Financial Statements

Natura Cosméticos S.A.

For the year ended December 31, 2017

Natura Cosméticos S.A.

Financial Statements

December 31, 2017

Contents

KPMG Auditores Independentes
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Independent auditor's report in the individual and consolidated financial statements

To the Shareholders, Board Members and Management of
Natura Cosméticos S.A.
Sao Paulo - SP

Opinion
We have audited the individual and consolidated financial statements of Natura Cosméticos S.A ("the Company"), respectively referred to as Company and Consolidated, which comprise the statement of financial position as of December 31, 2017 the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of the Natura Cosméticos S.A. as of December 31, 2017, and of its individual and consolidated financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for Opinion
We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. **Business combination (note 4 - Consolidated)**
   In September 2017, the Company acquired control over The Body Shop International PLC. (TBS), which is engaged in marketing cosmetics under "The Body Shop" brand, basically by retailing them in the Company's own physical stores and franchise stores. We assess the estimates related to the accounting of a business acquisition involve a significant risk, given that significant judgments are made in the determination of the fair value of the assets and liabilities identified in this transaction.

   How the matter was addressed in our audit
   We analyzed the agreements signed for the acquisition of TBS and, with the assistance of our experts in corporate finance and asset valuation, we evaluated the main assumptions used and methodologies adopted by the Company to determine and make the initial recognition of the fair value of assets and liabilities obtained from the acquisition, according to our knowledge of the Company and the industry in which it operates. We compared the calculations made with external and historical data to analyze the reasonableness of fair value. Also, we analyzed the objectivity, independence and technical capacity of the external experts hired by the Company to assist it in identifying and measuring the fair values of the assets and liabilities identified in this transaction. We also evaluated the adequacy of the disclosures made in the financial statements.

   During our audit, we identified adjustments that affected the measurement of the business combination, which were recorded by management. Our procedures had a satisfactory result and we considered the amounts recognized and disclosed for the business combination to be acceptable in the context of the consolidated financial statements taken as a whole.

2. **Recoverable value of goodwill from the acquisition of Emeis Holding Pty Ltd. ("Aesop") (note 15 - Consolidated)**
   The Company has significant amounts recognized in its balance sheet for the acquisition of Aesop (Australia). Control over this entity, which is expanding its operations, was obtained in 2013. Estimating the recoverable value of goodwill from this acquisition involves significant judgment in determining assumptions, such as growth and discount rates used in calculating future cash flows.

   How the matter was addressed in our audit
   With the assistance of our internal experts in corporate finance, we evaluated the reasonableness of the assumptions used in preparing cash flow forecasts to determine the recoverable value, including growth and discount rates, and in comparing these assumptions with market information considering our knowledge of the Company and the industry in which it operates. We also evaluated the adequacy of the disclosures made in the financial statements.

   Our procedures had a satisfactory result and we considered the estimates made to measure the recoverable value of the goodwill from the business acquisition described above to be acceptable in the context of the consolidated financial statements taken as a whole for the year ended December 31, 2017.

3. **Tax liabilities and tax contingencies (notes 18 and 19 - Company and Consolidated)**
   Some of Brazil's tax laws and regulations are highly complex, which leads to uncertainties about their application and can give rise to litigation with the federal government and the States. As part of its process of evaluating estimates, in 2017 the Company analyzed the likelihood of loss on certain tax positions related to PIS (Contribution to the Social Integration Program), Cofins (Contribution for Social Security Funding), IPI (Federal VAT), ICMS tax substitution (State VAT) and income and social contribution taxes.

Estimates associated with the measurement, recognition and disclosure of tax liabilities and provisions and contingent liabilities require judgment by the Company. Considering the materiality of the amounts involved and the uncertainties about the outcome of certain tax positions, we considered the accounting recognition and disclosure related to this matter as a significant risk.

How the matter was addressed in our audit

Our procedures consisted of evaluating the sufficiency of tax liabilities, the provisions for tax contingencies recognized and the disclosure of contingent liabilities by understanding the criteria and assumptions adopted by the Company in making the evaluation. We also considered the evaluations made by the Company's internal and external legal counselors by obtaining external confirmations and analyzing legal opinion on specific subjects, such as IPI industrial equalization, ICMS charged on the calculation base of PIS and COFINS, ICMS tax substitution, and by involving on our legal and tax experts to analyze some of the Company's tax matters. We also evaluated the adequacy of the disclosures made in the financial statements.

During our audit, we identified adjustments that affected the measurement of the tax obligations, which were recorded by management. As a result of our work, we considered the amounts recognized by the Company to determine the tax liabilities, provisions and the disclosures of contingent liabilities to be acceptable in the context of the individual and consolidated financial statements taken as a whole for the year ended December 31, 2017.

Other matters

Statements of value added

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2017, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall individual and consolidated financial statements.

Financial statements for prior periods audited by other independent auditors

The individual and consolidated balance sheets as of December 31, 2016 and the individual and consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows and the related notes for the year then ended, presented as corresponding figures in the individual and consolidated financial statements for the current year, were previously audited by other independent auditors, who issued an unqualified opinion dated March 14, 2018. The related amounts for the individual and consolidated statements of value added for the year ended December 31, 2016 were submitted to the same audit procedures by those independent auditors and, based on their audit, they issued an unqualified opinion.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for the other information comprising the management report.

Our opinion on the individual and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the individual and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Individual and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and subsidiaries financial reporting process.

Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 and its subsidiaries internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, March 14, 2018

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Rogério Hernandez Garcia
Accountant CRC 1SP213431/O-5

NATURA COSMÉTICOS S.A.

BALANCE SHEET AT DECEMBER 31, 2017 AND DECEMBER 31, 2016
(All amounts in thousands of Brazilian reais - R$)

		Company		Consolidated	
ASSETS	Note	2017	2016	2017	2016
CURRENT ASSETS					
Cash and cash equivalents	6	75.704	61.431	1.693.131	1.091.470
Securities	7	1.948.078	1.169.909	1.977.305	1.207.459
Trade receivables	8	994.967	828.221	1.507.921	1.051.901
Trade receivables - related parties	29.1.	10.171	7.972	-	-
Inventories	9	192.388	203.358	1.243.925	835.922
Recoverable taxes	10	67.239	28.054	210.563	274.093
Income tax and social contribution		163.021	43.791	197.478	55.316
Derivative financial instruments	5.2.	6.560	-	14.778	-
Other current assets	13	86.299	228.629	211.208	286.739
Total current assets		3.544.427	2.571.365	7.056.309	4.802.900
NON-CURRENT ASSETS					
Recoverable taxes	10	35.866	32.252	439.139	280.634
Deferred income tax and social contribution	11.a)	174.130	278.300	344.153	492.996
Judicial deposits	12	262.214	249.889	319.433	303.074
Other non-current assets	13	160	15.760	46.145	23.033
Total long-term assets		472.370	576.201	1.148.870	1.099.737
Investments	14	6.602.469	2.104.217	-	-
Property, plant and equipment	15	706.296	576.494	2.276.674	1.734.688
Intangible assets	15	474.342	508.549	4.475.609	784.254
Total non-current assets		8.255.477	3.765.461	7.901.153	3.618.679
TOTAL ASSETS		11.799.904	6.336.826	14.957.462	8.421.579

		Company		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2017	2016	2017	2016
CURRENT LIABILITIES					
Borrowings, financing and debentures	16	3.523.061	1.437.203	4.076.669	1.764.488
Trade and other payables	17	408.849	268.080	1.553.763	814.939
Trade payables - related parties	29.1.	221.702	242.083	-	-
Payroll, profit sharing and social charges		130.920	103.250	366.028	208.114
Tax liabilities	18	147.347	636.225	269.850	977.115
Income tax and social contribution		55.114	50.998	147.942	98.316
Dividends and interest on shareholders' equity payable	21.b)	201.652	79.739	201.652	79.739
Derivative financial instruments	5.2.	-	69.864	-	73.502
Provision for tax, civil and labor risks	19	-	-	17.357	-
Other liabilities	20	114.662	94.298	278.744	161.686
Total current liabilities		4.803.307	2.981.740	6.912.005	4.177.899
NON-CURRENT LIABILITIES					
Borrowings, financing and debentures	16	4.932.662	2.025.484	5.255.231	2.625.683
Tax liabilities	18	173.431	180.490	195.127	237.513
Deferred income tax and social contribution	11.a)	-	-	422.369	23.775
Provision for tax, civil and labor risks	19	147.692	64.561	264.689	93.624
Other non-current liabilities	20	108.066	88.166	273.295	266.700
Total non-current liabilities		5.361.851	2.358.701	6.410.711	3.247.295
SHAREHOLDERS' EQUITY					
Capital stock	21.a)	427.073	427.073	427.073	427.073
Treasury shares	21.c)	(32.544)	(37.149)	(32.544)	(37.149)
Capital reserves		155.721	142.786	155.721	142.786
Profit reserves		1.123.226	666.815	1.123.226	666.815
Additional proposed dividends	21.b)	-	29.670	-	29.670
Losses on capital transaction	21.g)	(92.066)	(92.066)	(92.066)	(92.066)
Equity valuation adjustment		53.336	(140.744)	53.336	(140.744)
Total shareholders' equity		1.634.746	996.385	1.634.746	996.385
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		11.799.904	6.336.826	14.957.462	8.421.579

* The notes are an integral part of the financial statements

NATURA COSMÉTICOS S.A.

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(All amounts in thousands of Brazilian reais - R$, except for earnings per share in the period)

	Note	Company		Consolidated	
		2017	2016	2017	2016
					(Reclassified)
NET REVENUE	23	5.867.375	5.616.985	9.852.708	7.912.664
Cost of products sold	24	(2.329.717)	(2.188.578)	(2.911.077)	(2.446.959)
GROSS PROFIT		3.537.658	3.428.407	6.941.631	5.465.705
OPERATING (EXPENSES) INCOME					
Selling, Marketing and Logistics expenses	24	(2.170.859)	(2.143.235)	(4.198.733)	(3.336.634)
Administrative, R&D, IT and Project expenses	24	(859.333)	(673.343)	(1.535.945)	(1.100.628)
Equity in subsidiaries	14	592.935	216.182	-	-
Other operating income (expenses), net	27	12.952	(9.285)	151.688	54.425
OPERATING PROFIT BEFORE FINANCIAL RESULT		1.113.353	818.726	1.358.641	1.082.868
Financial income	26	382.776	952.447	604.392	1.073.288
Financial expenses	26	(848.661)	(1.458.877)	(991.841)	(1.729.297)
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		647.468	312.296	971.192	426.859
Income tax and social contribution	11.b)	22.783	(15.597)	(300.941)	(118.621)
NET INCOME FOR THE YEAR		670.251	296.699	670.251	308.238
ATTRIBUTABLE TO					
Controlling shareholders of the Company		670.251	296.699	670.251	296.699
Non-controlling shareholders		-	-	-	11.539
		670.251	296.699	670.251	308.238
EARNINGS PER SHARE - R$					
Basic	28.1.	1,5574	0,6895	1,5574	0,6895
Diluted	28.2.	1,5551	0,6875	1,5551	0,6875

