessment includes assessing available evidences, the hierarchy of the laws, available previous decisions, most recent court decisions and their relevance within the legal system, and the assessment of the outside legal counsel. Management believes that these provisions for tax, civil and labor contingencies are fairly presented in the financial statements.

c) Healthcare plan

The current amount of the healthcare plan is contingent to a series of factors

determined based on actuarial calculations that update a series of assumptions, for example, the discount and other rates, which are disclosed in note 24.2. The change in one of these estimates could impact the results presented.

### 4. FINANCIAL RISK MANAGEMENT

#### 4.1. General considerations and policies

The Company and its subsidiaries enter into transactions involving financial instruments, all of which are recorded in balance sheet accounts, for the purpose of reducing its exposure to currency and interest risks, as well as maintaining their investment capacity and growth strategy. The Company contracts short-term investments, loans and financing, as well as derivatives. Risks and the financial instruments are managed through the definition of policies and strategies and implementation of control systems, defined by the Company's Finance Committee and approved by the Board of Directors, which establish foreign exchange exposure limits and allocate funds in financial institutions. The compliance of the treasury area's positions in financial instruments, including derivatives, in relation to these policies, is presented and assessed on a monthly basis by the Finance Committee and subsequently submitted to the analysis of the Audit Committee, the Executive Committee and the Board of Directors.

The treasury area's procedures defined by the current policy include monthly projection and assessment of the Company's consolidated foreign exchange exposure, on which Management's decision-making is based.

The Short-term Investments Policy established by the Company's Management elects the financial institutions with which contracts can be entered into and sets limits for the amounts to be invested in each financial institution.

Almost in their entirety (98.7% on December 31, 2010 and 99.9% on December 31, 2009), foreign-currency denominated loans and financing have been hedged against foreign exchange fluctuations by contracting swap derivatives to hedge the related transactions.

#### 4.2. Financial risk factors

The Group and its subsidiaries' activities expose the companies to several financial risks: market risk (including currency and interest risks), credit risk and liquidity risk. The Company's overall risk management program is focused on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance, using derivatives to protect certain risk exposures.

Risk management is carried out by the Company's central treasury, and policies must be approved by Internal Committees and the Board of Directors. The treasury identifies, assesses and hedges the Company against possible financial risks, mainly arising from interest and foreign exchange rates.

a) Market risk

The Company is exposed to market risks arising from its business activities. These market risks mainly comprise possible changes in exchange and interest rates.

i) Currency risk

Due to different types of trade receivables and financial liabilities assumed by the Company in foreign currencies, an Exchange Rate Hedging Policy was implemented, establishing exposure limits linked to these risks.

The Policy considers foreign currency-denominated amounts from receivables and payables related to commitments already assumed and recorded in the financial statements based on the Company's operations, as well as future cash flows, with average maturity of six-month period, not yet recorded in the balance sheet arising from: (i) purchase of inputs for manufacturing products; (ii) machinery and equipment import; and (iii) investments in foreign subsidiaries in their related currencies.

For exchange rate exposure, the Company and its subsidiaries contract derivative (swaps) and Non Deliverable Forward (NDFs) transactions. The exchange rate hedging policy establishes that the hedge contracted by the Company should limit loss due to exchange rate depreciation related to the net income estimated for the current year considering the expected depreciation of the Reais against the U.S. dollar. This limit defines the ceiling, or maximum exchange rate the Company may be exposed.

As of December 31, 2010 and 2009, the consolidated exchange rate exposure, excluding investments in foreign subsidiaries exposure, is as follows:

	Consolidated	
	2010	2009
Assets position		
Trade accounts receivable (1)	5,239	3,386
Derivative instruments (2)	94,358	186,654
<b>Total assets</b>	<b>99,598</b>	<b>190,040</b>
Liabilities position:		
Loans and financing (3)	(58,675)	(142,649)
Trade accounts payable (4)	(4,964)	(4,409)
<b>Total liabilities</b>	<b>(63,639)</b>	<b>(147,058)</b>
<b>Total exposure</b>	<b>35,959</b>	<b>42,982</b>



(1) Trade accounts receivable: correspond to receivables related to the Company and its Brazilian subsidiaries' exports, excluding the balances of foreign subsidiaries, maintained in their functional currencies.

(2) Derivative instruments: swap and forward outstanding contracts, stated below, with maturities between January 2011 and February 2017, were signed by the counterparts represented by the Banks Bradesco (54%), Brasil (2%), HSBC (6%), ItauBBA (19%) and Citibank (19%) as follows:

Type of operation	Consolidated			
	Notional amount		Assets (liabilities) at fair value	
	2010	2009	2010	2009
Financial Swaps (2.1)	59,817	133,033	(2,830)	(8,430)
Financial Forwards (2.1)	-	187	-	(8)
Operating forwards (2.2)	34,542	53,464	(1,231)	(214)
	<u>94,359</u>	<u>186,684</u>	<u>(4,061)</u>	<u>(8,652)</u>

As of December 31, 2010, the notional amount, totaling R\$94,359 (R\$186,684 as of December 31, 2009) represents the assets of derivative financial instruments contracted to hedge the exposure of Company and its subsidiaries liabilities to foreign exchange risks. The assets (liabilities) balances refer to the net adjustment receivable and payable, respectively, calculated at fair value as of December 31, 2010 and 2009 of outstanding derivatives contracted by the Company and its subsidiaries effective at year-end.

(2.1) For financial exchange rate exposures, generated by trade accounts receivable, accounts payable and loans and financing denominated in foreign currency, the Company and its subsidiaries have contracted swap and forward transactions aiming to mitigate exchange rate risks to which these loans and financing are subject. Swap transactions consist of swapping the exchange rate changes by a percentage of CDI – Interbank Deposit Rate - floating rate. Forward transactions establish a future parity between the Brazilian real and foreign currency based on their equivalence when contracted, adjusted by a fixed interest rate.

(2.2) For operating forwards, which are related to cash flows from future capital increases in foreign subsidiaries, forward transactions are contracted.

(3) Loans and financing: refer to loans and financing payables denominated in foreign currency. As of December 31, 2010, the equivalent amount in U.S. dollar was US\$35,215 million.

(4) Trade accounts payable: refer to payable balances in foreign currency due to trade accounts payable.

As of December 31, 2010 and 2009, the company exchange rate exposure is shown as follows:

	Company	
	2010	2009
<b>Assets position:</b>		
Derivative instruments (1)	86,676	168,505
<b>Total assets</b>	<u>86,676</u>	<u>168,505</u>
<b>Liabilities position:</b>		
Loans and financing (2)	(52,567)	(114,712)
Trade accounts payable (3)	(842)	(497)
<b>Total liabilities</b>	<u>(53,409)</u>	<u>(115,209)</u>
<b>Total exposure</b>	<u>33,267</u>	<u>53,296</u>

(1) Derivative instruments: swap and forward outstanding contracts, stated below, with maturities between January 2011 and July 2014, were signed by the counterparts represented by the Banks Bradesco (57%), Brasil (1%), HSBC (2%), ItauBBA (20%) and Citibank (20%) as follows:

Type of operation	Company			
	Notional amount		Assets (liabilities) at fair value	
	2010	2009	2010	2009
Financial Swaps (1.1)	53,534	94,231	(2,109)	(6,647)
Financial Forwards (1.1)	-	187	-	(8)
Operating forwards (1.2)	34,542	53,464	(1,231)	(214)
	<u>88,076</u>	<u>147,882</u>	<u>(3,340)</u>	<u>(6,869)</u>

As of December 31, 2010, the notional amount, totaling R\$88,076 (R\$147,882 as of December 31, 2009) represents the assets of derivative financial instruments contracted to hedge the exposure of Company and its subsidiaries' liabilities to foreign exchange risks. The assets (liabilities) balances refer to the net adjustment receivable and payable, respectively, calculated at fair value as of December 31, 2010 and 2009 of outstanding derivatives contracted by the Company and its subsidiaries, effective at year-end.

(1.1) For financial exchange rate exposures, generated by loans and financing denominated in foreign currency, the Company and its subsidiaries have contracted swap and forward transactions aiming to mitigate exchange rate risks to which these loans and financing are subject. Swap transactions consist of swapping the exchange rate change by a percentage of changes of CDI floating rate. Forward transactions establish a future parity between

the Brazilian real and foreign currency based on their equivalence when contracted, adjusted by a fixed interest rate.

(1.2) For operating forwards, related to future cash flows, forward transactions are contracted.

(2) Loans and financing: refer to loans and financing payables denominated in foreign currency. As of December 31, 2010, the equivalent amount in U.S. dollar was US\$31,550.

(3) Trade accounts payable: refer to balances payable in foreign currency due to trade accounts payable.

ii) Interest rate risk

As the Company has no significant assets exposed to interest rates, its net income and operating cash flows are not materially impacted by changes in market interest rate.

The Company's interest rate risk arises on short-term investments and short-term and long-term loans and financing. The Company's Management has the policy of maintaining its indices of exposure to asset and liability interest rates linked to floating rates. Short-term investments and loans and financing, except when contracted as long-term interest rate (TJLP), are adjusted by Interbank Deposit Rate - CDI floating rate, pursuant to contracts entered into with financial institutions and by trading securities with stock exchange investors.

The Company contracts swaps to mitigate the risks of loan and financing transactions with indices different from the CDI floating rate.

iii) Sensitivity analysis

Foreign exchange risk

For the sensitivity analysis of financial derivatives, the Company's Management understands it is necessary to take into consideration corresponding liabilities recorded in the balance sheet as linked operations, as follows:

	Consolidated
Total loans and financing in foreign currency	58,675
Notional amounts of financial derivatives	(59,817)
Net exposure	<u>(1,142)</u>

Similarly, the Company considers that part of operating derivatives in the amount of R\$34,542 should not be included in the sensitivity analysis as they were settled on January 3, 2011 to which was recorded a loss of R\$1,231.

Thus, the sensitivity analysis will be applied only to the amount of R\$59,817 as a result of the aforementioned considerations.

Exposure	Company's risk	Scenario Probable	Scenario Possible	Scenario Remote
	Financial	Depreciation of U.S. dollar	23	(286)

The probable scenario reflects BM&FBOVESPA – São Paulo's Stock Exchange quotation as of January 12, 2011 (R\$1.70/US\$). Considering asset exposures in U.S. dollar (risk of depreciation of this currency), the possible scenario takes into consideration a 25% depreciation as of December 31, 2010 (R\$1.25/US\$) and a 50% depreciation (R\$0.83/US\$) for the remote scenario.

	Company
Total loans and financing in foreign currency	52,567
Notional amount of financial derivatives	(53,534)
Net exposure	<u>(967)</u>

Similarly, the Company considers that part of operating derivatives in the amount of R\$34,542 should not be included in the sensitivity analysis as they were settled on January 3, 2011 to which was recorded a loss of R\$1,231.

Thus, the sensitivity analysis will be applied only to the amount of R\$53,534 as a result of the aforementioned considerations

Exposure	Company's risk	Scenario Probable	Scenario Possible	Scenario Remote
	Financial	Depreciation of U.S. dollar	20	(242)

The probable scenario reflects BMF&BOVESPA quotation as of January 12, 2011 (R\$1.70/US\$). Considering asset exposures in U.S. dollar (risk of depreciation of this currency), the possible scenario takes into consideration a 25% depreciation as of December 31, 2010 (R\$1.25/US\$) and a 50% depreciation (R\$0.83/US\$) for the remote scenario.

The Company and its subsidiaries do not use derivatives for speculative purposes.

Interest rate risk

As described in the previous item 2.1., as of December 31, 2010 almost all the foreign currency-denominated loans and financing were hedged by foreign currency fluctuation to CDI fluctuation swaps, in light of the Company's hedging policy, which exposes the Company to CDI fluctuation risks. The table below presents the interest rate exposure of transactions linked to the variation of CDI and TJLP ("Long Term Interest Rate"):

	<u>Company</u>	<u>Consolidated</u>
Total loans and financing	(428,442)	(569,073)
Short-term investments	196,437	521,915
Net exposure	<u>(232,005)</u>	<u>(47,158)</u>

Concerning the net exposure of loans and financing linked to the interest rates CDI and TJLP, from which the Company has deducted the balances of short-term investments, also linked to CDI (note 5), the Company's Management understands that, in view of the low risk of major fluctuations in CDI in 2010 because of the stability policy implemented by the Federal Government and the history of increases of the basic interest rate of the Brazilian economy in recent years, the sensitivity analysis of the risk of increase in CDI and TJLP that would impact the Company's financial expenses should consider a maximum increase of 25% in CDI (representing an increase of approximately 2.5 percentage points), which should impact financial expenses by approximately R\$1,179.

#### b) Credit risk

Credit risk refers to the risk that the counterparty will not fulfill its contractual obligations, which may cause financial losses to the Group. Company's sales are made to a great number of Beauty Consultants and this risk is managed through a strict credit granting process. The result of this management is reflected in "Allowance for doubtful accounts", as explained in note 6.

The Group is also subject to credit risks related to financial instruments contracted for the management of its business.

The Company believes that credit risk in operations that it holds with financial institutions is low, as these are considered by the market as prime banks.

#### c) Liquidity risk

Effectively managing liquidity risk implies to maintain enough cash and marketable securities, funds available through credit facilities used and the ability to settle market positions.

Management monitors the Company's consolidated liquidity level considering the expected cash flow against unused credit facilities.

#### d) Financial liabilities

Carrying amounts of consolidated financial liabilities measured at amortized cost and its corresponding maturities are as follows:

Consolidated	Less than one year	Between one and two years	Between three and five years	More than five years	Fair value 2010	Discount effect	Carrying amount 2010
<b>As of December 31, 2010</b>							
Current assets:							
Loans and financing	226,595	-	-	-	226,595	-	226,595
Trade accounts payable	331,909	-	-	-	331,909	-	331,909
Noncurrent:							
Loans and financing	-	39,425	421,403	4,240	465,068	-	465,068

#### 4.3, Capital management

The Group's intention in managing its capital is to safeguard its capacity to continuously provide return to the Company's shareholders and benefits to other stakeholders and to maintain an ideal capital structure to reduce this cost. As other companies in its industry, the Company monitors its capital based on financial leverage indices. This index corresponds to the net debt divided by total equity. The net debt corresponds to total loans (including short- and long-term loans, as shown in the consolidated balance sheet), deducted from cash and cash equivalents.

The financial leverage indices as of December 31, 2010 and 2009 can be summarized as follows:

	Company		Consolidated	
	2010	2009	2010	2009
Short- and long-term loans and financing	428,442	495,297	691,663	704,358
(-) Cash and cash equivalents	<u>(206,125)</u>	<u>(254,463)</u>	<u>(560,229)</u>	<u>(500,294)</u>
Net debt	<u>222,317</u>	<u>240,834</u>	<u>131,434</u>	<u>204,064</u>
Shareholders' equity	<u>1,257,501</u>	<u>1,139,821</u>	<u>1,257,501</u>	<u>1,139,821</u>
Financial leverage index	<u>17,7%</u>	<u>21,1%</u>	<u>10,5%</u>	<u>17,9%</u>

#### 4.4 Financial derivatives

Regarding swap and forward transactions outstanding as of December 31, 2010 and 2009, gains and losses at fair value, are as follows:

	Company		Consolidated	
	2010	2009	2010	2009
Gains (losses) on changes in fair values on swap and forward transactions				
Financial "Swaps"	(2,109)	(6,647)	(2,830)	(8,430)
Financial "Forwards"	-	(8)	-	(8)
Operating forwards	<u>(1,231)</u>	<u>(214)</u>	<u>(1,231)</u>	<u>(214)</u>
	<u>(3,340)</u>	<u>(6,869)</u>	<u>(4,061)</u>	<u>(8,652)</u>

#### a) Details on derivative transactions

##### i) Financial derivatives

Information on financial derivatives as of December 31, 2010 and 2009, contracted by the Company and its subsidiaries, arising from loans and financing denominated in foreign currency, is as follows:

Company Description	Notional amount		Fair value		Accumulated effect through December 31, 2010 - at fair value
	2010	2009	2010	2009	
Swap contracts:					
Asset position:					
Long position - U.S. dollar	53,534	4,231	52,121	2,997	(2,109)
Long position - yen	-	90,000	-	111,192	-
	<u>53,534</u>	<u>94,231</u>	<u>52,121</u>	<u>114,189</u>	<u>(2,109)</u>
Liability position:					
CDI floating rate:					
Long position - U.S. dollar	53,534	4,231	54,231	4,027	-
Long position - yen	-	90,000	-	116,809	-
	<u>53,534</u>	<u>94,231</u>	<u>54,231</u>	<u>120,836</u>	-
Forward contracts:					
Long position - U.S. dollar	-	187	-	192	-
Liability position:					
Fixed rate	-	187	-	200	-

<u>Consolidated</u> Description	<u>Notional amount</u>		<u>Fair value</u>		<u>Accumulated effect through December 31, 2010 - at fair value</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Swap contracts- Asset position:					
Long position - U.S. dollar	59,817	43,003	57,367	28,138	(2,830)
Long position - yen	-	90,000	-	111,192	-
	<u>59,817</u>	<u>133,003</u>	<u>57,367</u>	<u>139,330</u>	<u>(2,830)</u>
Liability position- CDI floating rate:					
Long position - U.S. dollar	59,817	43,003	60,197	30,951	-
Long position - yen	-	90,000	-	116,809	-
	<u>59,817</u>	<u>133,003</u>	<u>60,197</u>	<u>147,760</u>	<u>-</u>
Forward contracts- Long position - U.S. dollar	-	187	-	192	-
Liability position- Fixed rate	-	187	-	200	-

ii) Operating derivatives

Information on operating derivatives as of December 31, 2010 and 2009, contracted by the Company and its subsidiaries for hedging the exposure arising from future cash flows, is as follows:

<u>Company and Consolidated</u> Description	<u>Notional amount</u>		<u>Fair value</u>		<u>Accumulated effect through December 31, 2010 - at fair value</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Forward contracts:					
Long position - U.S. dollar	34,542	53,464	34,555	54,124	(1,231)
	<u>34,542</u>	<u>53,464</u>	<u>34,555</u>	<u>54,124</u>	<u>(1,231)</u>
Liability position- Fixed rate:					
Long position - U.S. dollar	34,542	53,464	35,786	54,338	-
	<u>34,542</u>	<u>53,464</u>	<u>35,786</u>	<u>54,338</u>	<u>-</u>

For derivatives maintained by the Company as of December 31, 2010, due to the fact contracts are directly entered into with the financial institutions and not through a Mercantile and Futures Exchange, there are no margins deposited as guarantee of the related operations.

4.5. Fair value estimate

The fair value of financial instruments not traded in active markets (for example, over-the-counter derivatives) is determined using valuation techniques. The Company uses several methods and sets assumptions that are based on existing market conditions at the balance sheet date. The fair value of forward exchange contracts is determined based on forwards exchange rates quoted at the balance sheet date.

The amounts of trade receivables and trade payables recognized at their carrying amounts approximate their fair value in view of the short term of the transactions conducted.

The Company and its subsidiaries use hierarchy rules to measure the fair value of its financial instruments, as set out in CPC 40 - Financial Instruments: Disclosure, for financial instruments measured in the balance sheet, which requires the disclosure of fair value measurements at the following hierarchy level:

- Prices quoted (unadjusted) in active markets for identical assets and liabilities (Level 1).
- In addition to the quoted prices, included in Level 1, inputs used by the market for assets or liabilities, whether directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2).
- Inputs for assets or liabilities that are not based on the data adopted by the market (i.e., unobservable inputs) (Level 3).

The table below shows the consolidated assets and liabilities measured at fair value as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
Financial assets at fair value				
- Derivatives	-	90,298	-	90,298
Total assets	<u>-</u>	<u>90,298</u>	<u>-</u>	<u>90,298</u>

The fair value of the financial instruments traded in active markets (such as held-for-trading and available-for-sale securities) is based on market prices at the balance sheet date. A market is considered active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for the financial assets held by the Group is the price of current competitors. These instruments are included in Level 1.

The fair value of financial instruments not traded in active markets (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques make maximum use of market inputs, where available and rely as little as possible on entity specific inputs. If all material inputs required for the fair value measurement of an instrument are adopted by the market, the instrument is included in Level 2.

If one or more than one material inputs are not based on market inputs, the instrument is included in Level 3.

Under Level 2 rules, specific valuation techniques used to measure financial instruments include:

- Quoted market prices or quotations of financial institutions or brokers for similar instruments.
- The fair value of interest rate swaps is measured as the present value of future cash flows estimated based on the yield curves adopted by the market.
- The fair value of foreign exchange futures contracts is determined using future exchange rates at the balance sheet date, using the amount resulting from the discount to present value.

• Other techniques, such as the analysis of discounted cash flows, are used to determine the fair value of the remaining financial instruments.

The Group does not have financial instruments measured at fair value under Level 3 for the year ended December 31, 2010.

Fair value of financial instruments stated at amortized cost

#### Short-term investments

The amounts of short-term investments recorded in the financial statements approximate their realizable values as they refer to floating rate transactions and are highly liquid.

#### Loans and financing

The amounts of loans and financing recorded in the financial statements, except loans and financing indexed to TJLP, approximate their collectible amounts as they are indexed to CDI fluctuation.

Financing indexed to TJLP approximates the collectible amount recorded in the financial statements as TJLP is also correlated to CDI and is a floating rate.

#### Trade accounts receivable and trade accounts payable

Additionally, the amounts of trade accounts receivable and trade accounts payable recognized at their carrying amounts approximate their fair value in view of the short term of the transactions conducted.

## 5. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	2010	2009	2010	2009
Cash and banks	9,688	12,010	38,314	61,242
Bank certificates of deposit (CDB) - floating rate	196,437	242,453	528,070	444,821
	<u>206,125</u>	<u>254,463</u>	<u>566,384</u>	<u>506,063</u>
Current	206,125	254,463	560,229	500,294
Noncurrent - short-term investments (note 17.(c) - tax contingencies)	-	-	6,155	5,769
	<u>206,125</u>	<u>254,463</u>	<u>566,384</u>	<u>506,063</u>

As of December 31, 2010, CDBs carry interest at rates ranging from 100.0% to 101.5% (100.0% to 103.1% as of December 31, 2009) of the Interbank Deposit Rate (CDI).

CDBs are classified by Management of the Company and its subsidiaries as "Cash and cash equivalents" as they are considered financial assets that may be redeemed immediately and subject to insignificant risk of changes in its value.

## 6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	2010	2009	2010	2009
Trade accounts receivable	550,355	462,303	635,944	509,383
Allowance for doubtful accounts	(56,663)	(47,658)	(65,664)	(56,515)
	<u>493,692</u>	<u>414,645</u>	<u>570,280</u>	<u>452,868</u>

The aging list of trade accounts receivable is as follows:

	Company		Consolidated	
	2010	2009	2010	2009
Current	432,703	355,402	492,947	402,482
Up to 30 days past due	79,136	73,330	93,967	73,330
31 to 60 days past due	10,897	9,757	16,777	9,757
61 to 90 days past due	8,072	6,655	9,406	6,655
91 to 180 days past due	19,547	17,159	22,847	17,159
	<u>550,355</u>	<u>462,303</u>	<u>635,944</u>	<u>509,383</u>

The balance of trade accounts receivable in consolidated is basically denominated in Brazilian reais, and approximately 91% of the outstanding balance as of December 31, 2010 refers to real-denominated transactions (95% as of December 31, 2009). The remaining balance is denominated in several currencies and refers to sales of foreign subsidiaries.

The changes in the allowance for doubtful accounts for the year ended December 31, 2010 are as follows:

Company			
Balance at 2009	Additions (a)	Reversals (b)	Balance at 2010
<u>(47,658)</u>	<u>(92,417)</u>	<u>83,412</u>	<u>(56,663)</u>
Consolidated			
Balance at 2009	Additions (a)	Reversals (b)	Balance at 2010
<u>(56,515)</u>	<u>(99,679)</u>	<u>90,530</u>	<u>(65,664)</u>

(a) Allowance recognized according to note 2.7.

(b) Refers to accounts that are over 180 days past due, which were written off due to uncollectible amounts and due to receipts of balances that were previously written off.

The expense on the recognition of the allowance for doubtful accounts was recorded in "Selling expenses" in the statement of income. When recovery of additional cash is less than probable, the amounts debited from the allowance for doubtful accounts are reversed against the definite write-off of the receivable against income.

Maximum exposure to credit risk at the reporting date is the carrying amount of each aging range, as shown in the aging list above. The Company and its subsidiaries do not have any guarantee for past-due receivables.

## 7. INVENTORIES

	Company		Consolidated	
	2010	2009	2010	2009
Finished products	181,188	95,202	465,027	397,783
Raw materials and packaging	-	-	127,305	126,479
Promotional material	14,383	5,634	37,576	16,503
Work in process	-	-	17,290	14,327
Allowance for losses	<u>(10,479)</u>	<u>(6,498)</u>	<u>(75,673)</u>	<u>(45,541)</u>
	<u>185,092</u>	<u>94,338</u>	<u>571,525</u>	<u>509,551</u>

The increase recorded in the finished product balance in 2010 is chiefly due to the expansion of the logistics capacity of the Company's several distribution centers, as well as the resizing of the production capacity of subsidiary Indústria e Comércio de Cosméticos Natura Ltda., based on demand planning in order to monitor the growth of the Company's operations observed in recent years and also in 2010, as well as the decline in the indices of failure to meet point-of-sale orders.

The changes in the allowance for inventory losses for the year ended December 31, 2010 are as follows:

Company			
Balance at 2009	Additions (a)	Reversals (b)	Balance at 2010
<u>(6,498)</u>	<u>(14,880)</u>	<u>10,899</u>	<u>(10,479)</u>
Consolidated			
Balance at 2009	Additions (a)	Reversals (b)	Balance at 2010
<u>(45,541)</u>	<u>(159,227)</u>	<u>129,095</u>	<u>(75,673)</u>

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

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

## 8. RECOVERABLE TAXES

	Company		Consolidated	
	2010	2009	2010	2009
ICMS on purchases of goods	-	-	97,888	68,556
Refundable ICMS - ST on interstate sales - RS	3,022	20,967	3,022	20,967
Refundable ICMS - ST on interstate sales - SP (a)	7,120	89,767	7,120	89,767
ICMS (state VAT) - ST (reverse charge) - Santa Catarina State	-	3,335	-	3,335
Refundable ICMS - ST - voluntary reporting proceeding - SP (b)	-	-	16,421	15,200
Taxes - foreign subsidiaries	-	-	21,567	17,070
ICMS on purchases of fixed assets	6,825	3,836	16,136	11,891
COFINS on purchases of fixed assets	-	-	9,589	10,983
PIS on purchases of fixed assets	-	-	2,237	2,562
PIS and COFINS on purchase of goods	19,743	8,448	20,025	8,448
IRPJ (withholding income tax) and CSLL (social contribution tax)	10	-	1,746	2,176
PIS/COFINS/CSLL - withheld at source	-	-	5,574	3,436
Other	3,000	1,104	12,282	3,149
(-) Provision for discount on sale of ICMS credits	-	-	(2,879)	(2,414)
	<u>39,720</u>	<u>127,457</u>	<u>210,728</u>	<u>255,126</u>
Current	34,799	93,760	101,464	191,195
Noncurrent	<u>4,921</u>	<u>33,697</u>	<u>109,264</u>	<u>63,931</u>

(a) Refers to the State Reverse Charge System VAT (ICMS - ST) amount that has been separately disclosed and withheld on a monthly basis on the Company's and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda.'s products sold and shipped to customers located in the Federal District and States other than the São Paulo State, pursuant to São Paulo State tax legislation in effect since February 2008.

Under the Special Regime granted to the Company by São Paulo State Department of Finance (SeFaz - SP) in January 2009, when determining monthly Company's ICMS, since February 2008, it was allowed to offset an amount equivalent to 75% of the ICMS - ST, arising from subsequent transactions not carried out in the State of São Paulo. The remaining recoverable ICMS - ST balance, equivalent to 25%, was utilized by the Company after an administrative inspection by tax authorities.

This Special Regime is suspended since April 2009 so that the Company files with tax authorities its accessory obligations in the format required by the Special Regime and Tax Administration Coordinator (CAT) Administrative Rule 17/99 and was rectified during the second half of 2010, once the Company had complied with all the requirements related to the documentation requested by tax authorities.

The amounts related to the 25% of the credits of ICMS - ST that were recorded previously in noncurrent assets were reclassified to current assets for the quarter ended September 30, 2010 due to a special regime called "Fast Track" that was approved by SeFaz, which allows the Company to offset the credits as of the date of the financial statements through a bank guarantee in the minimum amount of the credits that were offset through the date of the financial statements.

As of December 31, 2010 the Company has offset the amount of R\$76.9 million which was supported by a bank guarantee.

The tax credits recorded under the self-assessment process, totaling R\$16,953 as of December 31, 2009, were offset in the first half of 2010 based on authorization granted by tax authorities, as the Company amended its tax books for the period from February to May 2008.

(b) On September 24, 2008, the Tax Administration Coordinator of the SeFaz - SP accepted the voluntary reporting request filed by the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. where, after internal verifications made by its management, this company evidenced undue withholdings of ICMS - ST in the period February-May 2008 due to a different interpretation of the provisions of article 264, IV, 313-E and 313-G of ICMS Regulation (RICMS/2000). The said voluntary reporting request is also intended to clarify

and permit the application of the procedures necessary to regularize the transactions carried out by this subsidiary during the referred period. As a result of this regularization, ICMS - ST credits were calculated at R\$16,421 as of December 31, 2010 and R\$15,200 as of December 31, 2009.

The credit will be offset by the subsidiary after verification by tax authorities; however, based on the subsidiary's legal counsel's and management's assessment, the risk of not offsetting the amounts recognized as of December 31, 2010 is remote.

## 9. INCOME TAX AND SOCIAL CONTRIBUTION

### a) Deferred

Deferred income tax (IRPJ) and social contribution (CSLL) result from Company and its subsidiaries' temporary differences. These credits are recorded in noncurrent assets, in accordance with CPC 26. The amounts are as follows:

	Company		Consolidated	
	2010	2009	2010	2009
<u>Temporary differences</u>				
Allowance for doubtful accounts (note 6))	19,266	16,204	19,266	16,204
Allowance for losses on inventories realization (note 7)	3,563	2,209	21,725	12,591
Reserve for tax, civil and labor contingencies (note 18)	18,884	20,224	40,375	38,940
Non-inclusion of ICMS in the PIS and COFINS basis (note 17)	573	534	28,869	19,668
Actuarial liability - healthcare plan (note 24.2.)	4,462	811	6,702	3,176
Allowance for losses on swap and forward contracts (note 25)	1,136	2,335	1,381	2,941
Provision for ICMS - ST - Paraná State, Federal District and Mato Grosso do Sul (note 17)	13,672	10,970	13,672	10,970
Allowances for losses on advances to suppliers	3,879	4,483	4,432	4,997
Accrued contractual obligations	1,947	733	2,777	1,419
Provision for Profit sharing	-	1,761	-	4,139
Provision for discount on assignment of ICMS credits	-	-	979	821
Accrued benefits sharing and partnerships	6,874	4,553	6,874	4,553
Provision for international operations	-	-	6,562	4,420
Other temporary differences	<u>13,235</u>	<u>18,135</u>	<u>26,645</u>	<u>21,307</u>
	<u>87,491</u>	<u>82,952</u>	<u>180,259</u>	<u>146,146</u>

Changes in deferred income tax and social contribution assets in Company for the annual reporting periods are stated as follows:

Company	(Charged) credited to the statement of income		
	2009	2010	2010
Temporary differences			
Allowance for doubtful accounts	16,204	3,062	19,266
Allowance for losses on inventories realization	2,209	1,354	3,563
Reserve for tax, civil and labor contingencies	20,224	(1,340)	18,884
Non-inclusion of ICMS in the PIS and COFINS basis	534	39	573
Allowance for losses on swap and forward contracts	2,335	(1,199)	1,136
Provision for ICMS - ST - Paraná State, Federal District and Mato Grosso do Sul State	10,970	2,702	13,672
Allowances for losses on advances to suppliers	4,483	(604)	3,879
Accrued benefits sharing and partnerships	4,553	2,321	6,874
Actuarial liability - healthcare plan	811	3,651	4,462
Accrued contractual obligations	733	1,214	1,947
Provision for Profit sharing	1,761	(1,761)	-
Other temporary differences	18,135	(4,900)	13,235
	<u>82,952</u>	<u>4,539</u>	<u>87,491</u>

Changes in deferred income tax and social contribution assets on a consolidated basis for the years presented are stated as follows:

Consolidated	(Charged) credited to the statement of income		
	2009	2010	2010
Temporary differences			
Allowance for doubtful accounts	16,204	3,062	19,266
Allowance for losses on inventories realization	12,591	9,134	21,725
Reserve for tax, civil and labor contingencies	38,940	1,435	40,375
Non-inclusion of ICMS in the PIS and COFINS basis	19,668	9,201	28,869
Allowance for losses on swap and forward contracts	2,941	(1,560)	1,381
Provision for ICMS - ST - Paraná State, Federal District and Mato Grosso do Sul State	10,970	2,702	13,672
Allowances for losses on advances to suppliers	4,997	(565)	4,432
Accrued benefits sharing and partnerships	4,553	2,321	6,874
Temporary differences of international operations	4,420	2,142	6,562
Actuarial liability - healthcare plan	3,176	3,526	6,702
Accrued contractual obligations	1,419	1,358	2,777
Provision for Profit sharing	4,139	(4,139)	-
Provision for discount on assignment of ICMS credits	821	158	979
Other temporary differences	21,307	5,338	26,645
	<u>146,146</u>	<u>34,113</u>	<u>180,259</u>

Management, based on projections of future taxable income, estimates that the recorded tax credits will be fully realized within five years.

The amounts recorded as deferred income tax and social contribution will be realized as follows:

	Company Consolidated	
	2010	2010
2011	45,607	86,263
2012	10,254	11,977
2013	5,416	36,993
2014 and thereafter	26,214	45,026
	<u>87,491</u>	<u>180,259</u>

In addition, as of December 31, 2010, the Company had unrecognized tax loss carryforwards and temporary differences from foreign subsidiaries not recorded in the financial statements of the foreign subsidiaries due to the lack of a history of taxable income and taxable income projections for coming years, as shown below.

Tax credits, calculated at the prevailing tax rates in the related countries where the subsidiaries are located, are stated as follows:

Total temporary differences	
Tax loss carryforwards:	
Argentina	13,594
Chile	75,926
Mexico	79,156
Colombia	48,072
France	45,761

The tax credits on tax loss carryforwards generated by the subsidiaries do not have an expiry date for offset, except for the subsidiaries in Argentina and Mexico, which expire as follows:

	Argentina	Mexico
	2011	3,203
2012	2,944	-
2013	4,390	-
2014	-	11
2015	2,518	6,869
2016 and thereafter	539	72,276
	<u>13,594</u>	<u>79,156</u>

#### a) Reconciliation of income tax and social contribution

	Company		Consolidated	
	2010	2009	2010	2009
Income before income tax and social contribution	1,053,122	812,719	1,118,169	874,154
Income tax and social contribution at the rate of 34%	(358,062)	(276,324)	(380,178)	(297,212)
Technological research and innovation benefit - Law 11196/05 (*)	19,035	9,956	19,035	9,956
Tax incentives - donations	5,820	2,868	8,296	5,278
Equity in subsidiaries (note 12)	8,760	(962)	-	-
Unrecognized deferred taxes on tax losses generated by foreign subsidiaries or	-	-	(31,459)	(37,739)
Interest on capital tax benefit	18,242	28,048	18,242	28,048
Other adjustments due to Law 11638/07 and Provisional Act 449/08	649	(1,037)	(1,623)	(2,035)
Write-off of goodwill - liquidation of Flora Medicinal	8,332	-	8,332	-
Tax utilization of goodwill (note 14)	-	108,189	-	108,189
Other permanent differences	(11,849)	467	(14,765)	(4,715)
Income tax and social contribution expenses	(309,073)	(128,795)	(374,120)	(190,230)
Income tax and social contribution - current	(313,612)	(144,403)	(408,233)	(224,457)
Income tax and social contribution - deferred	4,539	15,608	34,113	34,227
Effective rate - %	<u>29.3</u>	<u>15.8</u>	<u>33.5</u>	<u>21.8</u>

(\*) Refers to the tax benefit established by Law 11196/05, which allows for the direct deduction from the calculation of taxable income and the social contribution tax basis of the amount corresponding to 60% of the total expenses on technological research and innovation, observing the rules established in said Law.