* The notes are an integral part of the financial statements

NATURA COSMÉTICOS S.A.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(All amounts in thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
		2017	2016	2017	2016
NET INCOME FOR THE YEAR		670.251	296.699	670.251	308.238
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Gain (loss) from currency translation adjustments of foreign subsidiaries	14	221.287	(160.720)	221.287	(146.342)
Gain (loss) from cash flow hedge operations	5.2	11.316	(2.123)	13.450	(2.346)
Tax effects on gain (loss) from cash flow hedge operations	11	(3.848)	722	(4.278)	798
Equity in gain from cash flow hedge operations		2.134	(223)	-	-
Equity in tax effects on gain (loss) from cash flow hedge operations		(430)	76	-	-
Other comprehensive income not reclassified to profit or loss in subsequent periods:					
Actuarial loss	20	(24.002)	(23.863)	(36.379)	(15.288)
Equity on actuarial gain (loss)	20	(12.377)	8.575	-	-
Comprehensive income for the year, net of tax effects		864.331	119.143	864.331	145.060
ATTRIBUTABLE TO					
Controlling shareholders of Company		864.331	119.143	864.331	119.143
Non-controlling shareholders		-	-	-	25.917
		864.331	119.143	864.331	145.060

* The notes are an integral part of the financial statements

NATURA COSMÉTICOS S.A.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(All amounts in thousands of Brazilian reais - R$)

				Capital reserves			Profit reserves						Losses on capital transaction	Equity valuation adjustment			
	Note	Capital stock	Treasury shares	Surplus on capital transactions	Tax incentive reserve Subsidy for investments	Additional paid-in capital	Legal	Tax incentives	Profit retention	Retained earnings	Proposed additional dividends	Reserve for acquisition of non-controlling shareholders	Result from operations with non-controlling shareholders	Other comprehensive income	Equity of controlling shareholders	Non-controlling shareholders in equity of subsidiaries	Total shareholders' equity
BALANCES AT DECEMBER 31, 2015		427.073	(37.851)	78.231	17.378	39.097	18.650	20.957	449.189	-	123.133	(79.324)	(65.159)	36.812	1.028.186	49.581	1.077.767
Net income for the year		-	-	-	-	-	-	-	-	296.699	-	-	-	-	296.699	11.539	308.238
Other comprehensive income (loss)		-	-	-	-	-	-	-	-	-	-	-	-	(177.556)	(177.556)	14.378	(163.178)
Total comprehensive income (loss) for the year		-	-	-	-	-	-	-	-	296.699	-	-	-	(177.556)	119.143	25.917	145.060
Changes in stock option plans and restricted shares:																	
Provision for stock option plans and restricted shares	25.1.	-	-	-	-	8.782	-	-	-	-	-	-	-	-	8.782	-	8.782
Exercise of restricted shares		-	702	(308)	-	(394)	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in Company's interest on the fair value of net assets acquired from Emeis Holding Pty Ltd.	14	-	-	-	-	-	-	-	-	-	-	-	11.672	-	11.672	(11.672)	-
Effect of changes in interest on foreign subsidiaries		-	-	-	-	-	-	-	-	-	-	-	(207.983)	-	(207.983)	-	(207.983)
Changes in reserve for acquisition of non-controlling shareholders for the acquisition of shares of foreign subsidiary		-	-	-	-	-	-	-	-		-	79.324	169.404	-	248.728	-	248.728
Interest of non-controlling shareholders in equity of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(63.826)	(63.826)
Dividends and interest on capital for the year of 2015 approved at the Annual Shareholders' Meeting held on April 15, 2016	21.b)	-	-	-	-	-	-	-	-	-	(123.133)	-	-	-	(123.133)	-	(123.133)
Dividends declared and not distributed yet (amount exceeding the minimum mandatory dividends)	21.b)	-	-	-	-	-	-	-	-	(24.070)	24.070	-	-	-	-	-	-
Interest on capital declared and not distributed yet (amount exceeding the minimum mandatory dividends)	21.b)	-	-	-	-	-	-	-	-	(5.600)	5.600	-	-	-	-	-	-
Dividends declared and not distributed yet (minimum mandatory dividends)	21.b)	-	-	-	-	-	-	-	-	(27.206)	-	-	-	-	(27.206)	-	(27.206)
Interest on capital declared and not distributed yet (minimum mandatory dividends)	21.b)	-	-	-	-	-	-	-	-	(61.804)	-	-	-	-	(61.804)	-	(61.804)
Retained earnings reserve	21.b)	-	-	-	-	-	-	-	178.019	(178.019)	-	-	-	-	-	-	-
BALANCES AT DECEMBER 31, 2016		427.073	(37.149)	77.923	17.378	47.485	18.650	20.957	627.208	-	29.670	-	(92.066)	(140.744)	996.385	-	996.385
BALANCES AT DECEMBER 31, 2016		427.073	(37.149)	77.923	17.378	47.485	18.650	20.957	627.208	-	29.670	-	(92.066)	(140.744)	996.385	-	996.385
Net income for the year		-	-	-	-	-	-	-	-	670.251	-	-	-	-	670.251	-	670.251
Other comprehensive income (loss)		-	-	-	-	-	-	-	-	-	-	-	-	194.080	194.080	-	194.080
Total comprehensive income (loss) for the year		-	-	-	-	-	-	-	-	670.251	-	-	-	194.080	864.331	-	864.331
Changes in stock option plans and restricted shares:																	
Provision for stock option plans and restricted shares	25	-	-	-	-	19.136	-	-	-	-	-	-	-	-	19.136	-	19.136
Exercise of stock option plans and restricted shares		-	4.605	(2.335)	-	(3.866)	-	-	-	-	-	-	-	-	(1.596)	-	(1.596)
Dividends and interest on capital for the year of 2016 approved at the Annual Shareholders' Meeting held on April 11, 2017	21.b)	-	-	-	-	-	-	-	-	-	(29.670)	-	-	-	(29.670)	-	(29.670)
Dividends declared and not distributed yet (minimum mandatory dividends)	21.b)	-	-	-	-	-	-	-	-	(128.741)	-	-	-	-	(128.741)	-	(128.741)
Interest on capital declared and not distributed yet (minimum mandatory dividends)	21.b)	-	-	-	-	-	-	-	-	(85.099)	-	-	-	-	(85.099)	-	(85.099)
Retained earnings reserve	21.b)	-	-	-	-	-	-	-	456.411	(456.411)	-	-	-	-	-	-	-
BALANCES AT DECEMBER 31, 2017		427.073	(32.544)	75.588	17.378	62.755	18.650	20.957	1.083.619	-	-	-	(92.066)	53.336	1.634.746	-	1.634.746
														-			

* The notes are an integral part of the financial statements

NATURA COSMÉTICOS S.A.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(All amounts in thousands of Brazilian reais - R$)

		Company		Consolidated	
	Note	2017	2016 (Reclassified)	2017	2016 (Reclassified)
CASH FLOW FROM OPERATING ACTIVITIES					
Net income for the year		670.251	296.699	670.251	308.238
Adjustments to reconcile net income for the year with net cash generated by operating activities:					
Depreciation and amortization	15	148.741	100.896	383.352	260.771
Provision arising from swap and forward derivative contracts		160.079	753.190	156.130	794.708
Provision for tax, civil and labor risks	19	44.836	15.687	124.790	16.964
Interest of judicial deposits and contingencies		(8.581)	(14.344)	(6.652)	(16.799)
Income tax and social contribution	11.b)	(22.783)	15.597	300.941	118.621
Result from sale and write-off of property, plan and equipment and intangible assets		21.642	851	32.386	(3.418)
Equity in subsidiaries	14	(592.935)	(216.182)	-	-
Interest and exchange rate variation on borrowings, financing and debentures		276.095	(170.831)	380.138	(172.312)
Exchange rate variation on other assets and liabilities		17.128	661	20.881	(59.892)
Provision for losses from property, plant and equipment and intangible assets		-	316	7.712	316
Provision for stock option plans		25.068	8.203	12.935	8.782
Provision (reversal of provision) for doubtful accounts, net of reversals	8	(41.469)	18.972	(25.392)	19.259
Provision (reversal of provision) for inventory losses, net	9	8.700	(4.925)	28.396	31.378
Provision for health medical care and carbon credit	20.b)	14.765	4.558	16.606	4.558
Net income (loss) for the year attributable to non-controlling shareholders		-	-	-	(11.539)
Provision for acquisition of non-controlling shareholders	20.a)	-	58.071	-	58.071
		721.537	867.419	2.102.474	1.357.706
(INCREASE) DECREASE IN ASSETS					
Trade receivables		(127.476)	(170.076)	(237.836)	(180.846)
Inventories		2.269	9.680	1.291.887	96.375
Recoverable taxes		(148.433)	51.911	(1.218.583)	(214)
Other assets		18.266	(33.056)	(186.338)	15.285
Subtotal		(255.374)	(141.541)	(350.870)	(69.400)
(INCREASE) DECREASE IN LIABILITIES					
Domestic and foreign trade payables		103.614	39.016	435.121	12.052
Payroll, profit sharing and social charges, net		27.670	7.670	73.247	6.914
Tax liabilities		(327.472)	15.282	(736.470)	(100.896)
Other liabilities		9.981	103.780	112.600	5.556
Subtotal		(186.207)	165.748	(115.502)	(76.374)
CASH GENERATED BY OPERATING ACTIVITIES		279.956	891.626	1.636.102	1.211.932
OTHER CASH FLOWS FROM OPERATING ACTIVITIES					
Payments of income tax and social contribution		(8.466)	(105.364)	(88.209)	(131.173)
Accruals (payments) of judicial deposits		3.226	7.083	2.949	7.702
Payments related to tax, civil and labor lawsuits	19	(13.642)	(10.217)	(17.553)	(11.306)
Receipts (payments) of funds due to settlement of derivative transactions		(125.554)	(190.414)	(127.509)	(207.686)
Payment of interest on borrowings, financing and debentures		(201.365)	(258.054)	(252.474)	(309.466)
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES		(65.845)	334.660	1.153.305	560.003
CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition of The Body Shop Limited, net of cash acquired		-	-	(3.880.858)	-
Acquisition of property, plant and equipment and intangible assets	15	(134.507)	(146.141)	(362.497)	(305.815)
Proceeds from sale of property, plant and equipment and intangible assets		4.708	15.933	8.244	43.362
Investment in securities		(6.258.167)	(4.295.494)	(7.411.261)	(6.030.398)
Redemption of securities		5.479.998	4.933.913	6.641.414	6.014.775
Investments in subsidiaries		(3.812.566)	(335.939)	-	-
Receipt of dividends from subsidiaries	14	105.683	79.739	-	-
				-	
NET CASH GENERATED BY (USED IN) INVESTING ACTIVITIES		(4.614.850)	252.011	(5.004.958)	(278.076)
CASH FLOW FROM FINANCING ACTIVITIES					
Payment of borrowings, financing and debentures - principal amount		(1.464.026)	(1.277.488)	(1.725.285)	(1.869.562)
New borrowings, financing and debentures		6.363.431	619.751	6.391.049	1.265.114
Use of treasury shares to settle exercised stock options		4.605	-	4.605	(248.728)
Payment of dividends and interest on capital for the previous year	21.b)	(109.409)	(123.133)	(109.409)	(123.133)
Receipts (payments) to settle derivative operations		(99.633)	202.503	(107.535)	218.631
NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES		4.694.968	(578.367)	4.453.424	(757.678)
Effect of exchange variation on cash and cash equivalents		-	-	(111)	(24.622)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		14.273	8.304	601.661	(500.373)
Opening balance of cash and cash equivalents		61.431	53.127	1.091.470	1.591.843
Closing balance of cash and cash equivalents		75.704	61.431	1.693.131	1.091.470
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		14.273	8.304	601.661	(500.373)

Some comparison amounts were reclassified for better presentation

* The notes are an integral part of the financial statements

NATURA COSMÉTICOS S.A.