#### 10. ESCROW DEPOSITS

Represent Group's restricted assets related to amounts deposited and held

by the courts until the litigation to which they are linked is resolved.  
The Company and its subsidiaries' escrow deposits as of December 31, 2010 and December 31, 2009 are as follows:

	Company		Consolidated	
	2010	2009	2010	2009
ICMS - ST (*) - unaccrued (note 18 (a))	53,809	29,162	53,809	29,162
ICMS - ST suspended collection (*) (note 17.(b))	167,019	110,640	167,019	110,640
Other accrued tax obligations (note 17.(d) and (g))	2,893	2,743	42,297	39,640
Unaccrued tax lawsuits	41,102	25,581	46,460	29,103
Accrued tax lawsuits (note 18))	15,263	14,296	16,563	15,721
Unaccrued civil lawsuits	938	313	1,343	636
Accrued civil lawsuits (note 18)	1,874	231	1,976	1,878
Unaccrued labor lawsuits	4,410	2,994	5,130	3,381
Accrued labor lawsuits (note 18)	1,762	1,696	2,410	2,193
	<u>289,070</u>	<u>187,656</u>	<u>337,007</u>	<u>232,354</u>

(\*) Refers to the ICMS - ST declaratory action filed by Paraná State, the Federal District and Mato Grosso do Sul State, as discussed in notes 17.(b) and 18 - "Contingent tax liabilities - possible risk", item (a).

## II. OTHER NONCURRENT ASSETS

	Company		Consolidated	
	2010	2009	2010	2009
Advances to advertisement services	20,052	-	20,997	1,660
Asset held for sale	-	-	17,752	-
Advance for future capital increase	-	90	-	-
Restricted cash - CDBs (*) (note 18.(f) - "Tax risks")	-	-	6,155	5,769
	<u>20,052</u>	<u>90</u>	<u>44,904</u>	<u>7,429</u>

(\*) Refers to amounts pledged as collateral by restricted temporary investments of the subsidiary Natura Inovação e Tecnologia de Produtos Ltda., related to the court collection of Federal VAT (IPI) for July 1989, when wholesale units were held equivalent to manufacturing establishments by Law 7798/89.

## 12. INVESTMENTS

	Company	
	2010	2009
Investments in subsidiaries	<u>1,099,188</u>	<u>1,000,600</u>

## Information on and changes for period ended December 31, 2010

	Indústria e Comércio de Cosméticos Natura Ltda.	Natura Cosméticos S.A. - Chile	Natura Cosméticos S.A. - Peru	Natura Cosméticos S.A. - Argentina	Natura Cosméticos C.A. - Venezuela	Flora Medicinal J. Monteiro da Silva Ltda.	Natura Inovação e Tecnologia de Produtos de México S.A. Ltda.	Natura Cosméticos de México S.A. (*)	Natura Cosméticos Ltda. - Colombia	Natura (Brazil) B.V. - Holanda (*)	Natura Cosméticos España S.L.	Total
Capital	526,155	99,175	5,116	96,143	5,872	-	5,008	126,550	41,782	66,744	9	972,554
Interest - %	99.99%	99.99%	99.94%	99.97%	99.99%	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%	-
Subsidiary's shareholders' equity (deficit)	947,995	23,249	(892)	56,919	273	(514)	45,026	26,953	8,783	8,207	83	1,116,082
Interest in shareholders' equity	947,900	23,247	(891)	56,902	273	(514)	45,021	26,950	8,782	8,207	83	1,115,960
Subsidiaries net income (loss) for the year of subsidiaries, net of translation effects	105,630	(5,827)	(2,613)	(11,381)	(629)	(514)	12,575	(27,811)	(17,552)	(26,116)	-	25,762
Carrying amount of investments												
Balances as of December 31, 2009	836,851	24,074	3,769	30,908	511	-	61,713	25,315	6,535	10,864	60	1,000,600
Equity in subsidiaries	105,625	(5,827)	(2,612)	(11,378)	(629)	-	12,575	(27,808)	(17,550)	(26,120)	-	26,276
Exchange rate change and other adjustments in the translation of investments in foreign subsidiaries	-	1,907	(2,048)	(3,699)	215	-	(428)	(666)	(240)	486	-	(4,473)
Company's contribution to the stock options plan of subsidiaries' executives and other reserves	5,513	-	-	-	-	-	1,161	-	-	-	-	6,674
Reclassification of profits on inventories not eliminated	(17,375)	-	-	-	-	-	-	-	-	-	-	(17,375)
Earnings distribution	-	-	-	-	-	-	(30,000)	-	-	-	-	(30,000)
Capital increases	-	3,092	-	41,071	176	-	-	30,109	20,037	22,978	23	117,486
Balances as of December 31, 2010	<u>930,614</u>	<u>23,246</u>	<u>(891)</u>	<u>56,902</u>	<u>273</u>	<u>-</u>	<u>45,021</u>	<u>26,950</u>	<u>8,782</u>	<u>8,208</u>	<u>83</u>	<u>1,099,188</u>
Allowance for losses												
Balances as of December 31, 2009	-	-	-	-	-	(564)	-	-	-	-	-	(564)
Merger of advance for future capital increase (AFAC)	-	-	-	-	-	120	-	-	-	-	-	120
Allowance for losses	-	-	-	-	-	(514)	-	-	-	-	-	(514)
Merger of Flora Medicinal	-	-	-	-	-	958	-	-	-	-	-	958
Balances as of December 31, 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(\*) Consolidated information of the following companies:

Natura Cosméticos - Mexico: Natura Cosméticos y Servicios de Mexico, S.A. de C.V.; Natura Cosméticos de Mexico, S.A. de C.V.; and Natura Distribuidora de Mexico, S.A. de C.V.

Natura Europa SAS: Natura (Brazil) International B.V. (The Netherlands), Natura Brasil Inc. (USA - Delaware), Natura International Inc. (USA - New York), Natura International Inc. (USA - Nevada), Natura Worldwide Trading Company (Costa Rica), Natura Europa SAS (France) and Natura Brasil SAS (France).

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

<u>PROPERTY, PLANT AND EQUIPMENT</u>	Weighted average annual depreciation rate - %	Company					
		2010			2009		
		Adjusted cost	Accumulated depreciation	Net book value	Adjusted cost	Accumulated depreciation	Net book value
Vehicles	21	34,234	(14,491)	19,743	31,358	(13,259)	18,099
Leasehold improvements (b)	15	23,486	(9,053)	14,433	19,246	(5,627)	13,619
Machinery and equipment	4	27,668	(3,018)	24,650	13,478	(2,039)	11,439
Furniture and fixtures	7	6,264	(2,584)	3,680	5,676	(2,479)	3,197
IT equipment	18	6,614	(3,803)	2,811	6,507	(4,337)	2,170
Projects in progress	-	11,699	-	11,699	1,212	-	1,212
Advances to suppliers	-	15,159	-	15,159	639	-	639
		<u>125,124</u>	<u>(32,949)</u>	<u>92,175</u>	<u>78,116</u>	<u>(27,741)</u>	<u>50,375</u>

<u>INTANGIBLE ASSETS</u>	Weighted average annual amortization rate - %	Company					
		2010			2009		
		Adjusted cost	Accumulated amortization	Net book value	Adjusted cost	Accumulated amortization	Net book value
Software	17	29,190	(10,604)	18,586	19,441	(7,914)	11,527

<u>PROPERTY, PLANT AND EQUIPMENT</u>	Weighted average annual depreciation rate - %	Consolidated					
		2010			2009		
		Adjusted cost	Accumulated depreciation	Net book value	Adjusted cost	Accumulated depreciation	Net book value
Machinery and equipment	6	308,262	(124,315)	183,947	278,805	(122,623)	156,182
Buildings	4	151,161	(54,305)	96,856	151,142	(48,210)	102,932
Installations	9	120,440	(65,066)	55,374	110,476	(59,339)	51,137
Land	-	27,180	-	27,180	33,662	-	33,662
Molds	30	105,362	(79,921)	25,441	85,698	(68,283)	17,415
Vehicles	21	56,361	(21,181)	35,180	48,312	(18,581)	29,731
IT equipment	19	75,749	(45,969)	29,780	65,469	(44,714)	20,755
Furniture and fixtures	11	27,164	(11,926)	15,238	27,732	(12,557)	15,175
Leasehold improvements (b)	15	44,273	(18,725)	25,548	36,106	(14,363)	21,743
Projects in progress	-	35,489	-	35,489	16,269	-	16,269
Advances to suppliers	-	28,648	-	28,648	25,213	-	25,213
Other	3	3,897	(2,111)	1,786	6,660	(4,618)	2,042
		<u>983,986</u>	<u>(423,519)</u>	<u>560,467</u>	<u>885,544</u>	<u>(393,288)</u>	<u>492,256</u>

<u>INTANGIBLE ASSETS</u>	Weighted average annual amortization rate - %	Consolidated					
		2010			2009		
		Adjusted cost	Accumulated amortization	Net book value	Adjusted cost	Accumulated amortization	Net book value
Business lease - Natura Europa SAS - France (a)	-	4,629	-	4,629	5,250	-	5,250
Software	18	188,660	(73,376)	115,284	131,429	(54,546)	76,883
Trademarks and patents	10	1,573	(1,413)	160	1,951	(1,344)	607
		<u>194,862</u>	<u>(74,789)</u>	<u>120,073</u>	<u>138,630</u>	<u>(55,890)</u>	<u>82,740</u>

(a) The business lease generated on the purchase of a commercial location where Natura Europa SAS - France operates is supported by an appraisal report issued by independent appraisers, attributable to the fact that it is an intangible, marketable asset, which does not suffer any decrease in value over time. The change in the balance between December 31, 2010 and December 31, 2009 is basically due to the effects of the exchange variation for the period.

(b) The depreciation rates consider the terms of the property lease agreements.

The Company conducted an analysis of the useful economic life of the remaining property, plant and equipment items and intangible assets, with

effects being recorded beginning January 1, 2010. As a result of the review of the accounting estimate, which was intended to realign the remaining useful life of assets, and, consequently, the depreciation over the remaining life of assets, a positive impact was recorded in depreciation for year of 2010, compared to the prior period, in the amount of R\$14,634.

#### Additional information on property, plant and equipment

a) Assets pledged as collateral

As of December 31, 2010, the Company and its subsidiaries have property, plant and equipment items pledged as collateral in bank financing and loan transactions, as well as items attached to the defense of lawsuits, as shown below:



<u>Company</u>	<u>Consolidated</u>	
Machinery and equipment	3,171	3,171
Land	-	700
IT equipment	3,506	4,092
Vehicles	4,730	7,730
Balances at end of year	<u>11,407</u>	<u>15,693</u>

b) Expenses on operating leases

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Leases	<u>1,217</u>	<u>1,217</u>	<u>6,539</u>	<u>8,960</u>

c) Balance of capitalized interest

	<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>
Buildings	<u>1,479</u>	<u>1,531</u>

#### 14. INTANGIBLE ASSETS - GOODWILL ON INVESTMENTS

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

The amounts are as follows:

	<u>Company</u>	
	<u>2010</u>	<u>2009</u>
Goodwill on investments	318,203	318,203
Provision for maintenance of future dividend payment capacity	<u>(318,203)</u>	<u>(318,203)</u>

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.

As mentioned in note 3, considering the changes in accounting practices introduced by Law 11638/07 and Provisional Act 449/08, converted into Law 11941/09, since January 1, 2009 the existing goodwill balance as of December 31, 2008 has no longer been amortized, and the provision for future dividends, covering the full dividend amount, has no longer been reversed. Accordingly, as of January 1, 2009, the goodwill tax benefit has been used in monthly calculations of income tax and social contribution based on the Transitional Tax Regime (RTT), in accordance with the provisions of Provisional Act 449/08 and the effects mentioned in note 9.b).

Consolidated amortization expenses of intangible assets estimated for the next years

	<u>Company</u>	<u>Consolidated</u>
2011	2,690	19,436
2012	2,690	19,436
2013	2,690	19,436
2014 and thereafter	<u>10,516</u>	<u>61,765</u>
	<u>18,586</u>	<u>120,073</u>

Changes in property, plant and equipment

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balances at the beginning of the year	50,75	37,865	492,256	477,661
Additions (less transfers from projects in progress - when terminated):				
Machinery and equipment	8,884	5,061	29,669	21,468
Projects in progress/advances to suppliers	32,389	7,787	84,555	49,058

Vehicles	13,498	11,094	24,193	18,099
Molds	-	-	16,986	8,787
Facilities	-	-	7,208	3,414
IT equipment	769	980	7,304	5,825
Furniture and fixtures	545	432	1,618	1,578
Other	<u>1,036</u>	<u>627</u>	<u>3,696</u>	<u>2,896</u>
	57,121	25,981	175,228	111,125
(-) Write-offs, net	(2,706)	(3,552)	(37,605)	(20,984)
(-) Depreciation	<u>(12,615)</u>	<u>(9,919)</u>	<u>(69,412)</u>	<u>(75,546)</u>
Balances at the end of the year	<u>92,175</u>	<u>50,375</u>	<u>560,467</u>	<u>492,256</u>

Changes in intangible assets

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balances at the beginning of the year	11,527	9,008	82,740	75,029
Additions:				
Software (including implementation costs)	9,749	4,587	61,648	29,507
(-) Write-offs and others, net	-	(69)	(4,879)	(4,916)
(-) Amortization	<u>(2,690)</u>	<u>(1,999)</u>	<u>(19,436)</u>	<u>(16,880)</u>
Balances at the end of the year	<u>18,586</u>	<u>11,527</u>	<u>120,073</u>	<u>82,740</u>

#### 15. LOANS AND FINANCINGS

	<u>Company</u>		<u>Consolidated</u>		<u>Reference</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
<b>Local currency</b>					
BNDES - EXIM (a)	-	-	116,388	41,707	A
FINEP (Financing Agency for Studies and Projects)	-	-	27,633	39,985	B
Promissory notes	-	350,856	-	350,856	C
Debentures	352,669	-	352,669	-	D
BNDES (a)	23,206	29,549	110,996	100,949	E
Guaranteed account	-	180	2,001	355	F
BNDES - FINAME	-	-	6,506	6,168	G
Banco do Brasil - FAT Fomentar (Workers' Assistance Fund)	-	-	3,908	4,970	H
Capital lease - financing	-	-	940	1,660	I
FINEP - grant	-	-	<u>2,086</u>	<u>1,211</u>	J
Total local currency	<u>375,875</u>	<u>380,585</u>	<u>623,127</u>	<u>547,861</u>	
<b>Foreign currency</b>					
BNDES - EXIM (a)	-	-	1,229	10,427	A
BNDES (a)	2,479	2,921	7,358	9,984	E
Export financing - ACC/ACE (a)	-	-	-	10,447	K
Resolution 2770 (a)	-	111,791	-	111,791	L
Resolution 4131 (a)	50,088	-	50,088	-	M
International operation - Peru	-	-	9,861	13,848	N
Total foreign currency	<u>52,567</u>	<u>114,712</u>	<u>68,536</u>	<u>156,497</u>	
Grand total	<u>428,442</u>	<u>495,297</u>	<u>691,663</u>	<u>704,358</u>	
Current	60,086	469,590	226,595	569,366	
Noncurrent	<u>368,356</u>	<u>25,707</u>	<u>465,068</u>	<u>134,992</u>	

<u>Reference</u>	<u>Currency</u>	<u>Maturity</u>	<u>Charges</u>	<u>Collaterals</u>
A	Real	February and December 2011	6.7% of the debt with interest of 8.3% p.a. + exchange fluctuation (dollar) for 20% of the debt maturing in February 2011 and 93.3% of the debt with fixed interest of 7% p.a. maturing in December 2011.	Guarantee of Natura Cosméticos S.A.
B	Real	March 2013	TJLP (b)	Guarantee of Natura Cosméticos S.A. and bank guarantee
C	Real	June 2010	Interest of 106% CDI (c)	N/A
D	Real	May 2013	Interest of 108 % do CDI (c)	N/A
E	Real	April 2010 and February 2017	For the installment maturing in April 2010: interest of 4.5% p.a. + TJLP (b) + UMBNDES (e)  For the installment maturing in February 2017: (i) TJLP (b) + interest of 2.8% p.a. for 85% of the debt; (ii) exchange fluctuation (dollar) + interest of 8.54% p.a. or 9% of the debt; and (iii) TJLP (b) + interest of 2.3% p.a. for 6% of the debt	Mortgages (f)  Bank guarantee
F	Real	April 2011	123.9% of CDI (c) p.a. + IOF (d)	Guarantee of Natura Cosméticos S.A.
G	Real	November 2015	Interest of 4.5% p.a. + TJLP (b)	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes
H	Real	February 2014	Interest of 4.4% p.a. + TJLP (b)	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes
I	Real	Through September 2012	Interest of 99.5% to 102.99% of DI - CETIP (g)	Leases are collateralized by the underlying assets
J	Real	January 2011	N/A	N/A
K	US dollar	March 2010	Exchange fluctuation + 0.52% p.a.	Guarantee of Natura Cosméticos S.A.
L	US dollar	January 2011	Exchange fluctuation + 2.11% p.a.	Guarantee of subsidiary Indústria e Comércio de Cosméticos Ltda.
M	US dollar	February 2011	Exchange fluctuation + 1.22% p.a.	Guarantee of subsidiary Indústria e Comércio de Cosméticos Ltda.
N	Novo sol	December 2011	Interest of 4.15% p.a.	Bank guarantee

(a) Loans and financing for which swap contracts (CDI) were entered into.

(b) TJLP - Long-term Interest Rate.

(c) CDI - Interbank Deposit Rate.

(d) IOF - Tax on Financial Transactions.

(e) UMBNDES - Monetary Unit of National Bank for Economic and Social Development (BNDES). Local currency financing from the BNDES is collateralized by the Cajamar unit of subsidiary Indústria e Comércio de Cosméticos Natura Ltda.

(f) Mortgages - relate to real estate of the Cajamar unit of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda.

(g) DI - CETIP - daily index calculated based on the average DI, disclosed by the Clearinghouse for the Custody and Financial Settlement of Securities (CETIP).

Maturities of noncurrent liabilities are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
2011	-	6,556	-	42,695
2012	6,530	6,556	39,425	33,799
2013	355,820	6,556	379,440	23,728
2014	4,450	4,470	22,963	16,991
2015	1,539	1,569	19,001	17,779
2016 and thereafter	17	-	4,239	-
Total	<u>368,356</u>	<u>25,707</u>	<u>465,068</u>	<u>134,992</u>

a) Description of the main current bank loan and financing agreements:

1. BNDES - EXIM Pré-Embarque and BNDES - EXIM Pré-Embarque Especial Programs

The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. benefits from the financing programs of the BNDES in the pre-shipment stage for the export of goods and services. As a rule, the requirements for participation in said programs are: (i) to have credit approved by the financial institution that will enter into the financing agreement; and (ii) to manufacture products with a using at least 60% locally.

2. Financing agreements with the BNDES

The Company and its subsidiaries Indústria e Comércio de Cosméticos Natura Ltda. and Natura Inovação e Tecnologia de Produtos Ltda. have credit facility agreements with the BNDES to facilitate direct investments in the Company and its subsidiaries in order to improve certain product lines, train research and development employees, optimize operation product separation lines in the Cajamar - SP industrial facilities, set up of a vertical warehouse also in the Cajamar - SP industrial facilities, hire consultancy firms for the new distribution centers, build two new distribution centers, one in Matias Barbosa - MG and another in Jaboatão dos Guararapes - PE, as well as restructure the administration of the Itapecerica da Serra - SP unit and purchase the equipment necessary for these purposes.

3. Financing agreement with the FINEP

The subsidiary Natura Inovação e Tecnologia de Produtos Ltda. has innovation programs aimed at the development and acquisition of new technologies by means of partnerships with universities and research centers in Brazil and abroad. These innovation programs have the support of research and technological development incentive programs of the FINEP, which facilitates and/or co-finances equipment, scientific grants and research material for the participating universities.

These funds were used to partially finance investments incurred in the drafting of the "Technology Platforms for New Cosmetics and Nutritional Supplements" project.

#### 4. Machinery and Equipment Financing - FINAME

The Company benefits from a credit facility with the BNDES, related to FINAME onlendings, intended to finance the purchase of new machinery and equipment manufactured in Brazil. Said onlending is carried out by granting credit to Indústria e Comércio de Cosméticos Natura Ltda., granting rights to receivables to the financial institution accredited as a financing agent, usually Banco Votorantim S.A., Banco Itaú Unibanco S.A., Banco do Brasil S.A., HSBC Bank Brasil S.A. and Banco Santander Brasil S.A., which enter into such said financing with Indústria e Comércio de Cosméticos Natura Ltda.

These agreements are collateralized by the financed assets. Indústria e Comércio de Cosméticos Natura Ltda. is the trustee and the Company is the guarantor of these assets. In addition, the Company and its subsidiaries are obliged to meet the Provisions Applicable to BNDES Agreements and General Regulatory Conditions of FINAME-related Transactions.

#### 5. Resolution nº 4131/62

Bank Credit Note - Onlending of Funds Raised Abroad - Resolution 4131/62, raised with Banco Bradesco on November 10, 2010 and maturing on February 10, 2011, whose principal totals US\$ 30,000.

#### 6. Promissory notes

First issue of promissory notes totaling R\$350,000, single series, unguaranteed, with nominal unit value of R\$1,000, issued under Brazilian Securities and Exchange Commission (CVM) Instruction 476, on December 17, 2009. The promissory notes were settled in June 2010, with the debenture issuance.

#### 7. Debentures

First issuance of simple debentures, nonconvertible into shares, totaling R\$350,000, in single series, without guarantee and without financial covenants, with face value of R\$1,000, in conformity with CVM Instruction 476/09, issued on May 26, 2010 and subscribed and paid in May 28, with the payment of semiannual interest in May and November; and principal maturing on May 26, 2013.

#### b) Finance lease transactions

Lease obligations are effectively guaranteed, since the leased asset is reversed to the lessor in case of default.

Financial obligations are broken down as follows:

	<u>2010</u>	<u>2009</u>
Gross finance lease obligations - minimum lease payments:		
Less than one year	642	844
More than one year and less than five years	<u>377</u>	<u>950</u>
	1,019	1,794
Future financing charges on finance leases	<u>(79)</u>	<u>(134)</u>
Financial lease obligations - accounting balance	<u><u>940</u></u>	<u><u>1,660</u></u>

#### c) Contract covenants

As of December 31, 2010 and 2009, financing and loan agreements entered into by the Company and its subsidiaries do not contain restrictive clauses that establish obligations regarding the maintenance of financial indices by the Company and its subsidiaries. The Company were in compliance with all the restrictive clauses.

## 16. TRADE AND OTHER PAYABLES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Domestic and foreign suppliers	78,647	60,876	331,909	231,687
Freight payable	34,585	23,595	34,585	23,595
	<u>113,232</u>	<u>84,471</u>	<u>366,494</u>	<u>255,282</u>

The Company and consolidated balances payable to foreign suppliers as of December 31, 2010 is R\$4,964 e R\$842, respectively (R\$4,409 e R\$497, respectively, as of December 31, 2009), and mostly refers to U.S. dollar-denominated amounts.

## 17. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
ICMS Company and reverse charge payable (b)	217,826	150,095	242,676	213,860
PIS/COFINS payable (injunction) (a)	1,686	1,570	84,908	57,848

IRPJ and CSLL payable	99,347	15,520	125,816	25,786
IRPJ and CSLL (injunction) (c)	33,472	13,624	33,472	13,624
IRPJ and CSLL (injunction - PAT)	-	-	2,261	965
IRRF	7,901	5,436	13,203	9,574
IPI - exempt and zero-taxed products (d)	-	-	39,404	36,897
UFIR adjustment on federal taxes (e)	6,216	5,181	6,360	5,313
IPI credit on purchase of property, plant and equipment and supplies for own use and consumption (f)	-	-	3,768	3,595
Action for the annulment of a tax liability - INSS (g)	2,893	2,743	2,893	2,743
PIS/COFINS/CSLL	5,319	4,100	7,554	5,557
PIS/COFINS payable	-	-	6,663	5,284
Taxes - foreign subsidiaries	-	-	9,354	7,220
ISS payable	613	275	2,799	1,588
	<u>375,273</u>	<u>198,544</u>	<u>581,131</u>	<u>389,854</u>
Escrow deposits ((b), (d) and (g) )(note 10)	<u>(169,912)</u>	<u>(113,383)</u>	<u>(209,316)</u>	<u>(150,280)</u>
Current	205,361	85,161	371,815	239,574
Noncurrent	<u>169,912</u>	<u>113,383</u>	<u>209,316</u>	<u>150,280</u>

(a) The Company and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda. are challenging in court the inclusion of ICMS in the tax basis of PIS and COFINS (taxes on revenue). In June 2007, the Company and its subsidiary were authorized by the court to pay PIS and COFINS without the inclusion of ICMS in the tax basis, starting April 2007. The balance recognized as of December 31, 2010 refers to the unpaid amounts of PIS and COFINS, from April 2007 to December 2010 adjusted based on the SELIC (Central Bank overnight rate), and to which the obligation is on hold. Part of the balance, in the adjusted amount of R\$2,606, is deposited in escrow.

(b) As of December 31, 2010, R\$119,371, R\$34,969 and R\$12,679 of the total amount recognized refer to the ICMS - ST of State of Paraná, Federal District and State of Mato Grosso do Sul, respectively (R\$95,834 for State of Paraná and R\$14,806 for Federal District as of December 31, 2009), which is being challenged in court, as also mentioned in note 18 - "Contingent tax liabilities - possible risk", (a). The Company has made monthly escrow deposits for the unpaid amounts.

(c) On February 4, 2009, the Company was granted an injunction, subsequently confirmed by court decision, that suspended the collection of income tax and social contribution on any amounts received as arrears interest, paid on late payment of contractual obligations receivables to the Natura Beauty Consultants. The appeal filed by the Federal Government is awaiting judgment.

(d) Refers to Federal VAT (IPI) on zero-taxed, untaxed or exempt raw materials and packaging materials. Subsidiary Indústria e Comércio de Cosméticos Natura Ltda. filed a writ of mandamus and obtained an injunction granting the right to the credit. On September 25, 2006, the injunction was revoked by a decision that considered the request invalid. The Company filed an appeal for reconsideration of merits and reinstatement of the injunction. To suspend the payment of tax, in October 2006, the Company made an escrow deposit in the amount offset under the injunction, whose adjusted balance totals R\$39,404 as of December 31, 2010 (R\$36,897 as of December 31, 2009). In the fourth quarter of 2009, in order to utilize the benefits granted under Provisional Act 470/09, which creates a program for the payment and payment in installments of tax debts, the subsidiary filed a motion partially withdrawing the claims made in the injunction filed that maintains only the claim of tax credits on tax-exempt products, thus dropping the lawsuits claiming IPI credits of zero-taxed and untaxed products (see details in note 18, in topic "Tax installment plans created under Provisional Act 470/09). On this date, after having met the requirements to join the tax installment plan introduced by Provisional Act 470/09, the subsidiary awaits the tax authorities' approval to write off the suspended collection amounts and the corresponding escrow deposits.

(e) Refers to the inflation adjustment of 1991 federal taxes on income (IRPJ/CSLL/ILL) based on the UFIR (fiscal reference unit), discussed in a writ of mandamus. The amount involved is deposited in escrow. On February 26, 2010, the Company filed a motion for the withdrawal of this lawsuit to be able to utilize the benefits granted under Law 11941/09, which creates a program for the payment and payment in installments of tax debts.

(f) Subsidiary Indústria e Comércio de Cosméticos Natura Ltda. discusses, through writs of mandamus, the right to IPI credit on the purchase of property, plant and equipment items and consumables. On February 26, 2010, this subsidiary filed a motion for the withdrawal of this lawsuit to be able to utilize the benefits granted under Law 11941/09, which creates a program for the payment and payment in installments of tax debts.

(g) Refers to the social security contribution required by tax assessments issued by the National Institute of Social Security as a result of an inspection, which claims that 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 being challenged in court through a tax debt annulment action and are deposited in escrow. The amounts required in the tax assessment notice comprise the period from January 1990 to October 1999. In 2007, the Company reversed the amount of R\$1,903, relating to the expiration of part of the amount involved in the lawsuit for the period from January 1990 to October 1994, as recently instructed under Case Law Decision 8 of the Federal Supreme Court (STF). On March 1, 2010, the Company filed a request that withdraws part of the claims made and partially waiving its right to utilize the benefits granted under Law 11941/09 regarding the social security contributions due by the companies that provided services to the Company during the period from November 1994 to December 1998.

Tax installment plans created by Law 11941/09

On May 27, 2009, Federal Government enacted Law 11941, as a result of the conversion of Provisional Act 449/08, which, among other changes to tax law, established the possibility of a tax debt installment plan managed by the Federal Revenue Service, the National Social Security Institute and the National Treasury Attorney General (PGFN), including the remaining balance of consolidated debts in the REFIS (Law 9964/00), Special Installment Plan (PAES) (Law 10684/03) and the Exceptional Installment Plan (PAEX) (Provisional Act 303/06), in addition to the regular payments in installments provided for by article 38 of Law 8212/91 and article 10 of Law 10522/02.

The entities that opted for paying or dividing into installments the debts under this Law, in the applicable cases, may settle the amounts corresponding to default and automatic fines and late-payment interest, including those related to legally enforceable debts to the Government, using tax loss carryforwards, and will benefit from reduced fines, interest and legal charges whose reduction percentage depends on the installment plan chosen.

Pursuant to the established rules, for compliance with the first stage of installment payments, the Company and its subsidiaries, after having filed motions at Court formalizing the withdrawal of lawsuits whose taxes would be paid in installments, applied for installment payments, choosing installment plans and indicating the generic nature of tax debts, paying the respective initial installments, pursuant to the provisions of Federal Revenue Service (SRF) and National Treasury Attorney General (PGFN) Joint Administrative Rule.

The tax debts recorded for payment in installments by the Company and its subsidiaries, pursuant to Law 11941/09, are as follows:

	Company			
	2009	Reversals	Interest and inflation adjustment	2010
INSS tax liability - tax notification (a)	2,743	-	150	2,893
IRPJ/CSLL/ILL (b)	5,182	-	1,034	6,216
Others	1,439	-	100	1,539
	<u>9,364</u>	<u>-</u>	<u>1,284</u>	<u>10,648</u>
	Consolidated			
	2009	Reversals	Interest and inflation adjustment	2010
INSS tax liability - tax notification (a)	2,743	-	150	2,893
IRPJ/CSLL/ILL (b)	5,313	-	1,048	6,361
IPI on the acquisition of property, plant and equipment and materials for own use and consumption (c)	3,595	-	173	3,768
Others	2,280	(368)	123	2,035
	<u>13,931</u>	<u>(368)</u>	<u>1,494</u>	<u>15,057</u>

(a)The details of this lawsuit are mentioned in note 17 (g) of item "Tax contingencies". Due to the withdrawal from this lawsuit, as the Company opted to pay all its debt at sight, it reversed to income R\$1,586 on the fourth quarter of 2009, corresponding to 100% of the late-payment fine and 45% of the interest.

(b)The details of this lawsuit are mentioned in note 17 (e) of item "Tax contingencies". Since the Company has an escrow deposit for this lawsuit, no reversal of late-payment fines and interest was made by the Company upon its withdrawal.

(c)The details of this lawsuit are mentioned in note 17 (f) of item "Tax contingencies". Due to the withdrawal from this lawsuit, as the Company opted to pay all its debt at sight, it reversed to income R\$1,375 on the fourth quarter of 2009, corresponding to 100% of the late-payment fine and 45% of the interest.

Due to the lack of tax loss carryforwards, the Company and its subsidiaries will not offset them against the remaining balance of the interest on installments.

The following steps of the tax debt installment plan include the consolidation of tax debts by the PGFN and the Federal Revenue Service; in this step the Companies will indicate the debts to be paid in installments and the number of installments. This consolidation stage of tax debts is estimated to occur by the end of the first semester of 2011.

Tax installment plans created under Provisional Act 470/09

As of October 13, 2009, Provisional Act 470 was enacted, introducing the tax debt payment and installment plans arising from the undue use of sector tax incentive, introduced by article 1 of Decree Law 491, of March 5, 1969, as well as those arising from the undue use of IPI credits, in the scope of the PGFN and the Federal Revenue Service.

On November 3, 2009, the PGFN and the Federal Revenue Service published in the Federal Official Gazette (DOU) the Joint Administrative Rule 9, which establishes the debt payment and installment plan addressed in article 3 of Provisional Act 470/09. The debts arising from the undue utilization of industry tax incentives introduced by article 1 of Decree Law 491/69, and those arising from the undue utilization of IPI credits challenged by the PGFN and Federal Revenue Service may be exceptionally paid at sight or in installments to each agency by November 30, 2009.

As mentioned in note 17, item (d), the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. filed a motion partially withdrawing from the injunction filed related to IPI credits arising from the products purchased at zero tax rate or tax exempt, which amounted to R\$24,071 as of December 31, 2010.

As of December 31, 2010, the Company awaits the position of the PGFN to complete the stage related to the consolidation of tax debts and to write off the balances of suspended liabilities against escrow deposits made until this date at the inflation adjusted amounts. As there are escrow deposits made in the past and due to the option made by the Company, which opted for payment at sight, no gain was recognized in income from the reversal of fine and late interest.

**18. PROVISION FOR TAX, CIVIL AND LABOR CONTINGENCIES**

The Company and its subsidiaries are parties to tax, labor and civil lawsuits and administrative tax proceedings. Management believes, supported by the opinion and estimates of its legal counsel, that the reserves for tax, civil and labor contingencies are sufficient to cover possible losses. These reserves, net of escrow deposits, are as follows:

	Company		Consolidated	
	2010	2009	2010	2009
Tax	29,867	33,932	42,970	45,076
Civil	9,284	8,469	14,137	10,750
Labor	14,131	13,448	16,677	17,071
	<u>53,282</u>	<u>55,849</u>	<u>73,784</u>	<u>72,897</u>
Current	-	1,465	-	1,465
Noncurrent	<u>53,282</u>	<u>54,384</u>	<u>73,784</u>	<u>71,432</u>

## Tax contingencies

The provisions for tax contingencies are shown below:

Changes for the years ended December 31, 2009 and 2010

	Company				
			Inflation		2010
	2009	Additions	Reversals	adjustment	
Late payment fines on Federal taxes paid in arrears (a)	1,024	-	(70)	46	999
Deductibility of CSLL (Law 9316/96) (b)	7,295	-	-	267	7,562
Federal VAT (IPI) - tax collection lawsuit (c)	4,952	-	(4,970)	18	-
IRPJ and CSLL tax assessment - legal fees (d)	5,799	-	(1,709)	362	4,452
Tax notification - IRPJ 1990 (e)	3,198	-	-	144	3,342
Legal fees and other (h)	11,664	3,299	(2,195)	744	13,512
Total reserve for tax contingencies	<u>33,932</u>	<u>3,299</u>	<u>(8,944)</u>	<u>1,581</u>	<u>29,867</u>
Escrow deposits (note 10)	<u>(14,296)</u>	<u>-</u>	<u>-</u>	<u>(967)</u>	<u>(15,263)</u>

	Consolidated				
			Inflation		2010
	2009	Additions	Reversals	adjustment	
Late payment fines on Federal taxes paid in arrears (a)	1,511	-	(71)	65	1,505
Deductibility of CSLL (Law 9316/96) (b)	7,295	-	-	267	7,562
Federal VAT (IPI) - tax collection lawsuit (c)	4,952	-	(4,970)	18	-
IRPJ and CSLL tax assessment - legal fees (d)	5,776	-	(1,710)	386	4,452
Tax notification - IRPJ 1990 (e)	3,198	-	-	144	3,342
Failure to include ICMS in tax bases for PIS and COFINS - legal fees (f)	2,633	-	-	147	2,780
Semiannual PIS - Decree Laws 2445/88 and 2449/88 (g)	2,085	-	-	106	2,191
Legal fees and other (h)	17,626	4,165	(3,211)	2,558	21,138
Total reserve for tax contingencies	<u>45,076</u>	<u>4,165</u>	<u>(9,962)</u>	<u>3,691</u>	<u>42,970</u>
Escrow deposits (note 10)	<u>(15,721)</u>	<u>-</u>	<u>-</u>	<u>(842)</u>	<u>(16,563)</u>

(a) Refers to fine for late payment of Federal taxes.