STATEMENT OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(All amounts in thousands of Brazilian reais - R$)

		Company				Consolidated			
	Note	2017		2016		2017		2016	
INCOME		7.988.940		7.821.737		13.371.204		11.119.433	
Sale of goods, products and services		8.017.455		7.849.994		13.244.908		11.084.280	
Provision for doubtful accounts, net of reversals	8	(41.467)		(18.972)		(25.392)		(19.272)	
Other operating income (expenses), net	27	12.952		(9.285)		151.688		54.425	
INPUTS ACQUIRED FROM THIRD PARTIES		(5.100.309)		(4.860.548)		(8.046.001)		(6.512.297)	
Cost of products sold and services		(2.787.875)		(2.644.610)		(4.634.560)		(3.739.751)	
Materials, electricity, outsourced services and others		(2.312.434)		(2.215.938)		(3.411.441)		(2.772.546)	
GROSS VALUE ADDED		2.888.631		2.961.189		5.325.203		4.607.136	
RETENTIONS		(148.741)		(100.897)		(383.352)		(260.771)	
Depreciation and amortization	15	(148.741)		(100.897)		(383.352)		(260.771)	
VALUE ADDED PRODUCED BY THE COMPANY		2.739.890		2.860.292		4.941.851		4.346.365	
TRANSFERRED VALUE ADDED		975.711		1.168.629		604.392		1.073.288	
Equity in subsidiaries	14	592.935		216.182		-		-	
Financial income - including inflation adjustments and exchange rate variations	26	382.776		952.447		604.392		1.073.288	
								-	
TOTAL VALUE ADDED TO DISTRIBUTE		3.715.601		4.028.921		5.546.243		5.419.653	
DISTRIBUTION OF VALUE ADDED		3.715.601	100%	4.028.921	100%	5.546.243	100%	5.419.653	100%
Payroll and social charges	25	561.191	15%	498.798	12%	1.835.645	33%	1.327.437	24%
Taxes, fees and contributions		1.605.221	43%	1.744.048	43%	1.999.884	36%	2.009.371	37%
Financial expenses and rentals		878.938	24%	1.489.376	37%	1.040.463	19%	1.774.607	33%
Dividends		128.741	4%	27.206	1%	128.741	2%	27.206	1%
Interest on capital		85.099	2%	61.804	2%	85.099	2%	61.804	1%
Dividends and interest on capital declared and not distributed yet		-	0%	29.670	1%	-	0%	29.670	1%
Non-controlling shareholders		-	0%	-	0%	-	0%	11.539	0%
Retained earnings		456.411	12%	178.019	4%	456.411	8%	178.019	3%

Some comparison amounts were reclassified for better presentation

* The notes are an integral part of the financial statements

1. GENERAL INFORMATION

Natura Cosméticos S.A. ("Natura Cosméticos" or "the Company") is a publicly-traded corporation, registered in the special trading segment called "Novo Mercado" in the B3 S.A. - Brasil, Bolsa, Balcão, under the ticker "NATU3", and headquartered in São Paulo, at Alexandre Colares Avenue, 1188, Vila Jaguara, Postal Code 05106-000, state of São Paulo.

Natura Cosméticos and its subsidiaries' (collectively "the Group") activities include the development, production, distribution and sale of cosmetics, fragrances and hygiene products, substantially through direct sales by Natura's Consultants, retail sales and e-commerce sales. The Group also holds equity interests in other companies in Brazil and abroad.

The Body Shop's share purchase agreement

On June 9, 2017, the Company announced to the shareholders and the market in general that signed, on that date, an exclusivity agreement with L'Oréal S.A. ("Seller") for the acquisition of 100% of the issued shares of The Body Shop International Limited ("The Body Shop") and its subsidiaries group, owned by Seller, considering an enterprise value of The Body Shop of EUR 1.0 billion. The Company also informed on that date that, after consulting the Seller's employees' council (central management committee of L'Oréal SA) in compliance with French law, the parties could enter into a purchase share agreement for acquisition by Company, or any of its subsidiaries with operations abroad, 100% of the shares issued by The Body Shop.

On June 20, 2017, the Company announced to the shareholders and the market in general that the Seller had informed the Company on June 19, 2017 that it had favorably concluded the consultation process with its employees' council (central management committee of L'Oréal SA) with respect to the acquisition, by the Company, or one of its subsidiaries, of 100% of the shares issued by The Body Shop and their group of subsidiaries, owned by the Seller.

On June 26, 2017, the Company announced to the shareholders and the market in general that the Company (as guarantor), Natura (Brasil) International BV, a subsidiary of the Company (as purchaser) and the Seller signed on that same date a purchase and sale agreement for 100% of the shares issued by The Body Shop and their group of subsidiaries, owned by the Seller.

According to the material fact disclosed on August 10, 2017, all regulatory authorizations necessary for the approval of the operation were duly obtained, including approvals from antitrust agencies in Brazil and the USA.

On June 9, 2017, the Company maintains derivative financial instruments denominated Term Contract or Non-Deliverables Forwards ("NDF") (Notional EUR 1.0 billion Euro). These transactions were contracted with the purpose of protecting the Company' cash position against the firm commitment to purchase The Body Shop, as disclosed in note 5.2 (i), up to the acquisition closing date.

On August 7, 2017, the Company approved a funding operation through the 3rd issue of the Promissory Notes of the Company, which was carried out on August 23, 2017, for public distribution with restricted efforts, in the amount of R$3.7 billion. On September 7, 2017, the Company raised R$ 0.3 billion through its subsidiary Natura (Brasil) International B.V. Both funding operations raised a total of R$ 4.0 billion, which was used to pay for the acquisition of The Body Shop, concluded on September 7, 2017, after all the conditions precedent required for the operation were met (see note 4).

On February 19, 2018, the Promissory Notes were settled using the proceeds from the funding operation of US$750,000, carried out on February 1, 2018, consisting of the placement of notes in the international market ("Notes"), with maturity on February 1, 2023, and from the funding operation of R$1,400,000, carried out on February 4, 2018, consisting of the 8th issue of non-convertible debentures. Simultaneously to the issue of the Notes in the international market, the Company contracted derivative instruments ("swaps") to eliminate from profit or loss the exchange variations arising from the exposures of the principal contracted and interest owed in accordance with the contractual maturities of the respective issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

2.1. Statement of compliance and basis of preparation

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil, and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB

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).

All relevant information specific to these financial statements, and only such information, is presented, which corresponds to that used by the Management in its administration of Natura Cosméticos.

a) Individual and consolidated financial statements

The individual and consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), implemented in Brazil through the Brazilian FASB ("CPC") and its technical interpretations ("ICPC") and guidelines ("OCPC"), approved by the Brazilian Securities and Exchange Commission ("CVM").

The individual and consolidated financial statements have been prepared based on the historical cost basis except for certain financial instruments that are measured at their fair values, as described in the accounting policies below.

The significant accounting practices applied in the preparation of the individual and consolidated financial statements are defined below. These practices have been consistently applied in the previous year, except for the items mentioned in the item b) of note 2.1.

b) Reclassification and restatement of financial statements previously presented

Reclassification of corresponding amounts in the statement of cash flows

The corresponding amounts in the individual and consolidated statement of cash flows for the year ended December 31, 2016, presented herein for comparison purposes, are being restated in accordance with CPC 23 – *Políticas contábeis, mudanças de estimativas e retificação de erro* (IAS 8 – Accounting policies, changes in accounting estimates and errors), due to the reclassification of payments and receipts from the settlement of operations involving derivatives originally presented under cash flow from operating activities, to cash flow from financing activities in the individual and consolidated statement of cash flows, as shown below:

	Company		
	Previously presented	Adjustments	Restated
Cash flow from operating activities	537,163	(202,503)	334,660
Cash flow from financing activities	(780,870)	202,503	(578,367)
INCREASE IN CASH AND CASH EQUIVALENTS	8,304	-	8,304

	Consolidated		
	Previously presented	Adjustments	Restated
Cash flow from operating activities	778,634	(218,631)	560,003
Cash flow from financing activities	(976,309)	218,631	(757,678)
DECREASE IN CASH AND CASH EQUIVALENTS	(500,373)	-	(500,373)

This reclassification does not impact the previously disclosed amounts of decrease in cash and cash equivalents of the year. There was no other impact from this restatement on other financial statements of the Company.

Reclassification of corresponding amounts in the statement of income

Some amounts added in the consolidated statement of income for the year ended December 31, 2016, presented herein for comparison purposes, are being reclassified in compliance with CPC 23 – *Políticas contábeis, mudanças de estimativas e retificação de erro* (IAS 8 – Accounting policies, changes in accounting estimates and errors), for better comparability, due to the reclassification of amounts recorded in the subsidiary Emeis Holding Pty Ltd. ("Aesop") from the group "Administrative, R&D, IT and Project expenses" to "Selling, Marketing and Logistics expenses," in the total amount of R$226,465 for the year ended December 31, 2016. This reclassification does not impact the previously disclosed results of the year (see Note 24). There was no other impact from this restatement on other financial statements of the Company.

c) Operational continuity

Management has assessed the Company' ability to continue as a going concern and is satisfied that it has the resources to continue its business in the future. In addition, Management is not aware of any material uncertainties that could generate significant doubts about its ability to continue as a going concern. Therefore, these financial statements were prepared based on the assumption of continuity.

2.2. Consolidation

a) Business combinations

Business combinations are accounted for by applying the acquisition method when control is transferred to the Company. The consideration transferred is in general measured at fair value, as well as the identifiable net assets acquired. Any goodwill arising from the transaction is tested annually for impairment. Gains from a bargain purchase are recognized immediately in profit or loss. Acquisition-related costs are recorded in profit or loss as incurred, except for costs related to the issue of debt or equity instruments.

The consideration transferred does not include amounts related to the payment of pre-existing relationships. These amounts generally are recognized in profit or loss for the year.

b) Ownership interest of non-controlling shareholders

The Company opted to measure any ownership interest of non-controlling shareholders initially by the proportionate interest held in the identifiable net assets of the acquired entity on the acquisition date.

Changes in the Company’s interest in a subsidiary that do not result in loss of control are recorded as transactions under shareholders’ equity.

c) Subsidiaries

The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns on the entity. Subsidiaries’ financial statements are included in these consolidated financial statements from the date in which the Company obtains control to the date that control ceases.

In the Company’s financial statements, the financial information of subsidiaries is recognized using the equity method.

On January 15, 2018, The Body Shop International PLC. was registered as a private limited company by shares under the name of The Body Shop International Limited, already reflected in the information of this explanatory note.