(b) Refers to CSLL that was addressed by an injunction that questions the constitutionality of Law 9316/96, which prohibited the deduction of CSLL from its own tax basis and the IRPJ basis. A portion of this reserve, in the amount of R\$5,559 (R\$5,272 as of December 31, 2009), is deposited in escrow. (c) Refers to a tax collection lawsuit intended to collect IPI for July 1989, when wholesale establishments began to be considered equivalent to industrial establishments under Law 7798/89. The lawsuit is in the 3rd Region Federal Court (São Paulo) for judgment of the appeal filed by the debtor. The amounts involved in this tax collection lawsuit are collateralized by restricted investment held by the subsidiary Natura Inovação e Tecnologia de Produtos Ltda., in the amount of R\$6,155 as of December 31, 2010 (R\$5,769 as of December 31, 2009). The balance of the reserve for this lawsuit was reversed in the first quarter of 2010 because of the change in the likelihood of loss from probable to remote based on the analysis carried out by the Company's legal counsel.

(d) Refers to attorneys' fees for the defense in the tax assessment notices issued against the Company in December 2006 and December 2007 by the Federal Revenue Service, claiming the payment of income tax and social contribution on the deductibility of the yield of debentures issued by the Company for fiscal years 2001 and 2002, respectively. The legal counsel's opinion is that the likelihood of unfavorable outcome in these tax assessment notices is remote.

A final and unappealable administrative decision on the tax assessment notice issued against the Company in August 2003 challenging the deductibility, in fiscal year 1999, was issued on January 2010 that maintains part of the income tax assessed and the whole of the social contribution. After this decision, on April 7, 2010, the Company filed a lawsuit to cancel the remaining installment of IRPJ and CSLL. The legal counsel considers that the likelihood of an unfavorable outcome is remote.

(e) Refers to a tax assessment notice issued by the Federal Revenue Service claiming the payment of income tax on the earnings obtained on exports entitled to tax benefits carried out in fiscal year 1989, at the rate of 18% (Law 7988, of December 29, 1989) and not 3%, as set out in article 1 of Decree Law 2413/88, used by the Company at the time to pay its taxes.

(f) Refers to legal fees for filing and dealing with the administrative proceeding for requesting a refund of the ICMS included in the PIS and COFINS tax basis in the period from April 2002 to March 2007. The legal counsel assessed the risk of loss as remote.

(g) Refers to the offset of PIS paid as per Decree Laws 2445/88 and 2449/88, in the period from 1988 to 1995, against Federal taxes due in 2003 and 2004. The reversal made by the Company in 2007 in the amount of R\$14,910 is due to the final decision favorable to the Company, rendered in August 2007. The remaining reserve refers to the subsidiary Indústria e Comércio de Cosméticos Natura Ltda., which is awaiting the appreciation of the lawsuit by the Board of Tax Appeals.

(h) The balance refers to lawyers' fees to defend the Company's and its subsidiaries' interests in tax lawsuits. The amount of R\$4,000, accrued in 2009, refers to lawyers' fees to prepare the defense against an IRPJ and CSLL infringement notification against the Company, issued on June 30, 2009, which challenges the tax deductibility of goodwill amortization carried out resulting from the merger of Natura Participações S.A. It is the opinion of the Company's legal counsel that, as structured, the transaction and its tax effects can be upheld in a court of law and thus the risk of loss is classified as remote.

## Civil contingencies

Changes for the years ended December 31, 2009 and 2010

	Company				Interest and inflation	
	2009	Additions	Reversals	Payments	adjustmen	2010
Sundry civil lawsuits (a)	5,111	5,265	(4,658)	(1,177)	287	4,828
Legal fees - environmental civil lawsuit (b)	1,363	-	-	-	149	1,512
Civil lawsuits and legal fees - Nova Flora Participações Ltda.	1,995	2,346	-	(1,466)	69	2,944
Total reserve for civil lawsuits	<u>8,469</u>	<u>7,611</u>	<u>(4,658)</u>	<u>(2,644)</u>	<u>506</u>	<u>9,284</u>
Escrow deposits (note 10)	<u>(231)</u>	<u>(1,643)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,874)</u>
Current	1,465	-	-	-	-	-
Noncurrent	<u>7,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,284</u>

	Consolidated				Interest and inflation	
	2009	Additions	Reversals	Payments	adjustmen	2010
Sundry civil lawsuits (a)	5,353	5,892	(4,822)	(1,192)	486	5,717
Legal fees - environmental civil lawsuit (b)	1,363	-	-	-	149	1,512
Legal fees - IBAMA lawsuit (c)	-	3,965	-	-	-	3,965
Civil lawsuits and legal fees - Nova Flora Participações Ltda.	4,034	135	-	(1,466)	240	2,943
Total reserve for civil lawsuits	<u>10,750</u>	<u>9,992</u>	<u>(4,822)</u>	<u>(2,658)</u>	<u>875</u>	<u>14,137</u>
Escrow deposits (note 10)	<u>(1,878)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(98)</u>	<u>(1,976)</u>
Current	1,465	-	-	-	-	-
Noncurrent	<u>9,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,137</u>

(a) As of December 31, 2010, the Company and its subsidiaries are parties to 1,211 civil lawsuits and administrative proceedings (1,578 as of December 31, 2009), of which 1,127 were filed with civil courts, special civil courts and the consumer protection agency (PROCON) by Natura Beauty Consultants, consumers, suppliers and former employees, most of which claiming compensation for damages.

(b) Refers to legal fees for the defense of the Company's interests in the public lawsuit filed by the Federal Public Prosecution Office of Acre against the Company and other institutions for alleged access to the traditional knowledge associated to the asset ("murumuru").

(c) Refers to attorney's fees for the defense in the tax assessment notice issued by Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis (IBAMA) against the Company in November 2010 for alleged irregular access to biodiversity. The Company's management and its legal counsel consider the risk of loss in these tax assessment notices as remote due to full compliance with all the principles established in the Biological Diversity Convention ("CDB"), an international treaty signed during Rio-92 and of illegality and unconstitutionality of legal mark which has incorporated CDB in the Brazilian legal system. Except for inputs from Federal Government land—which refuses to negotiate—the Company shares benefits in 100% of the accesses in the use of biodiversity; it is the first to share benefits with traditional communities and detains approximately 68% of the requests with the Regulatory Body for authorization to have access to biodiversity.

## Labor risk

As of December 31, 2010, the Company and its subsidiaries are parties to 766 labor lawsuits filed by former employees and third parties (641 as of December 31, 2009), claiming the payment of severance amounts, salary premiums, overtime and other amounts due, as a result of joint liability. Reserves are periodically reviewed based on the progress of lawsuits and history of losses on labor claims to reflect the best current estimate.

Changes for the years ended December 31, 2009 and 2010

	Company				
	2009	Additions	Reversals	adjustment	2010
Total provision for labor risk	<u>13,448</u>	<u>1,308</u>	<u>(2,216)</u>	<u>1,591</u>	<u>14,131</u>
Escrow deposits (note 10)	<u>(1,696)</u>	<u>(66)</u>	<u>-</u>	<u>-</u>	<u>(1,762)</u>

	Consolidated				
	2009	Additions	Reversals	Inflation adjustment	2010
Total provision for labor risk	17,071	1,842	(4,278)	2,042	16,677
Escrow deposits (note 10)	(2,193)	(217)	-	-	(2,410)

#### Contingent liabilities - possible risk

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 legal counsel. These lawsuits are as follows:

	Company		Consolidated	
	2010	2009	2010	2009
Tax:				
Declaratory action - ICMS - ST (a)	53,809	29,162	53,809	29,162
Offset of 1/3 of COFINS - Law 9718/98 (b)	5,121	4,925	5,121	4,925
Tax notification - INSS (c)	4,567	4,456	4,567	4,456
IPI tax assessment notice (d)	5,178	-	5,178	-
Administrative proceeding - tax assessment notice ICMS - ST - DF (e)	25,077	7,720	25,077	7,720
Administrative proceeding - tax debt - ICMS - ST - RS (f)	15,919	7,255	15,919	7,255
Tax assessment notice - São Paulo State Department of Finance - ICMS inspection (g)	9,837	-	9,837	-
Tax assessment - transfer pricing on loan agreements with foreign related company (h)	1,779	1,716	1,779	1,716
Tax debt notification - GFIP (i)	974	902	974	902
ICMS - ST deficiency notice (j)	440	529	440	529
Request for offset of taxes of the same type - IRPJ and IRRF (k)	568	532	568	532
Other	44,051	23,619	52,373	28,849
	<u>167,320</u>	<u>80,816</u>	<u>175,642</u>	<u>86,047</u>
Civil	3,315	16,858	4,133	18,024
Labor	61,547	48,986	85,899	74,710
	<u>232,182</u>	<u>146,660</u>	<u>265,674</u>	<u>178,781</u>

(a) As of December 31, 2010, the balance recorded is as follows:

1. ICMS - ST - Paraná State - R\$46,768 (R\$28,186 as of December 31, 2009) - lawsuit filed by the Company challenging the changes in ICMS - ST tax basis introduced by Paraná Decree 7018/06. The amount discussed in the lawsuit, related to the period from January 2007 to December 2010, is fully deposited in escrow, as mentioned in notes 10 and 17, and its collection is suspended.

2. ICMS - ST - Federal District - R\$5,574 (R\$976 as of December 31, 2009) - declaratory action filed by the Company to challenge its liability for the payment of ICMS - ST due to the lack of a statute on and statutory criteria for the determination of the tax base of this tax or, subsequently, the need to enter into an Agreement to set out the ICMS - ST tax basis. The amount under litigation, related to the period from February 2009 to December 2010, is fully deposited in escrow, as referred to in notes 10 and 17, and its collection is suspended.

3. ICMS ST MS - R\$1,467 - declaratory action filed by the Company to challenge its liability for the payment of ICMS - ST to the State of Mato Grosso do Sul due to the lack of a statute on and statutory criteria for the determination of the tax base of this tax or, subsequently, the need to enter into an Agreement to set out the ICMS - ST tax basis. The amount under litigation, related to the period from February 2009 to December 2010, is fully deposited in escrow, as referred to in notes 10 and 17, and its collection is suspended.

(b) Law 9718/98 increased the COFINS rate from 2% to 3%, and allowed this 1% difference to be offset in 1999 against the social contribution tax paid in the same year. However, in 1999, the Company and its subsidiaries filed for an injunction and obtained authorization to suspend the payment of the tax credit (1% rate difference) and to pay COFINS based on Supplementary Law 70/91, prevailing at that time. In December 2000, considering former unfavorable court decisions, the Company and its subsidiaries enrolled in the Tax Debt Refinancing Program (REFIS), for payment in installments of the debt related to the COFINS not paid in the period. With the payment of the tax, the Company and its subsidiaries gained the right to offset 1% of COFINS against social contribution tax, which was made in the first half of 2001. However, the Federal Revenue Service understands that the period

for offset was restricted to base year 1999. On September 11, 2006, the Company was notified that the offsets made were not approved, and timely filed the applicable appeal. This proceeding is awaiting ruling at the lower administrative court.

(c) Lawsuit filed by the Company seeking the annulment of the tax demanded by the INSS through a tax assessment notice issued for purposes of collecting the social security contribution on the allowance for vehicle maintenance paid to sales promoters. The amounts are being challenged in court through a tax debt annulment action and are deposited in escrow. The amounts required in the tax assessment notice cover the period from January 1994 to October 1999.

(d) Refers to a tax collection lawsuit intended to collect IPI due to the lack of payment e inappropriate classification of products. The Company has filed a defense in the court and is awaiting for definitive ruling.

(e) Refers to a tax assessment notice related to ICMS - ST, issued by the State of Federal District, regarding a supposed underpayment related to the difference in the payment of Company's own ICMS and ICMS - ST. Company has filed a defense in the administrative level and is awaiting for definitive ruling.

(f) Refers to a tax assessment notice by Rio Grande do Sul State Department of Finance against the Company due to its condition of tax substitute, in order to charge ICMS that is supposedly due, related to subsequent operations applied by its Sales representatives which live in the State of Rio Grande do Sul. Company has proposed annulment to cancel this requirement, which is awaiting final trial.

(g) Refers to a tax assessment notice by São Paulo Department of Finance with respect to a supposed offset of ICMS related to the acquisition of property, plant and equipment which were transferred to other facility on the acquisition date, as well as assets acquired that are not related to the production and trading activities.

(h) Refers to a tax assessment notice whereby the Federal Revenue Service is demanding the payment of IRPJ and CSLL on the difference of interest on loan agreements with a foreign related party. On July 12, 2004, an administrative defense was filed and is still being judged. In June 2008, the Company filed an appeal against the unfavorable decision with the Board of Tax Appeals, which is awaiting judgment.

(i) 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 challenging the collection at the judicial level.

(j) Tax assessment notice for ICMS - ST, collected by Goiás State, due to alleged underpayment by the Company. The Company has filed its defense at the administrative level and is awaiting the final judgment.

(k) Refers to the non-approval of the offset of IRRF (Withholding Income Tax) credits related to the second quarter of 2000 against IRPJ debts for the fourth quarter of 1999. The Company has filed 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 subsidiaries handle the following material contingent assets:

a) The Company and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda. are challenging in court the unconstitutionality and illegality of the increase in the tax basis for PIS and COFINS established by article 3, paragraph 1, of Law 9718/98. The amounts involved in the lawsuits, updated as of December 31, 2010, total R\$20,920 (R\$20,078 as of December 31, 2009). Even though said article 3, paragraph 1, of Law 9718/98 was declared unconstitutional by the Federal Supreme Court in 2009, consistent with the claim filed by the Company and its subsidiary, there is no final and unappealable decision on the lawsuits filed by the Companies, which await the judgment by the 3rd Region Federal Court (TRF). The legal counsel's opinion is that the likelihood of favorable outcome is probable.

b) The Company and its subsidiaries Indústria e Comércio de Cosméticos Natura Ltda., Natura Inovação e Tecnologia de Produtos Ltda. and Natura Logística e Serviços Ltda. are requesting at administrative level the refund of the ICMS and ISS (Service Tax) included in the PIS and COFINS tax basis and paid in the period from April 1999 to March 2007. The amounts of the refund request as of December 31, 2010 are R\$288,584 (R\$265,277 as of December 31, 2009). The legal counsel believes that the chance of a favorable outcome is probable.

The Company and its subsidiaries have the accounting policy of recognizing contingent assets only after there is a final and unappealable decision on the lawsuits. Since no unappealable decisions have been issued on said lawsuits favorable to the Company and its subsidiaries, they did not recognize credits related to contingent assets.

## 19. SHAREHOLDERS' EQUITY

### a) Capital

As of December 31, 2009, the Company's capital was R\$404,261.

In March 2010, 181,212 common shares without par value were subscribed at the average price of R\$15.53, totaling R\$2,826, and, therefore, the Company's capital is represented by 430,455,773 subscribed and paid-in registered common shares without par value, totaling R\$407,087. Authorized capital decreased from 11,035,564 to 10,854,352 registered common shares.

In June 2010, 101,439 common shares without par value were subscribed at the average price of R\$26.57, totaling R\$2,696, and, therefore, the Company's capital is represented by 430,557,212 subscribed and paid-in registered common shares without par value, totaling R\$409,783. Authorized capital decreased from 10,854,352 to 10,752,913 registered common shares.

In September 2010, 242,098 common shares without par value were subscribed at the average price of R\$25.50, totaling R\$6,172, and, therefore, as of September 30, 2010 the Company's capital increased to 430,799,310 subscribed and paid-in registered common shares without par value, totaling R\$415,955. Authorized capital increased from 10,752,913 to 10,510,815 registered common shares.

### b) Dividend and interest on capital 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 of previously recognized reserves for contingencies.
- Decrease in the amounts intended for the recognition of the legal reserve and reserve for contingencies.

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

On April 8, 2010, the Company paid dividends totaling R\$339,385 (R\$0.79 per share) and interest on capital in the total gross amount of R\$18,226 (R\$0.042 gross per share), pursuant to payment approved by the Board of Directors on February 24, 2010 and ratified at the Annual Shareholders' Meeting held on April 6, 2010, related to net income of 2009.

On July 21, 2010, the Board of Directors approved, for confirmation at the Annual Shareholders' Meeting that will resolve on the approval of the financial statements for the year ending December 31, 2010, a proposal for the payment of interim dividends and interest on capital on income recorded in the first half of 2010, in the amount of R\$253,947 (R\$0.59 per share) and R\$35,427, gross of withholding income tax (R\$0.082 per share), respectively. The total amount of interim dividends and interest on capital corresponds to 86.9% of net income recorded in the first half of 2010 and was paid on August 12, 2010.

In addition, on February 23, 2011, the Board of Directors appreciated a proposal to be submitted to the Annual Shareholders' Meeting to be held on April 8, 2011, for the payment of dividends and interest on capital (gross), in the total amounts of R\$405,623 and R\$24,456 (R\$20,788, net of IRRF), respectively, related to income for 2010, which, together with the R\$253,947 - dividends and R\$35,427 - interest on capital (gross) paid in August 2010, correspond to 95% of net income for 2010.

Dividends were calculated as follows:

	Company	
	2010	2009
Net income for the year	744,050	683,924
Tax incentive reserve - investment grant	(5,973)	(3,145)
Calculation basis for minimum dividends	738,077	680,779
Mandatory minimum dividends	30%	30%
Annual minimum dividend	221,423	204,234
Proposed dividends	659,570	554,537
Interest on capital	59,883	43,254
IRRF (Withholding tax) on interest on capital	(8,983)	(6,488)
Total dividends and interest on capital, net of IRRF	<u>710,470</u>	<u>591,303</u>
Amount exceeding the mandatory minimum dividend	<u>489,047</u>	<u>387,069</u>
Dividends per share	1,5312	1,2888
Interest on capital per share	<u>0,1182</u>	<u>0,0854</u>
Total dividends and interest on capital per share	<u>1,6494</u>	<u>1,3742</u>

As mentioned in note 2.21, the portion of dividends exceeding minimum dividends, declared by Management after the reporting period but before the authorization date for issuance of these financial statements, should not be recorded as liability in the respective financial statements and the effects of such additional dividends should be disclosed in a note. As a result, as of December 31, 2010 and 2009, the following portions of dividends exceeding minimum dividends were recorded in shareholders' equity as "Proposed additional dividend" at the date of the financial statements:

	Company	
	2010	2009
Dividends	405,623	339,385
Interest on capital	24,456	18,226
	<u>430,079</u>	<u>357,611</u>

### c) Treasury shares

As of December 31, 2010, the caption "Treasury shares" was as follows:

Stock	Average cost - R\$	
	R\$	R\$
655	14	21.37

### d) Share premium

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

### e) Legal reserve

Since the balance of legal reserve plus capital reserves, addressed by article 182, paragraph 1, of Law 6404/76, exceeded 30% of the capital, the Company decided, in accordance with article 193 of the same Law, not to recognize a legal reserve on net income earned in fiscal years 2006, 2007, 2008, 2009 and 2010.

### f) Reserve for retained earnings

As of December 31, 2010, the reserve for retained earnings was recognized pursuant to article 196 of Law 6404/76 for use in future investments, in the amount of R\$23,421 (R\$82,988 as of December 31, 2009). The retention for 2010, prepared by Management and approved by the Board of Directors on February 23, 2011, will be submitted to the approval of the Annual Shareholders' Meeting to be held on April 8, 2011.

### g) Other comprehensive income (loss)

The Company records in this line the effects of exchange variation through its foreign investments. The accumulated effect will be reverted to income as a gain or loss only at the time of the sale or write-off of the investment.

## 20. BUSINESS SEGMENT REPORTING

Segment reporting is consistent with the management reports provided by the main operating decision-maker to assess the performance of each segment and the allocation of funds. Although the main decision-maker analyzes the information on revenue at its different levels, according to the reports used by management to make decisions, the Company's business is mainly segmented based on the sales of cosmetics by geographic regions, which are as follows: Brazil, Latin America ("LATAM") and other countries. In addition, LATAM is divided in two groups for analysis: (i) Argentina, Chile and Peru; and (ii) Mexico, Venezuela and Colombia. The segments' business features are similar and each segment offers similar products through the same consumer access method.

Net revenue by region is presented as follows in 2010:

- Brazil: 92.8%
- Argentina, Chile and Peru: 5.0%
- Mexico, Venezuela and Colombia: 1.9%
- Other: 0.3%



Although international segments do not represent more than 10% of the information required to aggregate a segment, as established by the aggregation criteria described in IFRS 8 - Operating Segments, management has substantial evidence that its foreign business share will increase considerably against consolidated financial balances and, thus, management opted to report them separately.

The accounting policies of each segment are the same as applied by the Company. The performance of the Company's segments was assessed based on the net operating income, net income and noncurrent assets. This measurement basis excludes the effects of interest, income tax and social contribution, depreciation and amortization.

The financial information related to the segments as of December 31, 2010 and 2009 is summarized in the tables below. The amounts provided to the Executive Committee related to net income and total assets are consistent with the balances recorded in the financial statements and with the accounting policies applied.

	2010							
	Net revenue	Net income (loss)	Depreciation and amortization	Financial expenses, net	Income tax	Noncurre nt assets	Total assets	Current liabilities
Brazil	4,767,741	835,484	(82,692)	(47,918)	(374,412)	1,258,950	2,970,381	1,236,800
Argentina, Chile and Peru	255,702	(19,822)	(3,405)	(842)	(1,027)	19,489	156,666	76,802
Mexico, Venezuela and Colombia	98,275	(45,992)	(2,104)	(976)	1,319	10,858	69,041	33,009
Other (*)	14,994	(25,620)	(647)	-	-	16,177	25,783	6,738
Consolidated	<u>5,136,712</u>	<u>744,050</u>	<u>(88,848)</u>	<u>(49,736)</u>	<u>(374,120)</u>	<u>1,305,474</u>	<u>3,221,871</u>	<u>1,353,349</u>

	2009							
	Net revenue	Net income (loss)	Depreciation and amortization	Financial expenses, net	Income tax	Noncurre nt assets	Total assets	Current liabilities
Brazil	3,946,421	842,214	(86,863)	(40,912)	(188,559)	984,566	2,533,261	1,244,953
Argentina, Chile and Peru	218,541	(14,357)	(2,128)	317	(1,441)	14,108	123,891	64,749
Mexico, Venezuela and Colombia	66,473	(52,519)	(1,945)	(1,279)	(230)	5,532	50,337	17,972
Other (*)	10,622	(91,414)	(1,490)	-	-	20,650	33,729	9,408
Consolidated	<u>4,242,057</u>	<u>683,924</u>	<u>(92,426)</u>	<u>(41,874)</u>	<u>(190,230)</u>	<u>1,024,856</u>	<u>2,741,218</u>	<u>1,337,082</u>

(\*) Includes operations France and expenses in the United States in 2009.

The Company has only on class of products that is sold to Natura Beauty Consultants which is classified as "Cosmetics". As such, disclosure of information by products and services is not applicable.

The Company has a dispersed customer portfolio, with no concentration of revenue.

The revenue from foreign related parties informed to the Executive Committee was measured in accordance with that stated in the statement of income.

## 21. NET OPERATING REVENUE

	Company		Consolidated	
	2010	2009	2010	2009
Gross revenue:				
Domestic market	6,486,421	5,410,052	6,487,124	5,410,545
Foreign market	-	-	471,185	377,445
Other sales	-	-	1,479	1,323
	<u>6,486,421</u>	<u>5,410,052</u>	<u>6,959,788</u>	<u>5,789,313</u>
Taxes on sales	(8,682)	(7,782)	(8,682)	(7,782)
Returns and cancellations	(963,424)	(809,105)	(1,814,394)	(1,539,474)
Net revenue	<u>5,514,315</u>	<u>4,593,165</u>	<u>5,136,712</u>	<u>4,242,057</u>

## 22. OPERATING EXPENSES AND COST OF SALES

a) Breakdown of operating expenses and cost of sales by function:

	Company		Consolidated	
	2010	2009	2010	2009
Cost of sales	2,283,926	1,956,558	1,556,806	1,294,565
Marketing and selling expenses	1,292,365	1,062,579	1,704,322	1,496,125
General and administrative expenses	837,808	698,241	605,442	450,868
Management compensation	18,174	21,049	70,351	55,784
Compensation of key management personnel (note 28.2)	14,417	13,139	14,417	14,063
Total	<u>4,446,690</u>	<u>3,751,566</u>	<u>3,951,338</u>	<u>3,311,405</u>

b) Breakdown of operating expenses and cost of sales by nature:

	Company		Consolidated	
	2010	2009	2010	2009
Variable costs and indirect costs of resale materials and products	2,283,926	1,956,558	1,319,106	1,093,965
Marketing and selling expenses	846,913	661,316	910,489	716,420
Freight expenses	223,236	200,922	234,066	216,259
Research and product development expenses (note 2.12.)	299	-	51,958	111,794
Project expenses	33,601	37,804	101,587	90,418
Services expenses	65,227	57,739	171,970	133,470
Employee benefit expenses (note 23)	261,441	253,456	628,078	521,938
Compensation of key management personnel (note 28.2)	14,417	13,139	14,417	14,063
Depreciation and amortization charges	15,305	11,918	88,848	92,426
Others expenses	107,183	86,345	430,819	320,652
Provision of administrative services (note 28.1)	328,183	252,015	-	-
Provision of research and development services (note 28.1)	266,959	220,354	-	-
Total	<u>4,446,690</u>	<u>3,751,566</u>	<u>3,951,338</u>	<u>3,311,405</u>

## 23. EMPLOYEE BENEFIT EXPENSES

	Company		Consolidated		Date of grant	Exercise price - R\$	Outstanding options	Remaining contractual live (years)	Exercisable options
	2010	2009	2010	2009					
Payroll and bonuses	177,326	174,908	414,167	354,037	March 16, 2005	20.25	82,981	0.21	82,981
Management compensation (note 23.1.)	18,174	21,049	70,351	55,784	March 29, 2006	30.17	414,120	1.23	414,120
Pension plan (note 24.1.)	2,167	961	2,528	1,387	April 24, 2007	28.53	650,333	2.35	325,167
Executives' compensation	4,081	4,826	11,288	8,573	April 22, 2008	22.16	1,128,902	3.36	-
Taxes payable	59,693	51,711	129,744	102,157	April 22, 2009	24.17	2,436,105	6.40	-
	<u>261,441</u>	<u>253,456</u>	<u>628,078</u>	<u>521,938</u>	March 19, 2010	35.46	<u>2,126,372</u>	7.32	-
							<u>6,838,813</u>		<u>822,268</u>

### 23.1. Management and employee profit sharing

The Company and its subsidiaries pay profit sharing to their employees and officers, tied to the achievement of operational targets and specific objectives, established and approved at the beginning of each year. As of December 31, 2010 and 2009, the amounts below were recorded as profit sharing:

	Company		Consolidated	
	2010	2009	2010	2009
Employee	18,174	21,049	70,351	55,784
Management (*)	6,018	5,424	6,018	5,749
	<u>24,192</u>	<u>26,473</u>	<u>76,369</u>	<u>61,533</u>

(\*)Included in caption "Management compensation".

### 23.2. Stock option plan

Once a year the Board of Directors meets in order to choose the directors and managers who will receive the options and the total number to be distributed.

Under the format prevailing until 2008, the programs had a four-year vesting period, after which 50% of the options could be exercised at the end of the third year and 50% at the end of the fourth year; and a maximum term of two years for the exercise of options after the end of the fourth year of the vesting period.

In 2009, the plan was revised to establish the end of the fourth year as the vesting date of all the options granted, with the possibility of reducing the vesting period to three years through the cancelation of 50% of the options granted and setting the four years as the maximum term for the exercise of the options.

On March 19, 2010, 2,175,646 options were granted under this new plan format, with the exercise price of R\$34.17.

The changes in the number of outstanding stock options and their related weighted-average prices are as follows:

	2010		2009	
	Average exercise price per share - R\$	Options (thousands)	Average exercise price per share - R\$	Options (thousands)
Balance at beginning of year	23.22	5,538	19.24	4,733
Granted	34.17	2,176	22.44	2,583
Cancelled	22.80	(268)	23.96	(568)
Exercised	<u>22.74</u>	<u>(607)</u>	<u>10.78</u>	<u>(1,210)</u>
Balance at end of year	<u>28.10</u>	<u>6,839</u>	<u>23.22</u>	<u>5,538</u>

Out of the 6,839,000 outstanding options as of December 31, 2010 (5,538,000 outstanding options as of December 31, 2009), 822,000 outstanding options are vested (685,000 outstanding options as of December 31, 2009). The options exercised by employees of the Company and/or its subsidiaries as of December 31, 2010 resulted in the issuance of 607,000 shares (1,210,000 shares as of December 31, 2009).

The expense related to the fair value of the options granted during the period ended December 31, 2010, according to the elapsed vesting period, was R\$4,081 and R\$11,288, Company and on a consolidated basis, respectively (R\$4,339 and R\$8,573 Company and on a consolidated basis, respectively, as of December 31, 2009).

The outstanding stock options at the end of the quarter/year have the following vesting dates and exercise prices

December 31, 2010:

Date of grant	Exercise price - R\$	Outstanding options	Remaining contractual live (years)	Exercisable options
March 29, 2006	30.17	414,120	1.23	414,120
April 24, 2007	28.53	650,333	2.35	325,167
April 22, 2008	22.16	1,128,902	3.36	-
April 22, 2009	24.17	2,436,105	6.40	-
March 19, 2010	35.46	<u>2,126,372</u>	7.32	-
		<u>6,838,813</u>		<u>822,268</u>

December 31, 2009:

Date of grant	Exercise price - R\$	Outstanding options	Remaining contractual live (years)	Exercisable options
March 16, 2005	19.12	281,911	1.22	281,911
March 29, 2006	28.49	623,221	2.24	309,906
April 24, 2007	26.94	807,511	3.36	-
April 22, 2008	20.92	1,210,647	4.37	-
April 22, 2009	22.82	<u>2,520,690</u>	7.41	-
		<u>5,537,602</u>		<u>685,439</u>

As of December 31, 2010, market price per share was R\$47.69 (R\$36.31 as of December 31, 2009).

Significant data included in the fair value pricing model of the options granted in 2010:

- Fair value of stock option of R\$10.82 (R\$7.83 in 2009) on grant date.
- Volatility of 37% (39% in 2009).
- Dividend yield of 5.3% (5.3% in 2009).
- Expected option life of three and four years.
- Risk-free annual interest rate of 10.8% (9.6% in 2009).

Below is a simulation of the effects from: (a) the exercise of options granted through December 31, 2010; and (b) the exercise of all options liable to being granted under the Stock Option Plan. For both scenarios, we assumed that all options were exercisable as of December 31, 2010, based on the Company's shareholders' equity on that date:

	Scenario I	Scenario II
	Granted options	Total plan
Average exercise price per share - R\$	28.10	28.10
Number of common shares	430,881,416	430,881,416
Number of shares to be issued with the exercise of the options	6,838,813	17,953,392
Book value per share as of December 31, 2010 - R\$	2.90	2.90
Book value per share as of December 31, 2010, considering the exercise of all options granted under each plan - R\$	2.85	2.78
Dilution of book value per share considering the exercise of all options granted in each plan - R\$	0.05	0.12
Dilution in percentage considering the exercise of all options granted in each plan	1.72%	4.00%

## 24. EMPLOYEE BENEFITS

### 24.1. Pension plan

The Company and its subsidiaries sponsor two employees' benefit plans: a pension plan, through a private pension fund managed by Brasilprev Seguros e Previdência S.A., and an extension of healthcare plans to retired employees. The defined contribution pension plan was created on August 1, 2004 and all employees hired from that date are eligible to it. Under this plan, the cost is shared between the employer and the employees, so that the Company's share is equivalent to 60% of the employee's contribution according to a contribution scale based on salary ranges from 1% to 5% of the employee's monthly compensation.

On December 31, 2010, the Company and its subsidiaries did not have actuarial liabilities arising from the former employees' pension plan.

The contributions made by the Company and its subsidiaries totaled R\$2,167 (Company) and R\$2,528 (Consolidated) in the period ended December 31, 2010 (R\$961, Company and R\$1,387, Consolidated in the period ended December 31, 2009) and were recorded as expenses in the period.

## 24.2. Healthcare plan

The Company and its subsidiaries maintain a postemployment healthcare plan for a group of former employees and their spouses that is governed by specific rules. As of December 31, 2010, the plan had 304 (Company) and 2,165 (Consolidated) participants.

As of December 31, 2010, the Company and its subsidiaries had a reserve for the actuarial liability arising from this plan totaling R\$13,123 (Company) and R\$19,742 (Consolidated), (R\$2,384, Company and R\$9,342, Consolidated as of December 31, 2009), which was calculated by an independent actuary considering the following main assumptions:

	Annual percentage (in nominal terms) 2010	
Financial discount rate	11.2	
Increase in medical expenses (reduced by 0.5% per year)	10.5 a 5.5	
Long-term inflation	4.5	
General mortality table	RP 2000	

## 25. FINANCIAL INCOME (EXPENSES), NET

	Company		Consolidated	
	2010	2009	2010	2009
Financial income:				
Interest on short-term investments	13,171	6,378	35,809	28,610
Inflation adjustment and foreign exchange gains (a)	-	44,414	34	45,745
Gains on swap and forward transactions	2,403	1,379	3,901	3,459
Other financial income	1,941	4,623	13,895	6,362
	<u>17,515</u>	<u>56,794</u>	<u>53,639</u>	<u>84,176</u>
Financial expenses:				
Interest on financing	(39,896)	(20,274)	(58,457)	(38,466)
Inflation adjustment and foreign exchange losses (a)	(3,757)	(43)	(7,130)	(7,980)
Losses on swap and forward transactions	(9,075)	(57,660)	(12,076)	(67,418)
Other financial expenses	(5,509)	(5,828)	(25,712)	(12,186)
	<u>(58,237)</u>	<u>(83,805)</u>	<u>(103,375)</u>	<u>(126,050)</u>
Financial expenses, net	<u>(40,722)</u>	<u>(27,011)</u>	<u>(49,736)</u>	<u>(41,874)</u>

The objective of the breakdowns below is to explain more clearly the foreign exchange hedging transactions contracted by the Company and their contra entries in the statement of income shown in the previous table:

	Consolidated	
	2010	2009
(a)		
Inflation and exchange gains	34	45,745
Inflation and exchange losses	<u>(7,130)</u>	<u>(7,980)</u>
	<u>(7,096)</u>	<u>37,765</u>
(a) Breakdown		
Exchange rate changes on loans and financing	(2,781)	51,587
Adjustment for inflation on financing	34	(2,925)
Exchange rate changes on imports	(1,089)	619
Exchange rate changes on accounts payable in foreign subsidiaries	(1,399)	(823)
Exchange rate changes on export receivables	<u>(1,861)</u>	<u>(10,693)</u>
	<u>(7,096)</u>	<u>37,765</u>

## 26. OTHER OPERATING INCOME (EXPENSES), NET

	Controladora		Consolidado	
	2010	2009	2010	2009
Gain on sale of property, plant and equipment	387	702	(9,044)	(9,265)
Actuarial liability - healthcare plan (note 24.2)	(1,378)	(2,384)	(5,400)	(9,342)
Others	<u>(1,447)</u>	<u>2,643</u>	<u>(3,024)</u>	<u>3,983</u>
Other operating income (expenses), net	<u>465</u>	<u>961</u>	<u>(17,468)</u>	<u>(14,624)</u>

## 27. EARNINGS PER SHARE

### 27.1. Basic

Diluted earnings per share is calculated by adjusting the weighted average outstanding common shares supposing that all potential common shares that would cause dilution are converted. The Company has only one category of common shares that would potentially cause dilution: the stock options.

	2010	2009
Net income attributable to the Company's shareholders	744,050	683,924
Weighted average of common shares issued	<u>430,548,910</u>	<u>429,461,590</u>
Weighted average of treasury shares	<u>(655)</u>	<u>(10,208)</u>
Weighted average of outstanding common shares	<u>430,548,255</u>	<u>429,451,382</u>
Basic earnings per share - R\$	<u>1,7281</u>	<u>1,5926</u>

### 27.2. Diluted

Diluted earnings per share is calculated by adjusting the weighted average outstanding common shares supposing that all potential common shares that would cause dilution are converted. The Company has only one category of common shares that would potentially cause dilution: the stock options.