Companies included in the consolidated financial statements:

	Interest on capital- %	
	2017	2016
Direct interest:		
Indústria e Comércio de Cosméticos Natura Ltda. - Brazil	99.99	99.99
Natura Comercial Ltda. - Brazil	99.99	99.99
Natura Biosphera Franqueadora Ltda. - Brazil	99.99	99.99
Natura Cosméticos S.A. - Chile	99.99	99.99
Natura Cosméticos C.A. - Venezuela	99.99	99.99
Natura Cosméticos S.A. - Peru	99.99	99.99
Natura Cosméticos S.A. - Argentina	99.99	99.99
Natura Inovação e Tecnologia de Produtos Ltda. - Brazil	99.99	99.99
Natura Cosméticos y Servicios de México, S.A. de C.V.	99.99	99.99
Natura Cosméticos de México, S.A. de C.V.	99.99	99.99
Natura Distribuidora de México, S.A. de C.V.	99.99	99.99
Natura Cosméticos Ltda. - Colombia	99.99	99.99
Natura Cosméticos España S.L. - Spain	100.00	100.00
Natura (Brasil) International B.V. - The Netherlands	100.00	100.00
Natura Brazil Pty Ltd. - Australia	100.00	100.00
Fundo de Investimento Essencial - Brazil	100.00	100.00
Via Indústria e Comércio de Cosméticos Natura Ltda.:		
Natura Logística e Serviços Ltda. - Brazil	99.99	99.99
Via Natura (Brasil) International B.V. - The Netherlands		
Natura Europa SAS - France	100.00	100.00
Natura Brasil Inc. - EUA - Delaware	100.00	100.00
The Body Shop International Limited - United Kingdom	100.00	-
Via Brasil Inc. - EUA - Delaware		
Natura International Inc. - USA - New York	100.00	100.00
Via The Body Shop International Limited		
The Body Shop International Limited - United Kingdom	99.99	-
G A Holdings (Guernsey) Limited - United Kingdom	99.99	-
G A Holdings (1979) Limited - United Kingdom	99.99	-
The Body Shop Worldwide Limited - United Kingdom	99.99	-
The Body Shop Global Travel Retail Limited - United Kingdom	99.99	-
The Millennium Luxembourg Sarl Administration Company Limited - United King	99.99	-
The Body Shop Queensile Limited - United Kingdom	99.99	-
The Body Shop (France) Sarl - France	99.99	-
B.S. Danmark A/S - Denmark	99.99	-
The Body Shop Beteiligungs-Gmbh - Germany	99.99	-
The Body Shop Germany Gmbh (Formerly Cosmo Trading Gmbh) - Germany	99.99	-
The Body Shop Gmbh (Austria) -	99.99	-
The Body Shop Benelux B.V. - The Netherlands	99.99	-
The Body Shop Service B.V. - The Netherlands	99.99	-
The Body Shop Belgium B.V (Netherlands Return) - The Netherlands	99.99	-
The Body Shop Belgium B.V (Belgium Branch) - The Netherlands	99.99	-
The Body Shop Svenska Ab - Sweden	99.99	-
The Body Shop Monaco Sarl - France	99.99	-
The Body Shop Luxembourg Sarl - Luxembourg	99.99	-
Cosmenatura Sa - Spain	99.99	-
Dibel - Sociedade Importadora De Produtos De Beleza S.A. - Portugal	99.99	-
The Body Shop (Singapore) Pte Limited - Singapore	99.99	-
The Body Shop International (Asia Pacific) Pte Limited	99.99	-
The Body Shop (Malaysia) Sdn.Bhd - Malaysia	99.99	-
The Body Shop Hong Kong Limited - Hong Kong	99.99	-
Mighty Ocean Company Limited - Hong Kong	99.99	-
Hsb Hair, Skin And Bath Products Company Limited - Macao	99.99	-
The Body Shop Australia Limited - Australia	99.99	-
Skin & Hair Care Preparations Inc	99.99	-
Buth-Na-Bodhaige Inc	99.99	-
Bsi Usa Inc - United States	99.99	-
The Body Shop Canada Limited - Canada	99.99	-
Aramara S. De R.L. De C.V. - Mexico	99.99	-
Cimarrones S.A. De C.V. - Mexico	99.99	-
The Body Shop Brasil Indústria E Comércio De Cosmeticas S.A - Brazil	99.99	-
The Body Shop Brasil Franquias Ltda - Brazil	99.99	-
The Body Shop Chile - Chile	99.99	-

	Interest on capital - %	
	2017	2016
Via Natura Brazil Pty Ltd.:		
Natura Cosmetics Australia Pty Ltd. - Australia	100.00	100.00
Via Natura Cosmetics Australia Pty Ltd. - Australia:		
Emeis Holdings Pty Ltd - Australia	100.00	100.00
Via Emeis Holdings Pty Ltd - Australia		
Emeis Cosmetics Pty Ltd - Australia	99.99	99.99
Emeis Trading Pty Ltd - Australia	99.99	99.99
Aesop Retail Pty Ltd - Australia	99.99	99.99
Aesop Japan Kabushiki Kaisha - Japan	99.99	99.99
Aesop Singapore Pte. Ltd. - Singapore	99.99	99.99
Aesop Hong Kong Limited - Hong Kong	99.99	99.99
Aesop Malaysia Sdn. Bhd. - Malaysia	99.99	99.99
Aesop Korea Yuhan Hoesa - Korea	99.99	99.99
Aesop Taiwan Cosmetics Company Limited - Taiwan	99.99	99.99
Aesop Macau Limited - Macao	99.99	99.99
Aesop USA, Inc. - USA	99.99	99.99
Aesop Canada, Inc. - Canada	99.99	99.99
Aesop Brasil Comercio de Cosmeticos Ltda. - Brazil	99.99	99.99
Aesop UK Limited - United Kingdom	99.99	99.99
Aesop Italy SARL - Italy	99.99	99.99
Aesop Switzerland AG - Switzerland	99.99	99.99
Aesop Germany GmbH - Germany	99.99	99.99
Aesop Sweden AB - Sweden	99.99	99.99

The consolidated financial statements have been prepared based on the financial statements as of the same date and consistent with the Company’ accounting practices. Investments in subsidiaries have been eliminated proportionately to the investor’s interests in the subsidiaries’ shareholders’ equity and net income or loss, intergroup balances and transactions and unrealized profits, net of taxes. Third party participation in shareholders' equity and net income of subsidiaries is reported as a component of consolidated shareholders’ equity and consolidated statement of income, respectively, under the caption "Non-controlling shareholders."

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

- Indústria e Comércio de Cosméticos Natura Ltda.: engaged primarily 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, and Natura Cosméticos de Mexico S.A. de C.V and Natura International Inc. - USA.
- Natura Comercial Ltda.: engaged in the retail sale of cosmetics, fragrances in general and toiletries, through sales in the retail market.
- Natura Biosphera Franqueadora Ltda. (previously Natura Cosmetics and Services Ltda.): engaged in trading, including by electronic means, of products from Natura brand.
- Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, 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 Cosméticos CA. - Venezuela: the company is in the process of closing and there are no material investments or balances in its accounting records.

- Natura Inovação e Tecnologia de Produtos Ltda.: engaged in product and technology development and market research. It was the only owner of Natura Innovation et Technologie de Produits SAS - France, a research and technology satellite center opened in 2007 in Paris, whose closing process was concluded on December 27, 2016.
- Natura Cosméticos y Servicios de Mexico, S.A. de C.V.: engaged in the provision of administrative and logistics services to companies Natura Cosméticos de Mexico, S.A. de C.V. e Natura Distribuidora de Mexico, S.A. de C.V..
- Natura Cosméticos de Mexico, S.A. de C.V.: engaged in the import and sale of cosmetics, fragrances in general, and hygiene products to Natura Distribuidora de Mexico, S.A. de C.V.
- Natura Cosméticos España S.L.: company in start-up stage whose activities will be an extension of the activities carried out by its parent company Natura Cosméticos S.A. - Brazil.
- Natura (Brazil) International B.V - Netherlands: holding of Natura Europe SAS – France, Natura Brazil Inc., Natura International Inc. and The Body Shop International Limited.
- Natura Logística e Serviços Ltda.: engaged in picking, packing and mailing services, logistics consulting, human resources management and human resources training.
- Natura Innovation et Technologie de Produits SAS - France: engaged primarily in research activities for in vitro testing as an alternative to animal testing, for the safety and efficiency of test active compounds, skincare products and new packaging materials, whose closing process started on December 27, 2016.
- Natura Brasil Inc.: holding company of Natura International Inc.
- Natura International Inc: engaged in capturing trends in design, fashion and technology, transforming them into ideas, concepts and prototypes.
- Natura Europa SAS - France: engaged primarily in the purchase, sale, import, export and distribution of cosmetics, fragrances, and toiletries
- Natura Brazil Pty Ltd – holding of Natura Cosmetics Australia Pty Ltd operations.
- Natura Cosmetics Australia Pty Ltd – holding of Emeis Holdings Pty Ltd.
- Emeis Holdings Pty Ltda and its subsidiaries: engaged primarily in the development and sales of premium cosmetics, operating under the brand of “Aesop,” with products sold in retail stores and own stores.
- The Body Shop International Limited and its subsidiaries: engaged primarily in the development, distribution and sale of cosmetics under the brand “The Body Shop,” with products sold through a chain of own stores, electronic commerce, direct selling and franchises.
- Fundo de Investimento Essencial: refers to the private-credit fixed-income funds.

2.3. Segment reporting

Information per operating segment is consistent with the internal report provided to the chief decision maker on operational matters.

The chief decision maker, which is responsible for allocating resources to the operating segments and for assessing their performance, is the Board of Directors of the Company, advised by the Operations Committee of the Natura Group (GOC).

This Committee, which brings together the presidents of Natura Cosméticos, The Body Shop International and Aesop, as well as representatives from key areas (Finance, Human Resources, Strategy and Business Development, Legal, Innovation and Sustainability, Operations and Corporate Governance), has the attributions, among others, of monitoring the implementation of the short and long term strategies and making recommendations to the Board of Directors regarding the management of the Natura Group from the point of view of results, allocation of resources among business units, cash flow and talent management.

2.4. Translation to foreign currency

a) Functional currency

Items included in the 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

Foreign-denominated transactions are translated into the Company' functional currency – Brazilian reais (R$) - at the exchange rates prevailing on the dates of the transactions. Balance sheet accounts are translated at the exchange rates prevailing at the end of the reporting period. Foreign exchange gains and losses arising on the settlement of such transactions and the translation of monetary assets and monetary liabilities denominated in foreign currency are recognized in profit or loss, in line items "Financial income" and "Financial expenses".

c) Presentation currency and translation of financial statements

The financial statements are presented in Brazilian reais (R$), which corresponds to the Company's presentation currency.

In the preparation of the consolidated financial statements, the statements of income and of cash flows and all changes in assets and liabilities of foreign subsidiaries, whose functional currency is the local currency in the respective countries where they operate are converted into Brazilian real at the average monthly exchange rate nearest to the effective exchange rate on the date of the corresponding transactions. The balance sheet is converted into Brazilian real at the exchange rates at the close date of the year.

The effects from variations in the exchange rate arising from these conversions are stated under "Other comprehensive income" in the statements of comprehensive income and in shareholders' equity.