	2010	2009
Net income attributable to the owners of the Company	744,050	683,924
Weighted average of number of common shares issued	<u>430,548,255</u>	<u>429,451,382</u>
Weighted average of treasury shares	<u>1,564,844</u>	<u>1,017,758</u>
Weighted average of number of outstanding common shares issued	<u>432,113,098</u>	<u>430,469,140</u>
Basic earnings per share - R\$	<u>1,7219</u>	<u>1,5888</u>

## 28. RELATED-PARTY TRANSACTIONS

### 28.1. Intragroup transactions

Receivables from and payables to related parties are as follows:

	Company	
	2010	2009
Current assets:		
Natura Inovação e Tecnologia de Produtos Ltda. (a)	13,143	12,171
Natura Logística e Serviços Ltda. (b)	<u>12,218</u>	<u>14,586</u>
	<u>25,361</u>	<u>26,757</u>
Advance for future capital increase- Flora Medicinal J. Monteiro da Silva Ltda. (c)	-	90
	-	<u>90</u>
Current liabilities-		
Suppliers:		
Indústria e Comércio de Cosméticos Natura Ltda. (d)	153,597	153,509
Natura Logística e Serviços Ltda. (e)	47,356	27,627
Natura Inovação e Tecnologia de Produtos Ltda. (f)	<u>45,636</u>	<u>30,455</u>
	<u>246,589</u>	<u>211,591</u>
Dividends and interest on capital payable	<u>163</u>	<u>174</u>

Transactions with related parties are as follows:

	Company			
	Product sales		Product purchases	
	2010	2009	2010	2009
Indústria e Comércio de Cosméticos Natura Ltda.	3,006,596	2,611,231	-	-
Natura Cosméticos S.A.-Brasil	-	-	2,837,687	2,465,453
Natura Cosméticos S.A.-Peru	-	-	34,104	34,151
Natura Cosméticos S.A.-Argentina	-	-	42,693	46,970
Natura Cosméticos S.A.-Chile	-	-	32,971	25,300
Natura Cosméticos S.A.-México	-	-	35,533	22,353
Natura Cosméticos Ltda.-Colômbia	-	-	18,514	10,846
Natura Cosméticos C.A.-Venezuela	-	-	-	1,417
Natura Europa SAS-França	-	-	4,672	3,885
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	388	799
Natura Logística e Serviços Ltda.	-	-	34	56
Natura Cosmetics USA Co.	-	-	-	1
	<u>3,006,596</u>	<u>2,611,231</u>	<u>3,006,596</u>	<u>2,611,231</u>
	<u>Service sales</u>	<u>Services purchases</u>	<u>2010</u>	<u>2009</u>
Administrative structure: (g)				
Natura Logística e Serviços Ltda.	438,095	333,652	-	-
Natura Cosméticos S.A. - Brasil	-	-	328,183	252,015
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	67,810	52,176
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	42,102	29,461
	<u>438,095</u>	<u>333,652</u>	<u>438,095</u>	<u>333,652</u>
Product and technology research and development: (h)				
Natura Inovação e Tecnologia de Produtos Ltda.	266,959	220,354	-	-
Natura Cosméticos S.A. - Brasil	-	-	266,959	220,354
	<u>266,959</u>	<u>220,354</u>	<u>266,959</u>	<u>220,354</u>
"In vitro" research and tests: (i)				
Natura Innovation et Technologie de Produits SAS - França	3,538	3,066	-	-
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	3,538	3,066
	<u>3,538</u>	<u>3,066</u>	<u>3,538</u>	<u>3,066</u>
Lease of properties and common charges: (j)				
Indústria e Comércio de Cosméticos Natura Ltda.	6,728	6,632	-	-
Natura Logística e Serviços Ltda.	-	-	3,899	3,843
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	1,567	1,544
Natura Cosméticos S.A. - Brasil	-	-	1,263	1,245
	<u>6,728</u>	<u>6,632</u>	<u>6,728</u>	<u>6,632</u>
Total of sales or purchases and services	<u>3,721,916</u>	<u>3,174,935</u>	<u>3,721,916</u>	<u>3,174,935</u>

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

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

(c) Refers to remittances to Flora Medicinal J. Monteiro da Silva Ltda.

(d) Payables for the purchase of products.

(e) Payables for services described in item (g).

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

(g) Logistics and general administrative services.

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

(i) Provision of "in vitro" research and tests.

(j) Refers to the lease of part of the industrial complex located in Cajamar - SP and buildings located in the municipality of Itapeverica da Serra - SP.

The main intercompany balances as of December 31, 2010 and 2009, as well as the intercompany transactions that affected the years then ended, refer to transactions between the Company and its subsidiaries.

Because of the Company's and subsidiaries' operational model, as well as the channel chosen to distribute products, direct sales via Natura Beauty Consultants, a substantial portion of sales is made by the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. to the parent company Natura Cosméticos S.A. in Brazil and to its foreign subsidiaries.

Sales to unrelated parties amounted to R\$7,620 for the year ended December 31, 2010 (R\$6,628 for the year ended December 31, 2009).

There is no allowance for doubtful accounts recognized for intercompany receivables on December 31, 2010 and 2009 since there are no past-due receivables with risk of default.

According to note 15, the Group companies usually grant each other pledges and collaterals to guarantee bank loans and financing.

	2010				
	Compensation			Stock option grant	
	Fixed	Variável (a)	Total	Stock option balance	Average exercise
Board of Directors	3,348	1,985	5,333	-	-
Officers (statutory)	<u>5,051</u>	<u>4,033</u>	<u>9,084</u>	<u>1,512,568</u>	28,10
	<u>8,399</u>	<u>6,018</u>	<u>14,417</u>	<u>1,512,568</u>	

	2009				
	Compensation			Stock option grant	
	Fixed	Variável (a)	Total	Stock option balance	Average exercise
Board of Directors	3,562	1,713	5,275	-	-
Officers (statutory)	<u>4,828</u>	<u>3,960</u>	<u>8,788</u>	<u>977,338</u>	23,22
	<u>8,390</u>	<u>5,673</u>	<u>14,063</u>	<u>977,338</u>	

The compensation of the Company's executives is as follows:

	2010				
	Compensation			Stock option grant	
	Fixed	Variável (a)	Total	Stock option balance	Average exercise
Executives (not statutory)	<u>25,194</u>	<u>14,917</u>	<u>40,111</u>	<u>2,961,042</u>	<u>28,10</u>

	2009				
	Compensation			Stock option grant	
	Fixed	Variável (a)	Total	Stock option balance	Average exercise
Executives (not statutory)	<u>18,539</u>	<u>10,813</u>	<u>29,352</u>	<u>2,498,686</u>	<u>23,22</u>

(a) Refers to the profit sharing recorded in the statement of income. The amounts include any additions and/or reversals to the provision recorded in the previous year in view of the final assessment of the targets established for directors, officers and executives.

(b) Refers to the balance of unexercised vested and unvested options as of the balance sheet date.

(c) Refers to the weighted-average exercise price of the option at the time of the stock option plans, adjusted for inflation based on the Extended Consumer Price Index (IPCA) through the balance sheet date.

## 29. COMMITMENTS

### 29.1. Inputs supply contracts

The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. entered into a contract for the supply of electric power to its manufacturing activities, in effect through 2015, which provides for the purchase of a minimum monthly volume of 3.6 Megawatts, equivalent to R\$363. As of December 31, 2010, the subsidiary was compliant to the contract's commitment.

The amounts are recognized as electric power is consumed over the contract term; prices are based on volumes and also estimated assuming the continuity of the subsidiary's operations.

Total minimum supply payments, measured at present value, according to the contract, are:

	<u>2010</u>	<u>2009</u>
Less than one year	3,899	3,941
More than one year and less than five years	9,591	12,525
Over five years	<u>2,578</u>	<u>2,462</u>
	<u><u>16,068</u></u>	<u><u>18,928</u></u>

### 29.2. Operating lease transactions

The Company and its subsidiaries have commitments arising from operating leases of properties where some of its foreign subsidiaries, the head office in Brazil and "Casas Natura" in Brazil and abroad are located.

Contracts have lease terms of one to ten years and no purchase option clause when terminated; however, renewal is permitted under the market conditions where they are entered into, for an average of two years.

As of December 31, 2010, the commitment made for future payments of these operating leases had the following maturities:

	<u>Company</u>	<u>Consolidated</u>
2011	1,217	5,332
2012	1,217	3,426
2013 and thereafter	<u>3,806</u>	<u>7,221</u>
	<u><u>6,240</u></u>	<u><u>15,979</u></u>

### 30. INSURANCE (UNAUDITED INFORMATION)

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, 2010, the insurance coverage was as follows:

<u>Item</u>	<u>Type</u>	<u>Insured amount</u>
Industrial complex/ inventories	Any material damages to buildings, facilities and machinery and equipment	829,987
Vehicles	Fire, theft and collision for 1,480 vehicles	57,357
Loss of profits	Normalization of profits arising from material damages to facilities, buildings and production machinery and equipment	1,372,097

### 31. APPROVAL OF FINANCIAL STATEMENTS FOR ISSUANCE

These individual and consolidated financial statements were approved for issuance by the Board of Directors at the meeting held on February 23, 2011.

# REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

To Management and Shareholders of Natura Cosméticos S.A.  
Itapecerica da Serra - SP

We have audited the accompanying individual and consolidated financial statements of Natura Cosméticos S.A. (the "Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as of December 31, 2010, and the statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the financial statements**

Company's Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with Brazilian accounting practices and the consolidated financial statements in accordance with International Financial Reporting Standards - IFRS, as issued by International Accounting Standards Board - IASB, and in accordance with Brazilian accounting practices and for such internal controls as Management determines it is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit, which was conducted in accordance with Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion on individual financial statements**

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of Natura Cosméticos S.A. as of December 31, 2010 and of its financial performance and its cash flows for the year then ended in accordance with Brazilian accounting practices.

## **Opinion on consolidated financial statements**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Natura Cosméticos S.A. as of December 31, 2010 and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with IFRS, as issued by the IASB, and Brazilian accounting practices.

## **Emphasis of matter**

As described in note 2.1., the individual financial statements were prepared in accordance with Brazilian accounting practices. For Natura Cosméticos S.A. these practices differ from IFRS, applicable to separate financial statements, only in relation to measurement of equity method investments in subsidiaries, associates and joint-controlled entities, which are measured based on cost or fair value in accordance with IFRS.

## **Other matters**

### **Statements of value added**

We have also audited individual and consolidated statements of value added (DVA) for the year ended December 31, 2010, whose presentation is required by Brazilian corporate law for public companies, and as supplementary information under IFRS which do not require the presentation of DVA. These statements were subject to the same audit procedures previously described and, in our opinion, are appropriately presented, in all material respects, in relation to the overall financial statements presentation.

### **Convenience translation**

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

São Paulo, February 23, 2011

**Deloitte.**

Auditores Independentes  
CRC nº 2 SP 01 1609/O-8

Edimar Facco

Engagement Partner

CRC nº 1 SP 138635/O-2

# DNV ASSURANCE STATEMENT SUMMARY



NATURA SUSTAINABILITY REPORT 2010

## 1. Context and responsibilities

Det Norske Veritas (DNV) has been commissioned by Natura Cosméticos SA ('Natura') to provide assurance services in connection with the Portuguese version of Natura's Sustainability Report 2010 ('the Report').

The Board of Natura is responsible for all information provided in the Report as well as the processes for collecting, analysing and reporting that information. DNV's responsibility regarding this verification is to Natura only, in accordance with the scope of work commissioned. The stakeholders of Natura are the intended users of this Assurance Statement. DNV disclaims any liability or responsibility to a third party for decisions, whether investment or otherwise, based upon this Assurance Statement summary, or its full version available in Portuguese at [www.natura.net/relatorio](http://www.natura.net/relatorio). Our conclusions are based on the assumption that the data and information provided to DNV is complete and true.

## 2. Independence

DNV states its independence and impartiality with regard to this commission. DNV was not involved in the preparation of any text or data included in the Report, except for this Assurance Statement summary and its full version available in Portuguese at [www.natura.net/relatorio](http://www.natura.net/relatorio). Moreover, in 2010, DNV did not provide any services to Natura that could compromise the independence or impartiality of our findings, conclusions or recommendations.

## 3. Scope and limitations

DNV's assurance engagement consisted of the verification of information provided in the Report, as well as the assessment of the underlying data management and reporting processes, for the period of 12 months ending on 31 December 2010. Based on the scope of work commissioned by Natura, the main objectives of this engagement were to assess and verify:

- Processes and activities carried out by Natura in order to identify, assess and prioritise material sustainability issues;
- Processes and activities carried out by Natura in order to identify, analyse and respond to stakeholders' interests and concerns in relation to the company' sustainability strategy, management and performance, and the content of the Report;
- Systems, processes and tools to collect, aggregate, control and assure the quality of data and report on sustainability-related information;
- The description of sustainability related policies, strategies, objectives, initiatives, achievements and performance in 2010, as described in the Report;
- Adherence of reported information to the principles of materiality, reliability, balance, clarity and comparability set out in the Global Reporting Initiative Sustainability Reporting Guidelines, 2006 and AccountAbility's AA1000 Assurance Principles Standard, 2008 (AA 1000 APS);
- Verification and endorsement of the GRI (2006) application level declared by Natura.

This statement does not cover the verification of information or processes related to greenhouse gas emissions, which were subject to assessment and assurance by another third party.

This assurance engagement focused primarily on the quality of the sustainability information and data presented in the Report and the underlying reporting systems. DNV's scope of work did not include an assessment of the adequacy, effectiveness or efficiency of Natura's sustainability strategy or management practices. It also excluded the assessment or verification of sustainability management, performance or reporting practices by Natura's suppliers or any other third parties mentioned in the Report.

## 4. Approach

This assurance engagement was carried out between January and April 2011 by suitably qualified and experienced professionals, following DNV's Protocol for Verification of Sustainability Reports. DNV's Verification Protocol has been developed in accordance with the most widely accepted reporting and assurance standards, including AA1000 APS (2008) and the GRI Sustainability Reporting Guidelines, 2006 (GRI G3).

The methods used in this engagement included:

- Interviews with 32 directors, managers and staff responsible for processes related to the management of material issues at Natura's headquarters and production units in Cajamar and Benevides (Brazil);
- Participation (as an observer) in a multi-stakeholder engagement event organized in Belém, State of Pará (Brazil) to discuss the material issues related to sourcing in the Amazon region;
- Interviews with 4 selected external stakeholders representing supplier communities of the company and a local regulatory agency;
- Review of documentation and other evidence of developments in the company's sustainability objectives, resources and activities;
- Review of sustainability performance-related reports, performance records and samples of data at source;
- Assessment of the quality and effectiveness of data management systems and tools for collection, aggregation quality control, and reporting of sustainability information. This also involved testing selected data samples;
- Review of the outputs of materiality assessment and external stakeholder engagement initiatives carried out by Natura, as well as internal and external communications regarding Natura's commitment, approach and performance on sustainability;
- Assessment of draft and final versions of the Report against relevant reporting and report assurance standards and guidelines.

## 5. Main conclusions and opportunities for improvement

Based on the work undertaken as part of this assurance engagement, DNV concludes that:

- Natura's Sustainability Report 2010 generally provides a reliable and fair representation of Natura's sustainability related policies, management approach, initiatives and performance over the reporting period.
- The Report is well aligned with the principles established in the GRI Sustainability Reporting Guidelines (2006). DNV also endorses the GRI Application Level of A+, declared by Natura.
- Natura continued to develop their understanding of material topics, in close collaboration with stakeholders in Brazil and overseas (Argentina, Chile, Colombia, México and Peru). The outcomes from these initiatives have been adequately considered in the preparation of the Report.
- The reliability of the information is still limited due to the lack of systematization of the company's data management processes, in particular in the international operations.

In the course of the verification, DNV identified the following opportunities for improvement:

- Inclusivity and responsiveness: continue to improve the description of the company's stakeholders' interests and expectations in relation to Natura's sustainability strategy and the content of the Report. The Report could also better describe how Natura has responded or intends to respond to stakeholder expectations.
- Reliability: increase the systematization of data management processes, in particular in the company's international operations. Internal audits of sustainability data are also recommended.
- Comparability:
  - improve the monitoring of sustainability performance in international operations, in order to increase the scope of reporting of performance in the Report. This should also increase comparability of performance across the various operations of Natura;
  - continue to deepen Natura's understanding of the sustainability performance of its main products and supply chains, following the pilot initiatives initiated in 2010.
- Clarity: improve the clarity and homogeneity of future translated versions of the Report into English.

Detailed information on DNV's approach, conclusions and recommendations is provided in the full Assurance Statement available in Portuguese at [www.natura.net/relatorio](http://www.natura.net/relatorio).



Jasmin Eymery  
Verificador principal



Alexandre Simões Jorge  
Verificador



Antonio Ribeiro  
Controle da qualidade

Det Norske Veritas, São Paulo, 13 May 2011





## Statement GRI Application Level Check

GRI hereby states that **Natura Cosméticos** has presented its report "Natura Report 2010" to GRI's Report Services which have concluded that the report fulfills the requirements of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

21 April 2011, Amsterdam

A handwritten signature in black ink, appearing to read "Nelmara Arbex", is written over a large, faint watermark of the GRI globe logo.

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



The "+" has been added to this Application Level because Natura Cosméticos has submitted (part of) this report for external assurance. GRI accepts the reporter's own judgment for choosing its assurance Provider and for deciding the scope of the assurance.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 7 April 2011. GRI explicitly excludes the statement being applied to any later changes to such material.

# ABOUT THIS REPORT

For the 11th consecutive year, we are publishing the Natura Annual Report. This report is prepared according to the guidelines of the Global Reporting Initiative (GRI) for the period from January 1 to December 31, 2010. We have adopted the G3 version of the GRI, and for the fourth consecutive year we declare that we have applied the A+ application level for reporting our economic, social, and environmental performances.

The socioenvironmental information herein was subject to external verification by Det NorskeVeritas (DNV). Greenhouse gas inventory data were subject to a specific verification (limited assurance) by the auditing and consulting firm PwC, while the economic and financial information was audited by Deloitte Touche Tohmatsu Auditores Independentes.