2.5. Cash and cash equivalents

Cash equivalents are held for the purpose of meeting short term commitments, rather than for investment or other purposes. Include cash, bank deposits and short-term investments redeemable within 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 end of the reporting period and do not exceed their fair or realizable values.

2.6. Financial instruments

2.6.1. Categories

The category depends on the purpose for which financial assets and financial liabilities were acquired or contracted and is determined on the initial recognition of the financial instruments.

Financial assets held by the Company are classified into the following categories:

Financial assets measured at fair value through profit or loss

A financial asset is classified as measured at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Transaction costs are recognized in profit or loss as incurred. These assets are measured at fair value and changes in fair value, including gains from interest and dividends, are recognized in profit or loss for the fiscal year.

In the case of the Company, this category includes derivative financial instruments, quotas of investment funds and securities.

The balances of outstanding derivative instruments are measured at their fair values at the end of the reporting period and classified in current assets or current liabilities, and changes in fair value are recorded in “Financial income” or “Financial expenses”, respectively.

Loans and receivables

Include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recorded in current assets, except for maturities greater than 12 months after the end of the reporting period, when applicable, which are classified as non-current assets. After initial measurement, these financial assets are accounted for at amortized cost, using the effective interest method (effective interest rate), less impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and fees or costs incurred. As of December 31, 2017 and 2016, loans and receivables include trade accounts receivable (note 8) and judicial deposits (note 12).

Financial liabilities held by the Company are classified into the following categories:

Financial liabilities at fair value through profit or loss

They are classified as fair value through profit or loss when the financial liability is either held for trading or it is designated as fair value through profit or loss.

Other financial liabilities

They are measured at the amortized cost using the effective interest rate method. As of December 31, 2017 and 2016, other financial liabilities comprise borrowings, financing and debentures (note 16) and trade and other payables.

2.6.2. Measurement

Regular purchases and sales of financial assets are recognized on the transaction date, 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 in the statement of income. Gains or losses resulting from changes in the fair value of financial assets at fair value through profit or loss are recognized in the statement of income, in "Finance income" or "Finance costs", respectively, for the period in which they occur.

Loans and receivables and financial assets held to maturity are measured at amortized cost. The methodology used to calculate the amortized cost of a debt instrument and allocate its interest income over the corresponding period is used. The effective interest rate accurately discounts estimated future cash receipts (including all fees that are an integral part of the effective interest rate, transaction costs and other premiums or deductions) over the estimated life of the instrument, or, where appropriate, for a shorter period, to the net carrying amount on the date of initial recognition. Revenue is recognized based on effective interest for debt instruments not characterized as financial assets at fair value through profit or loss.

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 recognize the asset and settle the liability simultaneously.

2.6.4. Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired; the Company transferred its rights or risk to receive cash flows of the asset or has assumed an obligation to pay the full amount of received cash flows.

2.6.5. Derivative instruments

Derivative instruments transactions contracted by the Group consist of swaps and non-deliverable forwards (NDFs) intended exclusively to hedge against the foreign exchange risks related to balance sheet positions, acquisitions of inputs and property, plant and equipment, projected exports and projected foreign-denominated cash outflows 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 derivative instruments is measured by the Group’s treasury department based on information on each contracted transaction and related market inputs at the end of the reporting period, such as interest rates and exchange coupon. When applicable, these inputs are compared with the positions reported by the trading desks of each involved financial institution.

Hedge accounting

The Company’s Board of Directors approved the hedge accounting practice for derivative financial instruments taken out for hedge purposes: (i) of loans taken out in foreign currency, subject to variable interest rate, (ii) of loans taken out in the functional currency (Brazilian Real), subject to fixed interest rate, or (iii) of purchase and sale transactions in foreign currency. Hedged risks are (i) risk of variation in future cash flows resulting from changes in exchange rates, to which “cash flow hedge” accounting is applicable, and (ii) interest rate risk, to which “fair value hedge” accounting is applicable.

Cash flow hedge

Consists in providing hedge against variation in cash flows attributable to a specific risk related to a known asset or liability or a highly probable forecast transaction and that may affect profit or loss.

The effective portion of changes in fair value of derivative instruments that is designated and qualified as cash flow hedge is recognized in other comprehensive income and accumulated in “Gain (loss) from cash flow hedge operations” and “tax effect on gain (loss) from cash flow hedge operations”. In a “cash flow hedge”, the effective portion of gain or loss from the hedge instrument is recognized directly in equity in other comprehensive income, while the ineffective portion of hedge is immediately recognized in financial income (expenses).

For the years ended December 31, 2017 and 2016, the Company used derivative financial instruments, applying “cash flow hedge accounting” and, as disclosed in Note 5, for hedge against the risk of change in exchange rates related to loans in foreign currency and purchase and sale transactions in foreign currency that: (i) are highly related to the changes in the market value of the hedged item, both at the beginning as well as during contract term (effectiveness between 80% and 125%); (ii) have documentation of the operation, hedged risk, risk management process and methodology used in assessing effectiveness; and (iii) are considered effective to reduce the risk related to the exposure to be hedged. They are accounted for according to CPC 38 – Financial Instruments: Recognizing and Measurement, which allows application of the hedge accounting methodology, with effect from measurement of their fair value on shareholders’ equity and from their realization on profit or loss in the heading related to the hedged item.

Hedge accounting is discontinued when the Company cancels the hedge relationship, the hedge instrument matures or is sold, revoked or executed, or no longer qualifies to hedge accounting. Any gains or losses recognized in other comprehensive income and accumulated in shareholders' equity as of a certain date remain in equity and are recognized when the forecast transaction is eventually recognized in profit or loss.

If a planned transaction results in the subsequent recognition of a non-financial asset or liability, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss during the same period for which the non-financial asset acquired or non-financial liability assumed affects the profit or loss. For example, when the non-financial asset is depreciated or sold.

Conversely, if a planned transaction results in the subsequent recognition of a financial asset or liability, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss during the same period for which the financial asset acquired or financial liability assumed affects the profit or loss. For example, when financial income or expense is recognized.

When the forecast transaction is no longer expected, cumulative gains or losses deferred in equity are immediately recognized in profit or loss for the year.

The Company assesses, along the hedge term, the effectiveness of its derivative financial instruments, as well as changes in their fair value.

For the years ended December 31, 2017 and 2016, there were no losses related to the ineffective portion recognized in profit or loss for the year.

The fair values of derivative financial instruments are disclosed in note 5.

In addition, it should be mentioned that, during the years ended December 31, 2017 and 2016, the Company did not enter into transactions related to hedge of fair value or hedge of net investment.

2.7. Trade receivables and provision for doubtful accounts

Trade receivables are accounted at their nominal amount, less the provision for doubtful accounts, which is recognized based on the history of losses using an aging list. The calculation of provision for doubtful accounts consider the different risks in accordance with the collections operation.

2.8. Inventories

Carried at the lower of average cost of purchase or production and net realizable value. Details are disclosed in note 9.

The Company considers the following when determining its provision for inventory losses: discontinued products, products with slow turnover, expired products or products nearing the expiration date and products that do not meet quality standards.

2.9. Carbon Credits – Carbon Neutral Program

In 2007, the Company assumed with its employees, customers, suppliers and shareholders a commitment to be a Carbon Neutral company, which is to neutralize their emissions of Greenhouse Gas - GHG, in its complete production chain, from extraction of raw materials to post- consumption. This commitment, which currently refers only to operations under the Natura brand, is not a legal obligation, since Brazil does not have a reduction target, despite being a signatory to the Kyoto Protocol. For this reason, it is considered a constructive obligation under CPC 25 / IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, which requires the recognition of a provision in the financial statements if it is subject to disbursement and measurable.

The liability is estimated through annually audited inventories of carbon emissions and measured based on the market price for the acquisition of licenses for neutralization. On December 31, 2017, the balance recorded in the caption "Other provisions" (see note 20), refers to the total carbon emissions during the period of 2007 to 2017 that have not yet been offset by corresponding projects and therefore no execution of the certificate of carbon.

According to its beliefs and principles, the Company elected to make some purchases of carbon credits by investing in projects with environmental benefits arising from the voluntary market. Thus, the costs will generate carbon credits after completion or maturation of these projects.

During this period, these expenses were recorded at fair value as “other current assets” and “other non-current assets” (see note 13).

Upon effective delivery of the related carbon credit certificates to the Company, the obligation of being Carbon Neutral is effectively fulfilled; therefore the balances of assets are offset against those of liabilities.

The difference between the carrying amounts of assets and liabilities at December 31, 2017 refers to the amount of cash that the Company also will pay for future generation or acquisition of carbon credit certificates.

2.10. Investments in subsidiaries

The Company controls an entity when it is exposed to, or has rights to, the variable returns arising from its involvement with the entity and when it has the power to affect these returns by exerting its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements as from the date on which the Company obtained control until the date of loss of control. The Company holds interests only in subsidiaries.

Investments in subsidiaries are accounted for by the equity method of accounting. The financial statements of subsidiaries are prepared as of the same reporting date of the Company. Adjustments are made, if necessary, to conform their accounting practices to those adopted by the Company.

Under the equity method of accounting, the share attributable to the Company of the profit or loss for the period of such investments is accounted for in the statement of income, in line item “Equity in subsidiaries”. All intragroup balances, revenues, expenses and unrealized gains and losses arising from intragroup transactions are completely eliminated. The other comprehensive income of subsidiaries is recorded directly in the Company’s shareholders’ equity, in line item “Other comprehensive income”.

2.11. Property, plant and equipment

Stated at cost of acquisition or construction, plus interest capitalized during construction period, when applicable, for the case of a qualifying assets, and reduced by accumulated depreciation and impairment losses, if applicable. Additionally, the useful lives of the assets are reviewed annually.

Rights in tangible assets intended for the maintenance of Group’s activities, arising out of finance leases, are recorded as if they were a financed acquisition, with a property, plant and equipment and a financing liability being recognized at the inception of each transaction, the assets also being subject to depreciation calculated over the estimated useful lives of the respective assets or over the contract term, when the financial lease has no purchase option.

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 mentioned in Note 15.

Gains and losses on disposals are calculated by comparing the proceeds from the sale with the carrying amount, and are recognized in profit or loss.

2.12. Intangible assets

2.12.1. Software

Software systems licenses acquired are also capitalized and amortized at the useful lives also described in note 15, and expenditures on the software maintenance are recognized as expenses when incurred.

The system acquisition and implementation costs are capitalized as intangible assets when there is evidence that future economic benefits will flow into the entity, taking into consideration its economic and technologic viability. The amounts incurred on software development recognized as assets are amortized under the straight-line method over its estimated useful life. The expenditures related to software maintenance are expensed when incurred.

2.12.2. Trademarks and patents

Separately acquired 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. For trademarks and patents with definite useful lives, amortization is calculated on a straight-line basis at the annual rates described in note 15.

2.12.3. Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives held by the Company refer mainly to trademarks and goodwill due to expectations of future economic benefits arising from transactions involving business transactions, and tradeable key money.

These assets are not amortized but are tested annually for losses due to impairment either individually or at the level of the cash generating unit (or groups of cash generation units). The assessment of indefinite life is reviewed annually to determine whether this assessment continues to be supportable. Otherwise, the change in useful life from indefinite to finite is made on a prospective basis.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net from the sale and the carrying amount of the asset and are recognized in profit or loss upon disposal of the asset.

2.13. Product research and development expenses

The Company adopts an accounting practice to record as expense of the year when incurred, the expenditures with research and development of its products, due to the high level of innovation and turnover of its products portfolio, it becomes unfeasible to demonstrate all the required aspects in IAS 38 / CPC 04 - Intangible Assets, for the recognition of asset.

2.14. Leases

Lease classification is made at the inception of the contract. 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 Group retains 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 amount of the fair value of leased asset and the present value of minimum lease payments.

Each lease installment is apportioned between liabilities and the finance charges so as to permit obtaining a constant effective interest rate on the outstanding liability. The corresponding obligations, less the finance charge, are classified in current liabilities and non-current liabilities, according to the lease term. Property, plant and equipment items acquired through finance leases are depreciated over their useful lives, as described in note 2.11, or over the lease term, when it is shorter and has no purchase option.

2.15. Borrowing costs capitalization

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily requires a significant effort to be ready for its intended use or sale are capitalized as part of the cost of the corresponding asset. All other borrowing costs are expensed in the period they are incurred. Borrowing costs consist of interest and other costs incurred by an entity related to the loan.

2.16. Impairment assessment

The assets' carrying amount is annually tested to identify evidences of impairment, or also significant events or changes in circumstances that indicate the carrying value of an asset may not be recoverable. When applicable, there is a loss arising from situations where the carrying amount of an asset exceeds its recoverable amount.

For impairment assessment purposes, assets are grouped at the lowest levels for which there are independent cash flows (cash-generating units, or CGUs).

The assets of the Group are initially grouped into operating segments, which follows a logic based on its Corporate Governance structure. Within the operating segments, assets are grouped into cash generating units as follows:

Operating Segment	**Identification of CGUs**
Natura Brazil	• Direct selling • Individual stores
Natura LATAM	• Argentina • Chile • Peru • Mexico • Colombia
Natura Others	• France • USA
Aesop	• Individual stores
The Body Shop	• Individual stores

The recoverable amount of an asset or cash-generating unit is determined as being the higher of the value in use and the fair value less costs of disposal. In the estimation of the value in use of the asset, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which it operates the cash-generating unit. The fair value less costs of disposal is determined, whenever possible, on the basis of the contract of sale firm in a transaction in commutative bases, between knowledgeable and interested parties, adjusted for expenses attributable to the sale of the asset, or, where there is no binding sale agreement, based on the market price of an active market, or in the price of the most recent transaction with similar assets.

2.17. Trade and other payables

These are initially recognized at their nominal amounts, plus interest, inflation adjustments and exchange rate differences through the end of the reporting period, when applicable.

2.18. Borrowings and financing

Initially recognized at fair value of proceeds received less transaction costs, plus charges, interest, adjustments and exchange rate differences incurred through the end of the reporting period, as shown in note 16.

2.19. Provision for tax, civil, and labor risks

The provisions for contingent liabilities are recognized when the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its value can be measured with sufficient reliability. Provisions are quantified at the present value of the expected outflow of resources embodying economic benefits to settle the obligations using the appropriate discount rate, according to related risks.

Adjusted for inflation through the end of the reporting period to cover probable losses, based on the nature of the risk and the opinion of the Company's legal counsel. The bases for and nature of the provisions for tax, civil, and labor risks are described in note 19.

2.20. Current and deferred income tax and social contribution

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 line item "Other comprehensive income".

Except for the foreign subsidiaries, which apply the tax rates prevailing in each one of the countries where they are located, income tax and social contribution on the Company and its Brazilian subsidiaries' profits are calculated at the tax rates of 25% and 9%, respectively, and consider the offset of tax losses and social contribution tax loss carryforwards, limited to 30% of taxable income for the fiscal year.

Current income tax and social contribution expenses are calculated using the laws and regulations enacted by the end of the reporting period, pursuant to Brazilian tax regulations, including specific rules related to Taxation on Universal Bases, where applicable. Management periodically assesses the positions assumed regarding the situations where applicable tax law is subject to possibly different interpretations and, when appropriate, recognizes provisions.

Deferred income tax and social contribution are calculated on temporary differences between the tax base of assets and liabilities and their carrying amounts. Deferred income tax and social contribution are calculated using the rates enacted by the end of the reporting period that must be applied when deferred income tax and social contribution assets and liabilities are realized.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable income will be available, from which it is offset. Future taxable income is determined based on the reversal of relevant taxable temporary differences. If taxable temporary differences are insufficient to fully recognize a deferred tax asset, future taxable income is considered, adjusted for reversals of existing temporary differences, based on the business plans of the Company and its subsidiaries individually. The amounts of deferred income tax and social contribution assets and liabilities are presented net only when there is a legally enforceable right to offset current tax assets against tax liabilities and/or when current 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 11.

2.21. Stock option plan, restricted stock plan and strategy acceleration program

The Company's executives are granted stock option plans, settled exclusively with its shares.

The stock option plan, the restricted stock plan and the strategy acceleration program are measured at fair value at the grant date. In determining the fair value, the Company uses an adequate valuation method, details of which are disclosed in Note 25.1.

The cost of transactions settled with equity instruments is recognized, together with a corresponding increase in shareholders' equity under the heading "Additional paid-in capital", throughout the period in which the performance and/or service conditions are fulfilled, ending on the date on which the employee acquires the full right to the award (acquisition date). The cumulative expense recognized for equity instruments transactions settled on each base date up to the acquisition date reflects the extent to which the vesting period has transpired and the Company' best estimate of the number of equity instruments to be acquired. The expense or credit in the statement of income of the period is recorded under the heading "Administrative expenses".

When an award of equity instruments settlement is cancelled (except when the cancellation occurs due to loss of right over the equity instrument for not fulfilling the concession conditions), it is treated as if it had been acquired on the date of cancellation, and any expense not recognized is registered immediately. This includes any award for which Company or the counterparty have the option not to fulfill the non-acquisition obligation. All cancellations of transactions settled with equity securities are treated in the same way.

The dilution effect of options granted is reflected as additional share dilution in the calculation of diluted earnings per share (Note 28.2).

2.22. Employee short-term benefits

The obligations of short-term benefits for employees are recognized as personnel expenses as the corresponding service is rendered. The liability is recognized at the amount of the expected payment if the Company has a legal or constructive obligation to pay the amount due to services rendered by an employee in the past and the obligation can be reliably estimated.

2.23. Profit sharing and long term incentive program

The Company recognizes a liability and an expense for profit sharing based on criteria that it considers the profit attributable to its shareholders after certain adjustments and which is tied to the achievement of specific operational goals and objectives established and approved in the beginning of each fiscal year.

The Company makes available to eligible executives of its subsidiary Emeis Holdings Pty Ltd. a long-term incentive program, based on criteria linked to specific operational goals and objectives established at the beginning of the relationship between the parties, being such obligation recorded as a liability and remeasured with effect on profit or loss.

2.24. Dividends and interest on capital

The proposed distribution of dividends and interest on capital made by the Company' Management included in the portion equivalent to the mandatory minimum dividends is recognized in line item "Other payables" in current liabilities, as it is considered as a legal obligation 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 recognized in line item "Proposed additional dividends" and their effects are disclosed in note 21.(b).

For corporate and accounting purposes, interest on capital is stated as allocation of income directly in shareholders' equity.

2.25. Treasury shares

Own equity instruments which are reacquired (Treasury shares) and recognized at acquisition cost and deducted from shareholders ' equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.26. Actuarial gains and losses of healthcare plan

The Company offers certain extended health care benefits to retired employees who had acquired the benefit up to April 2010. The costs associated with the extension of this benefit to retirees of the Group are recognized on an accrual basis as a post-employment benefit plan as a defined benefit, using the projected unit credit method. The actuarial gains and losses are recognized in other comprehensive income.

2.27. Government grants

Government grants are not recognized until there is a reasonable assurance that the Company will comply with the conditions attaching to it, and that the grant will be received.

Government grants shall be recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

Subsidized loans, granted directly or indirectly by the government, obtained at a below-market rate of interest, are treated as a government grant, measured as the difference between the proceeds received and the fair value of the loan measured based on market rate of interest.

2.28. Financial income and financial expenses

The Company's financial income and expenses comprise:

- interest revenue;
- interest expenses;
- dividends revenue;

- dividends of preferred shares issued classified as financial liability;
- net gains/losses from financial assets measured at fair value through profit or loss;
- net gains/losses from exchange variation on financial assets and liabilities;
- net gains/losses from hedge instruments recognized in profit or loss; and
- reclassifications of net gains previously recognized in other comprehensive income.

Revenue from dividends is recognized in profit or loss on the date of effective receipt by the Company.

The Company classifies interest received and dividends and interest on capital received as cash flows from investing activities.

2.29. Revenue and expense recognition

Sales revenue is recognized when all risks and rewards of ownership of the product are transferred to the customers and there are recognized on an accrual basis.

Revenues are recognized to the extent in which it is probable that the economic benefits associated with the transaction will flow to the Company, and when such benefits can be measured reliably. Sales revenues are mainly generated through sales made by the Natura's Consultants (our clients), measured based on the fair value of the consideration received (or to be received), excluding any discounts, rebates and taxes or charges with respect to such sales. Sales revenue is recognized when the significant risks and rewards of ownership of the products have been transferred to the client, which generally occurs upon delivery thereof to the Natura's Consultants.

Sales revenue is generated and accumulates initially in sales ledger of the Company, as of the moment in which the proof of shipping is issued in the name of the clients. However, as the revenues are recorded for accounting purposes only when the effective delivery of products has occurred, we make a provision to eliminate the amount of revenues with respect to products shipped but not yet received by the Natura's Consultants as of the closing date of the financial statements for each period.

Regarding the subsidiaries Emeis Holding Pty Ltd, Natura Comercial Ltda., Natura Europa SAS – França, Natura International Inc. – USA and The Body Shop International Limited, which operate in the retail market, the revenues from sales are recognized when there is a transfer of significant risks and rewards of ownership of the products, that is, at the time of delivery of products.

Revenue from the sale of uncollected and nonrefundable receivables is recognized when there is a transfer of significant risks and reward ownership of the financial assets from the Company to the transferee.

The consideration arising from the exclusivity granted by the Company in relation to the provision of bank settlement services related to employees' payroll, when there is a right of contractual cancellation with cost to the Company, is initially recognized as a liability, and is allocated to profit or loss (revenue recognition) linearly over the contractual term established between the parties.

Revenue is allocated between the loyalty program and the other components of the sale. The value allocated to the loyalty program is deferred and the revenue is recognized only when the Group has met its obligations to provide products with discount or when it is no longer probable that the program's points will be redeemed.

2.30. 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 supplemental information of the consolidated financial statements, since this statement is not required by IFRS.

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, lenders and lessors, and shareholders.

Supplemental statement of value-added information:

Of the amounts recorded under "Taxes, fees and contributions" in December 2017 and 2016, R$944,618 and R$881,860, respectively, refer to State Value Added Tax - Tax Substitution (ICMS - ST) levied on presumed profit margin determined by the State Finance Departments, obtained from sales carried out by Natura's Consultants to the end consumer. For the analysis of this tax impact on the statement of value added, such amounts shall be deducted from those recorded as "Sales of goods, products and services" and "Taxes, fees and contributions," since sales revenues figures do not include presumed profit from sales conducted by Natura's Consultants, in the amounts of R$4,578,776 and R$4,429,629, in December 2017 and 2016, respectively, considering the presumed profit margin of 30%.