Report Application Level	C	C+	B	B+	A	A+
<b>G3 Profile Disclosures</b> OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B*	Report Externally Assured
<b>G3 Management Approach Disclosures</b> OUTPUT	Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured
<b>G3 Performance Indicators &amp; Sector Supplement Performance Indicators</b> OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental	Report Externally Assured	Report on a minimum of 20 Performance Indicators, at least one from each of: Economic, Environmental, human rights, Labor, Society, Product Responsibility	Report Externally Assured	Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	Report Externally Assured

\* Sector supplement in final version

This publication considers the information related to all our operations. These include Argentina, Chile, Colombia, Mexico, Peru, and France, in addition to the operations in Bolivia and Central America, where we operate through distributors. The scope of the socioenvironmental information is mainly related to the activities in Brazil, where our production is concentrated and where most of our social and environmental impacts occur. The economic data include all our operations.

Since 2009, the calculation of our key environmental impacts – water and energy consumption and waste generation – has included data from outsourced suppliers who manufacture our products in Brazil. Therefore, we have undertaken a more precise evaluation of the impacts of our operations. One of our challenges for the future is to begin monitoring the indicators of the outsourced operations of our international operations. In 2010 we started production in Argentina, and we expect to begin production in Chile and Mexico in 2011.

Possible significant changes in relation to previous years, as well as changes in the calculation basis or measurement techniques, are presented throughout the report and in the tables.

We present data on our relationships with our priority stakeholders, whom we define as our brand builders: employees; consultants and Natura Consultant Advisers; consumers; suppliers; supplier communities; surrounding communities; shareholders; and government.

The information in this report is available in different formats and accessible through different communication channels:

- Management Report – published in the Valor Econômico and Brasil Econômico newspapers and in the Diário Oficial official gazette on February 24, 2011, containing the main performance data for the year.
- Report for key opinion leaders – the main printed publication containing the most relevant information about our performance. Available in Portuguese, English, and Spanish.
- Internet – presents the full content in Portuguese and English. Access our electronic address [www.natura.net/relatorio](http://www.natura.net/relatorio).

- Special edition for employees – contains topics of interest to our internal stakeholders and is also available on the Internet in Portuguese and Spanish.
- Special edition for our consultants – contains specific information for our sales channel, available in Portuguese only and on the Internet.

The preparation of the report was discussed as well as published on the Natura Conecta virtual platform ([www.naturaconecta.com.br](http://www.naturaconecta.com.br)). Access to the portal is free to all.

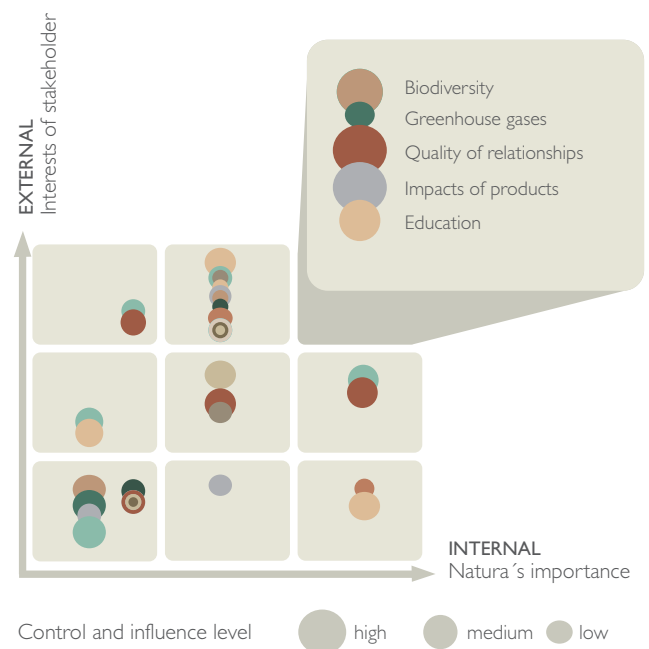
## CONSTRUCTING MATERIALITY

The participation of our stakeholders in developing the materiality matrix not only involves defining the content of the report, it also directs our strategic management of sustainability. The concerns identified during the process produce a blueprint for senior management to draw up the company's plans, which are consequently reflected in the company report.

Undertaken every two years, the materiality matrix cross-references the socioenvironmental topics identified by our stakeholders as relevant (external axis) with their importance for the company (internal axis). Topics are selected on the basis of importance to the company's strategy, operating risks and opportunities, and for their pioneering spirit.

The matrix presented in this report was constructed in 2008 and detailed and expanded with our stakeholders from the Brazilian operations in 2009. In all, 1,400 people were involved in the process. The high-High-priority Topics in sustainability were defined as the Amazon, Biodiversity, Education, Greenhouse Gases, Product Impact, and Quality of Relationships. The Amazon region was not identified by the stakeholders, but we included it in our priorities because we consider this to be a key factor for Brazil's development (learn more on page 24, High priority Topics).

## MATERIALITY MATRIX



Throughout 2010, we undertook a new cycle of engagement so as to update the materiality matrix, making important progress. A description of this process will be incorporated into the discussions of Natura's strategic planning in 2011 and published in the next reporting cycle.

The next matrix will include stakeholders from our Latin American operations. This will enable us to identify high-High-priority Topics that reflect all our units, not just our Brazilian operations. We held a multistakeholder panel at our head office in Cajamar (São Paulo), in addition to dialogues for this purpose in Argentina, Peru, Colombia, and Mexico in 2010, and in March 2011 in Chile.

We moved forward with the Wiki Reports in early 2011. We revisited the discussions held in the six virtual forums of 2010 and presented the progress of our work on high-High-priority Topics. This platform was also used to set priorities for the topics in the new materiality matrix. Our objective was to enable participants to contribute to the Natura's actions in a collaborative manner, evaluating them and making suggestions — thus turning the report into a living document in the spirit of ongoing communication and permanent dialogue. The Wiki Natura Report community is available at [www.naturaconecta.com.br](http://www.naturaconecta.com.br) and all those interested can participate (learn more on page 33, Collective Construction).

We also hosted a panel discussion led by specialists. Employees and suppliers involved in the Natura reporting process and external communication and sustainability professionals participated in this event. We reflected on current characteristics of our reporting and what changes are required, pointing out more appropriate formats, types of approaches, and frequency.

The process of gathering information for the annual report is supported by a communications agency with experience in sustainability. It includes more than 50 interviews with representatives of both employees and management, who update indicators by different departments of the company. Last year, we improved data collection with the support of an online tool for filling out data by the relevant areas, though there is still a need for better data management throughout the year. The information in this report is validated by senior management and is subject to external audit.

We are recognized for our effort to integrate economic, social and environmental information into our report. We are aware, however, that we still have a lot to develop until we succeed in interrelating the main impact of our activities.

For further information on this report, please directly contact the team responsible for its preparation by e-mail: [relatorioanual@natura.net](mailto:relatorioanual@natura.net).

## GLOBAL COMPACT PRINCIPLES

Since July 2000, Natura has been a signatory of the Global Compact, a United Nations initiative that brings together companies, workers, and civil society to promote sustainable growth and citizenship. We are also part of the Global Compact Brazilian Committee (CBPG), created from the partnership between the Ethos Institute and the United Nations Development Program in 2003.

The CBPG is made up of companies, UN agencies in Brazil, legal entities, academia, and organizations that work on such topics as human and labor rights, the environment, and combating corruption. For further information on this initiative, visit [www.pactoglobal.org.br](http://www.pactoglobal.org.br).

Global Compact Principles	Relevant GRI Indicators	Indirectly relevant GRI indicators	Performance information
<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	p. 37 and 50
Principle 2 Prevent human rights violations	HR1; HR2; HR8		p. 52
<b>Principles of Labor Rights</b>			
Principle 3 Support freedom of association in the workplace	HR5; LA4; LA5		p. 39
Principle 4 Abolish forced labor	HR7	HR1; HR2; HR3	p. 50 and 51
Principle 5 Abolish child labor	HR6	HR1; HR2; HR3	p. 50 and 51
Principle 6 Eliminate discrimination in the workplace	HR4; LA2; LA13; LA14	HR1; HR2; EC5; EC7; LA13	p. 41 and online
<b>Principles of Environmental Protection</b>			
Principle 7 Support a preventive approach to environmental challenges		Performance Chapter	EC2 p. 14 and 62
Principle 8 Promote environmental responsibility	EN2; EN5; EN6; EN7; EN10; EN13; EN14; EN18; EN21; EN22; EN26; EN27; EN30	EC2; EN1; EN3; EN4; EN8; EN9; EN11; EN12; EN15; EN16; EN17; EN19; EN20; EN23; EN24; EN25; EN28; EN29; PR3; PR4	p. 60 to 66
Principle 9 Encourage environmentally friendly technologies	EN2; EN5; EN6; EN7; EN10; EN18; EN26; EN27		p. 30 and 31
<b>Principle against Corruption</b>			
Principle 10 Fight corruption in all its forms, including extortion and bribery	SO2; SO3; SO4	SO5; SO6	p. 18, 56 and 57

# GRI INDEX

See the table below to locate the performance indicators, as per the GRI standard, as well as references and explanations for those that we reported partially.

1. STRATEGY AND ANALYSIS				
Profile Disclosure	Description	Reported	Pages	Detailing about what isn't reported
1,1	Statement from the most senior decision-maker of the organization.	Fully	5	
1,2	Description of key impacts, risks, and opportunities.	Fully	5	
2. ORGANIZATIONAL PROFILE				
Profile Disclosure	Description	Reported	Pages	Detailing about what isn't reported
2,1	Name of the organization.	Fully	9	
2,2	Primary brands, products, and/or services.	Fully	9	
2,3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	9	
2,4	Location of organization's headquarters.	Fully	9	
2,5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	9	
2,6	Nature of ownership and legal form.	Fully	9	
2,7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	9	
2,8	Scale of the reporting organization.	Fully	9, 102, 103 and 128	
2,9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully	9	
2,10	Awards received in the reporting period.	Fully	10	
3. REPORT PARAMETERS				
Profile Disclosure	Description	Reported	Pages	Detailing about what isn't reported
3,1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	138	
3,2	Date of most recent previous report (if any).	Fully	138	
3,3	Reporting cycle (annual, biennial, etc.)	Fully	138	
3,4	Contact point for questions regarding the report or its contents.	Fully	139	
3,5	Process for defining report content.	Fully	138	
3,6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	138	
3,7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	138	
3,8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Fully	138	
3,9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	139	
3,10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, and measurement methods).	Fully	138	
3,11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	138	
3,12	Table identifying the location of the Standard Disclosures in the report.	Fully	140	
3,13	Policy and current practice with regard to seeking external assurance for the report.	Fully	134	
4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT				
Profile Disclosure	Description	Reported	Pages	Detailing about what isn't reported
4,1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	Fully	16	
4,2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	16	
4,3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Fully	16	
4,4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	41	
4,5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	Fully	23	
4,6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	16	
4,7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	Fully	16	
4,8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Fully	3	
4,9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Fully	21	
4,10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Fully	17	
4,11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Fully	61	
4,12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Fully	75; 139	
4,13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Fully	85	
4,14	List of stakeholder groups engaged by the organization.	Fully	138	
4,15	Basis for identification and selection of stakeholders with whom to engage.	Fully	138	
4,16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	33 and 39	
4,17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	Fully	32-33; 38; 54; 62; 68	
PERFORMANCE INDICATOR				
ECONOMIC				
Performance Indicator	Description	Reported	Pages	Detailing about what isn't reported
Economic management approach				
Economic performance				
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully	94; 103; 105, 106 and 131	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Fully	21 and 27	
EC3	Coverage of the organization's defined benefit plan obligations.	Fully	50	
EC4	Significant financial assistance received from government.	Fully	36; 74 and 95	
Market presence				
ECS	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Fully	49	

EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Partially	69	We report our purchasing practices from local suppliers and related expenses, but we do not show the percentage in relation to total supplying because that information is not available. We will begin managing that data in 2011, and will therefore report the results in 2012.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Fully	47	
<b>Indirect economic impacts</b>				
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully	48; 68 and 92	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Fully	54 and 94	
<b>ENVIRONMENTAL</b>				
Performance Indicator	Description	Reported	Pages	Detailing about what isn't reported
Environmental management approach		Fully	79	
<b>Materials</b>				
EN1	Materials used by weight or volume.	Partially	86	We report the total materials used by weight and volume, but we don't use stratification by non-renewable materials and direct materials because that information is not available. We will begin managing that data in 2012, and will therefore report the results in 2013.
EN2	Percentage of materials used that are recycled input materials.	Fully	86 and 87	
<b>Energy</b>				
EN3	Direct energy consumption by primary energy source.	Fully	91	
EN4	Indirect energy consumption by primary source.	Fully	91	
EN5	Energy saved due to conservation and efficiency improvements.	Fully	91	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully	90	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Fully	90	
<b>Water</b>				
EN8	Total water withdrawal by source.	Fully	89	
EN9	Water sources significantly affected by withdrawal of water.	Fully	89	
EN10	Percentage and total volume of water recycled and reused.	Fully	89	
<b>Biodiversity</b>				
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Fully	86	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Fully	83	
EN13	Habitats protected or restored.	Fully	69 and 86	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Fully	29 and 83	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Fully	29 and 84	
<b>Emissions, effluents and waste</b>				
EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully	79	
EN17	Other relevant indirect greenhouse gas emissions by weight.	Fully	79	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	79-80	
EN19	Emissions of ozone-depleting substances by weight.	Fully	80	
EN20	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type and weight.	Fully	80	
EN21	Total water discharge by quality and destination.	Fully	89	
EN22	Total weight of waste by type and disposal method.	Fully	88	
EN23	Total number and volume of significant spills.	Fully	89	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Fully	88	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Partially	89	We report information about bodies of water impacted by our disposal, but we do not report the dimension and value of the biodiversity in the body of water. This is not material information for our business.
<b>Products and services</b>				
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Partially	78; 86-88	We report various initiatives to mitigate the environmental impacts of our products and services. We did not include measures to mitigate impacts related to noise in the publication. Natura's materiality matrix prioritized environmental issues such as greenhouse gases and impacts from products with special focus on solid waste, not including the issue of noise pollution. This is not material information for our business.
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Partially	57	We report the total weight of recovered products and packaging, but not the percentage in relation to the total billed. That information is not yet available. We will begin managing that data in 2012, and will therefore report the results in 2013. The Residue issue is our priority at Natura, reflected in our materiality exercise. It is important to us to act in such a way as to promote results for society, beyond just for Natura. Hence, our actions will also consider materials beyond our products.
<b>Compliance</b>				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	Fully	83	
<b>Transport</b>				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Fully	78 and 80	
<b>Overall</b>				
EN30	Total environmental protection expenditures and investments by type.	Partially	95	We report various organizational investments and expenses, including those related to the environment, but we do not use the segmentation requested by the indicator. This is not material information for our business.
<b>SOCIAL – LABOR PRACTICES AND DECENT WORK</b>				
Performance Indicator	Description	Reported	Pages	Detailing about what isn't reported
Labor management approach		Fully	43-44	
<b>Employment</b>				
LA1	Total workforce by employment type, employment contract, and region.	Fully	43	
LA2	Total number and rate of employee turnover by age group, gender, and region.	Partially	47	We report the total terminations and turnover rate by region, but we do not show segmentation by gender and age group. This is not material information for our business.

LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Fully	50	
<b>Labor/ management relations</b>				
LA4	Percentage of employees covered by collective bargaining agreements.	Fully	50	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	Partially	50	We communicate operational changes in advance, but we have a minimum timeframe to issue this notice. This is not material information for our business.
<b>Occupational health and safety</b>				
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Fully	52	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of workrelated fatalities by region.	Partially	52	We report various data about occupational health and safety, but we do not report the distribution of this information by region. This is not material information for our business.
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Fully	52	
LA9	Health and safety topics covered in formal agreements with trade unions.	Fully	52	
<b>Training and education</b>				
LA10	Average hours of training per year per employee by employee category.	Fully	44	
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully	50	
LA12	Percentage of employees receiving regular performance and career development reviews.	Fully	47	
<b>Diversity and equal opportunity</b>				
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Partially	48	We report our staff breakdown according to our view of diversity, but we do not segment the data by gender and age group. This is not material information for our business.
LA14	Ratio of basic salary of men to women by employee category.	Fully	49	
<b>SOCIAL – HUMAN RIGHTS</b>				
Performance Indicator	Description	Reported	Pages	Detailing about what isn't reported
Human rights management approach		Fully	38; 41 and 45	
<b>Investment and procurement practices</b>				
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Fully	63	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Fully	63	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Fully	45	
<b>Non-discrimination</b>				
HR4	Total number of incidents of discrimination and actions taken.	Fully	41	
<b>Freedom of association and collective bargaining</b>				
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Fully	50	
<b>Child labor</b>				
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	Fully	55, 63 and 65	
<b>Forced and compulsory labor</b>				
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.	Fully	55 and 63	
<b>Security practices</b>				
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	Partially	46	We report our safety practices, which encompass Human Rights training, but we do not report the percentage of the safety teams that undergo training and outsourcers that participate in the training sessions in relation to the total. This data is not available.
<b>Indigenous rights</b>				
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Fully	65 and 96	
<b>SOCIAL – SOCIETY</b>				
Performance Indicator	Description	Reported	Pages	Detailing about what isn't reported
Social management approach		Fully	92 and 95	
<b>Community</b>				
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Fully	64	
<b>Corruption</b>				
SO2	Percentage and total number of business units analyzed for risks related to corruption.	Fully	21	
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	Fully	45	
SO4	Actions taken in response to incidents of corruption.	Fully	21	
<b>Public policy</b>				
SO5	Public policy positions and participation in public policy development and lobbying.	Fully	74	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Fully	16	
<b>Anti-competitive behavior</b>				
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	Fully	74	
<b>Compliance</b>				
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	Fully	74	
<b>SOCIAL – PRODUCT RESPONSIBILITY</b>				
Performance Indicator	Description	Reported	Pages	Detailing about what isn't reported
Product responsibility management approach		Fully	60-61 and 87	
<b>Customer health and safety</b>				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Fully	61	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.		61	
<b>Product and service labeling</b>				
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Fully	87	
PR4	PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Fully	61	
PR5	PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	44 and 59	
<b>Marketing communications</b>				
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Fully	60	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	Fully	60	
<b>Customer Privacy</b>				
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	55 and 60	
<b>Compliance</b>				
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	Fully	61	

# EDITORIAL TEAM

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## **Writing and proofreading**

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## **Image treatment and prepress**

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35, 38, 42, 54, 58, 59)

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Marcos Suguio (p. 48)

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## **Determination of Indicators**

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and Legal Affairs  
and Report Comunicação

## **General Coordination**

Corporate Affairs and  
Government Relations Office

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