2.31. New standards and interpretations and amendments to standards

The standards and interpretations issued, but not yet adopted, up to the date of issuance of the Company's financial statements are presented below. The Company intends to adopt these standards when they become effective.

The project for the implementation of the new pronouncements CPC 48 / IFRS 9 - Financial Instruments, CPC 47 / IFRS 15 - Revenue from contracts with clients and CPC 06 (R2) / IFRS 16 - Leasing, in addition to the preliminary analysis carried out by the Management in 2016, including the engage of an external experts to assist the Company in identifying and measurement of the effects on the date of first-time adoption, identification of the needs for modification of the systems used, design and implementation of internal controls, adequate policies and procedures to obtain and disclose the information required by these new pronouncements.

CPC 48 / IFRS 9 Financial Instruments

In July 2014, IASB issued the final version of IFRS 9 – Financial Instruments, which reflects all the phases of the financial instruments project and replaces CPC 38 / IAS 39 – Financial Instruments: Recognition and Measurement and all the former versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory.

For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the effective date of entry into force. In 2017, the Company conducted an assessment of the impact of all three aspects of IFRS 9, based on the information currently available. According to the analyses carried out by Management, the following considerations have been identified:

(a) Classification and measurement

The Company identified significant impacts on its balance sheet or shareholders' equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets and liabilities currently held at fair value, except Bank Certificates of Deposit, mentioned in Note 7, which will be classified as Amortized Cost, since it follows the business model whose objective is to hold assets in order to collect contractual cash flows.

Loans as well as trade receivables are held to collect contractual cash flows and they must generate cash flows that are solely payments of principal and interest. Thus, the Company expects that will continue to be measured at amortized cost under IFRS 9. However, the Company will further analyze the characteristics of the contractual cash flows of these instruments before concluding on whether all these instruments meet the amortized cost measurement requirements of CPC 48/ IFRS 9.

(b) Impairment

The methodology for calculating the loss provision for the aging list model, which is based on the history of losses for all the aging list, is already considered by the Company.

After analysis, Management believes that the current model is in compliance with the requirements of CPC 48 / IFRS 9 and there will be no significant impacts on the following year, after implementation of the new pronouncement.

(c) Hedge accounting

After Management's assessment, the Company believes that all existing hedging relationships currently designated as effective hedging relationships will still qualify for hedge accounting under CPC 48 / IFRS 9, when effective, since the new standard does not change the overall principles for effective hedge accounting. Thus, the Company does not expect a significant impact on applying it. The Company believes that the main impact will be on formalizing documentation and reviewing its policy to meet the standard's new requirements.

When the entity applies this pronouncement for the first time, it can determine if its accounting policy will continue to apply the hedge accounting requirements of CPC 38/IAS 39 instead of the requirements of chapter 6 of the new pronouncement CPC 48/IFRS 9. If the Company opts for applying the new pronouncement, it must apply this policy to all its hedging relations, and also must apply ICPC 06 – Net Investment Hedge on Operation Abroad without the changes that adapt this interpretation to the requirements of chapter 6 of this pronouncement. In view of the results of the analyses and the decision not to adopt the new standard, the Company opted to maintain its current policies based on CPC 38/IAS 39, which is affected only by new disclosure requirements as from 2018.

<u>CPC 47 / IFRS 15 - Revenue from contracts with customers:</u>

It establishes a guideline of five steps applicable to revenue from contract with customer, irrespective of the type of revenue transaction or industry. It applies to all revenue contracts and provides a guideline for the recognition and measurement of gains or losses on the disposal of certain non-financial assets that are not related to the Company's ordinary activities (for instance, disposals of property, plant and equipment or intangible asset items). Extensive disclosures are also required by this new standard. This pronouncement shall be applied to annual periods beginning on or after January 1, 2018. The early adoption, although provided by IFRS, was prohibited by Brazilian capital market regulators.

The Group engages in the development, distribution, sale and exploitation of business models for cosmetics, fragrances, and hygiene products, substantially through direct selling by Natura's Consultants, retail sales and e-commerce. The goods are sold individually under separate contracts, identified with customers, or grouped as a bundle of goods.

With the implementation of IFRS 15, the Company will need to review its current accounting practices and policies, mainly due to the performance obligations identified during the diagnosis, such as the participation of Beauty Consultants in loyalties programs, benefits offered to consultants arising from sales of products, and other obligations. The measurement of changes brought by this new standard did not present significant effects on revenue.

CPC 06 (R2) / IFRS 16 - Leases

The new standard sets out the principles for both the customer (the lessee) and the supplier (lessor) on the provision of relevant information about the leases in a manner that clearly shows the leasing operations in the financial statements. To achieve this objective, the lessee is obliged to recognize the assets and liabilities resulting from a lease. The standard includes two exemptions from recognition for tenants - leases of low-value assets and short-term leases (i.e. lease terms of 12 months or less). The Company has already started the project that will establish the guidelines for the application of IFRS 16. This project includes the engage of a third-party specialist to assist the Company in identifying the most relevant effects of the standard and the relative impacts to the Company, establishing internal control, appropriate policies and procedures necessary to obtain and disclose the information required in this new standard. This pronouncement should be applied for annual periods beginning on or after January 1, 2019.

Due to the amounts payable relating to operating lease agreements disclosed in Note 29, the Company expects material impacts. However, the first-time adoption effects related to this pronouncement have not yet been measured, thus being unable to disclose such effects.

In addition, the following new standards, amendments and interpretations were issued by IASB, however, management does not expect impacts on the Company’s consolidated financial statements:

- Amendment to CPC 03 / IAS 7 – Statement of Cash Flows - These amendments are part of the initiative to improve IASB disclosures and are effective for annual periods beginning on January 1, 2017.
- Amendments to CPC 32 / IAS 12 – Income Taxes - These amendments clarify the accounting for deferred tax assets on unrealized losses on debt instruments measured at fair and are effective for annual periods beginning on January 1, 2017.
- Amendments to CPC 10 / IFRS 2 – Share-based Payment - Changes addressing areas involving measurement, classification and modification of terms and / or conditions of such transactions and will be effective from annual periods beginning on 1 January 2018.
- Amendments to CPC 11 / IFRS 4 – Insurance Contracts - Changes addressing concerns about the adoption of CPC 48 / IFRS 9 – Financial Instruments and will be effective from annual periods beginning on January 1, 2018.

The Company intends to adopt those standards when they are effective by disclosing and recognizing the impact on the financial statements that may occur when the application of such adoptions.

Considering the current operations of the Group, management does not expect that these amendments will generate relevant effects on the financial statements after adoption thereof.

There are no other standards and interpretations issued but not yet adopted that, in Management's opinion, have a significant impact on the Company’s profit or loss or shareholders’ equity.

The listed standards issued and which came into effect during the 2017 financial year had no impact on these financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company' Management in the process of application of accounting practices.

The accounting estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors that are considered to be relevant in the circumstances. Actual results may differ from those estimates. The effects resulting from the revision of accounting estimates are recognized in the revision period.

These significant assumptions and accounting estimates are as follow:

a) Income tax and social contribution

The Company recognizes deferred tax assets and liabilities based on differences between the carrying amount stated in the financial statements and the tax base of assets and liabilities using statutory tax rates. The Company reviews regularly deferred tax assets in terms of recoverability, considering the history of earnings generated and projected future taxable income, based on a technical feasibility study.

b) Provision for tax, civil, and labor risks

The Company is a party to several lawsuits and administrative proceedings, as described in note 19. Provisions are recognized for all contingent liabilities arising from lawsuits that represent probable losses and can be reliably estimated. The probability assessment includes assessing available evidences, the hierarchy of laws, available previous decisions, most recent court decisions and their relevance within the legal system, and the assessment of the external legal counsel. Management believes that these provisions for tax, civil and labor risks 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 20.b).

d) Stock option plan, restricted stock plan and strategy acceleration program

The stock option plan, restricted stock plan and strategy acceleration program are measured at fair value at the grant date and the expense is recognized in profit or loss during the vesting period against "Additional paid-in capital" in shareholders' equity. At the balance sheet dates, the Management reviews the estimates as to the number of stock options/restricted shares and, where applicable, recognizes the effect arising from this review in profit or loss for period against shareholders' equity. The assumptions and models used to estimate the fair value of the stock option plan, restricted stock option plan and strategy acceleration program are disclosed in Note 25.1.

e) Impairment loss

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost of disposal and value in use. Fair value less costs of disposal is calculated based on information available about similar assets sold or market prices less additional costs to dispose of the asset.

Value in use is calculated based on the discounted cash flow model. Cash flows derive from a budget prepared for the following five to ten years, according to the operating segment, and their projections consider the market's expectations for operations, estimated investments and working capital, as well as other economic factors. The value in use is sensitive to the discount rate used under the discounted cash flow method, as well as the growth rate used for extrapolation purposes.

f) Provision for doubtful accounts

The provision for doubtful accounts is estimated using an "aging list" methodology. The different risks under the collection operation are considered for the calculation of the provision for doubtful accounts. Management considers this method sufficient to cover possible losses, according to the amounts shown in note 8.

g) Provision for inventory losses

The provision for inventory losses is estimated using methodology for including discontinued products, products with slow turnover, products expired or nearing expiration and products that do not meet quality standards. Management considers this method sufficient to cover any inventory losses, in accordance with the amounts stated in note 9.

4. BUSINESS COMBINATION

Acquisition of The Body Shop International

On September 7, 2017, Natura (Brazil) International B.V. - Netherlands ("Natura Netherlands"), subsidiary of the Company, concluded the acquisition of 100% of the shares issued by The Body Shop International ("The Body Shop") held by L´Oréal S.A. ("Seller"), for R$ 3,987,541, as detailed below:

Purchase price of 100% of shares	3,485,575
Royalties on intellectual property	8,236
Payables between related parties (The Body Shop with L'Oreal)	493,730
	3,987,541

Thus, the operation was concluded and formalized through a purchase agreement of the shares issued by The Body Shop entered into between the Seller and Natura Netherlands on June 26, 2017.

The purpose of The Body Shop, an entity domiciled, registered and established under the laws of England, is to develop, distribute and sell cosmetics and beauty products. It operates under the "The Body Shop" brand in Africa, Asia, North America, South America, Europe and Oceania. The products are sold through own stores, as well e-commerce and franchise stores.

The Company acquired The Body Shop in order to expand its operations in the international market and in the retail market, since the acquisition adds approximately 3,000 stores, including own and franchise stores, across all continents.

The following table shows the preliminary fair value of identifiable assets and liabilities assumed on the acquisition date, obtained from the Purchase Allocation Method report:

Assets	09/07/2017
Cash and cash equivalents	142,522
Trade accounts receivable	192,792
Inventories	484,362
Recoverable taxes	51,475
Derivative financial instruments	4,016
Other receivables	79,260
Deferred income tax	19,702
Property, plant and equipment (a)	409,786
Intangible assets:	
Brand (c)	1,718,267
Relationship with franchisees (d)	456,707
Relationship with sub-franchisees (d)	18,718
Other intangible assets (b)	202,412
Total assets	3,788,255

Liabilities	09/07/2017
Trade payables	283,494
Borrowings and financing	33,728
Taxes payable	11,990
Operating lease	35,839
Income tax payable	4,543
Deferred income tax	383,252
Social security obligations and payroll charges	84,667
Derivative financial instruments	8,100
Provision for contingencies	22,892
Other accounts payable	62,224
Total liabilities	930,730
Total net identifiable assets	2,849,290
Total consideration	3,987,541
Preliminary goodwill	1,138,251

a) Average useful lives in accordance with Note 15.

b) Refers mainly to software and key money to be amortized from 3 to 18 years.

c) Brand with indefinite useful life.

d) Definite useful life from 3 to 15 years.

According to information obtained on facts and circumstances existing on the acquisition date, adjustments may occur in the allocation of intangible assets and goodwill. This analysis will be concluded within twelve months from the acquisition date.

Goodwill of R$ 1,138,251 comprises future economic benefits from synergies resulting from the acquisition. The goodwill amount will not be deductible for tax purposes.

Net Deferred Income Tax Liability based on the assumptions of CPC 32 – *Tributos sobre o Lucro* (IAS 12 – Income taxes) was calculated based on the tax rate of 19% for apportionments from September 2017 to April 2020 and of 17%, the applicable tax rate in the United Kingdom as from April, 2020.

The fair value of the consideration was R$ 3,987,541, fully paid in cash.

The Company may be indemnified by the Seller within six months from the acquisition date, if the liabilities incurred between December 31, 2016 and September 7, 2017 are identified after the balance sheet prepared on the acquisition date.

On the date of its acquisition, The Body Shop had recorded R$ 493,730 relating to "Related parties with L'Oréal," settled through part of the purchase price.

Acquisition costs incurred until December 31, 2017, totaling R$ 87,106, were recognized in the individual and consolidated income statement, in the amount of R$ 68,580 and R$ 87,106, respectively.

From the acquisition date to December 31, 2017, The Body Shop has provided the Company with Net revenue of R$ 1,456,557 and Net income of R$ 134,351. In case the acquisition had been concluded on January 1, 2017, the Company estimates its consolidated net revenue would have been R$ 3,301,224 and a Net income of R$ 66,187.

On September 7, 2017, the subsidiary The Body Shop International hired a series of transitional services from L'Oréal SA ("Seller"), to be provided from September 2017 to February 2019, to ensure the continuity of its activities during the period of integration into the Company. The total minimum supply payments, according to the agreement, are provided herein in Note 30.3.

5. FINANCIAL RISK MANAGEMENT

5.1. General considerations and policies

Risks and the financial instruments are managed through the definition of policies and strategies and implementation of control systems, defined by the Company's Treasury Committee and approved by the Board of Directors. 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 Company's Treasury Committee and subsequently submitted to the analysis of the Audit Committee, the Executive Committee and the Board of Directors.

Risk management of Natura operations (Brazil, Latam, Netherlands, USA and France) is performed by the Company's general treasury function, which is also responsible for approving the short-term investments and loan transactions. Risk management of the subsidiaries Aesop and The Body Shop is conducted independent of the Company's Central Treasury.

Below are presented the carrying amounts and fair values of the Company's financial instruments as of December 31, 2017:

Company

Financial assets	Note	Carrying amount: Designated at fair value	Carrying amount: Loans and receivables	Carrying amount: Total	Fair value: Level 2
Financial derivatives	5	6,560	-	6,560	6,560
Certificate of Bank Deposits	6 and 7	23,286	-	23,286	23,286
Exclusive investment funds	7	1,926,119	-	1,926,119	1,926,119
Receivables from related parties	8 and 29	-	1,005,138	1,005,138	1,005,138
Cash and banks	6	-	74,377	74,377	74,377
Total		1,955,965	1,079,515	3,035,480	3,035,480

Financial liabilities	Note	Carrying amount: Designated at fair value	Carrying amount: Other financial liabilities	Carrying amount: Total	Fair value: Level 2
Subsidized loans	16	-	(28,072)	(28,072)	(28,072)
Issue of debts in domestic currency	16	-	(7,572,380)	(7,572,380)	(7,790,611)
Issue of debts in foreign currency	16	-	(495,954)	(495,954)	(497,185)
Finance lease liabilities	16	-	(359,317)	(359,317)	(359,317)
Trade payables and related parties	17 and 29	-	(630,551)	(630,551)	(630,551)
Total		-	(9,086,274)	(9,086,274)	(9,305,736)

Consolidated

Financial assets	Note	Carrying amount: Designated at fair value	Carrying amount: Loans and receivables	Total	Fair value: Level 2
Forward exchange contracts used for hedging purposes	5	14,778	-	14,778	14,778
Government bonds	7	864,825	-	864,825	864,825
Treasury bills	7	915,853	-	915,853	915,853
Certificate of Bank Deposits (a)	6 and 7	166,500	-	166,500	166,500
Repurchase operations	6	922,054	-	922,054	922,054
Loan investment fund	7	174,668	-	174,668	174,668
Trade receivables	8	-	1,507,921	1,507,921	1,507,921
Cash and banks	6	-	556,536	556,536	556,536
		3,058,678	2,064,457	5,123,135	5,123,135

Financial liabilities	Note	Carrying amount: Designated at fair value	Carrying amount: Amortized cost	Carrying amount: Total	Fair value: Level 2
Subsidized loans	16	-	(598,897)	(598,897)	(598,897)
Issue of debts in domestic currency	16	-	(7,759,766)	(7,759,766)	(7,977,997)
Issue of debts in foreign currency	16	-	(510,477)	(510,477)	(511,708)
Finance lease liabilities	16	-	(462,760)	(462,760)	(462,760)
Trade and other payables	17	-	(1,553,763)	(1,553,763)	(1,553,763)
		-	(10,885,663)	(10,885,663)	(11,105,125)

5.2. Financial risk factors

The activities of the Company and its subsidiaries expose it 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.

a) Market risk

The Company is exposed to market risks arising from their business activities. These risks mainly comprise possible fluctuations in exchange and interest rates.

The following derivative financial instruments are used by the Company as protection to market risks, which form the following Balance Sheet balances:

	Parent Company		Consolidated	
	Fair Value - Gain (Loss) (Level 2)		Fair Value - Gain (Loss) (Level 2)	
Description	2017	2016	2017	2016
Financial derivatives	6,560	(69,864)	10,781	(73,360)
Operational derivatives	-	-	3,997	-
Interest rate swap derivatives	-	-	-	(142)
Total	6,560	(69,864)	14,778	(73,502)

The characteristics of these instruments and the risks which they are linked are described below:

i) Foreign exchange risk

The Company is exposed to the foreign exchange risk arising from financial instruments denominated in currencies different from their functional currencies. To reduce this exposure, the Company implemented policies to hedge against the foreign exchange risk that establish exposure limits linked to this risk.

The treasury area's procedures defined based on the current policy include monthly projection and assessment of the Group's foreign exchange exposure, on which management's decision-making is based.

The Company's exchange rate hedging policy considers the values of foreign currency receivables and payables balances of commitments already made and recorded in the financial information from the operations, as well as future cash flows, with an average of six months, still not recorded in the balance sheet.

The Body Shop has a specific foreign exchange hedging policy that covers foreign currency loans among the group companies, as well as future purchase and sale operations of goods, for a maximum period of 12 months.

As of December 31, 2017, and December 31, 2016, the Group is basically exposed to the risk of fluctuation of the US dollar, euro and pound sterling. In order to hedge foreign exchange exposures in relation to foreign currency, the Group enter into transactions with derivative financial instruments such as "swap" and "Forward Delinquency" ("Non-Deliverable Forward - NDF"). Pursuant to the Foreign Exchange Protection Policy, the derivatives contracted by the Company or its subsidiaries must limit the loss related to the exchange devaluation in relation to the net income projected for the current year, given a certain estimate of exchange rate devaluation against the US dollar. This limitation defines the ceiling or maximum exchange exposure permitted to the Group in relation to the US dollar and Euro.

As of December 31, 2017, individual and consolidated balance sheets include accounts denominated in foreign currency which, in the aggregate, represent net liabilities of R$495,955 and R$510,478, respectively (as of December, 31, 2016, R$1,596,651 and R$1,658,689, respectively). These accounts consist of borrowings and financing, 100% hedged with swap derivatives.

Derivatives to hedge foreign exchange rate risk

The Company classifies derivatives into "financial" and "operational". "Financial" derivatives include swaps or forwards contracted to hedge against the foreign exchange risk associated with foreign-currency-denominated borrowings and financing, "operational" derivatives include derivatives contracted to hedge against the foreign exchange risk on the business's operating cash flows.

Outstanding swap and forward contracts, with maturities between January 2018 and July 2021 were entered into the counterparties represented by Bank of America (54%) and Bank of Tokyo (46%). Currency forward contracts against the pound sterling mature within 12 months and were executed with counterparties represented by HSBC. On December 31, 2017, the balances of financial derivatives were:

Financial derivatives – Company

	Principal (notional) amount		Accrual value		Fair value		Gain (loss) from fair valur adjustment	
Description	2017	2016	2017	2016	2017	2016	2017	2016
Swap contracts (a): Asset position: Long position - U.S. dollar	483,954	1,614,877	495,857	1,596,181	496,813	1,591,783	956	(4,398)
Liability position: CDI floating rate: Short position in CDI	483,954	1,614,877	489,831	1,655,051	490,253	1,661,647	422	6,596
Total net derivative financial instruments:	-	-	6,026	(58,870)	6,560	(69,864)	534	(10,994)

Financial derivatives – Consolidated

Description	Principal (notional) amount 2017	Principal (notional) amount 2016	Accrual value 2017	Accrual value 2016	Fair value 2017	Fair value 2016	Gain (loss) from fair valur adjustment 2017	Gain (loss) from fair valur adjustment 2016
Swap contracts (a): Asset position: Long position - U.S. dollar	494,329	1,679,243	510,071	1,658,714	510,426	1,652,797	356	(5,917)
Liability position: CDI floating rate: Short position in CDI	494,329	1,679,243	500,206	1,719,899	500,477	1,726,157	271	6,257
Forward contracts (b) Net exchange rate position vs. GBP	315,972	-	615	-	832	-	217	-
Total net derivative financial instruments:	315,972	-	10,480	(61,185)	10,781	(73,360)	302	(12,174)

(a) Swap transactions consist of swapping the exchange rate fluctuation for a percentage of the floating rate Interbank Deposit Rate (CDI).

(b) Financial forward operations consist of hedging against exchange variation through operations involving various currencies against the pound sterling.

The notional amount represents the amounts of the contracted derivatives. Fair value refers to the value of outstanding contracted derivatives recognized in balance sheets.

For derivatives maintained by the Group as of December 31, 2017 and December 31, 2016, due to the fact contracts are directly entered into with the financial institutions and not through B3, there are no margin calls deposited as guarantee of the related transactions.

Operational derivatives - Consolidated

On December 31, 2017, the Company holds derivative instruments called Non-Deliverable Forwards (NDF) with HSBC in order to hedge against exchange rate risk on import and export operations of the subsidiary The Body Shop against pound sterling and U.S. dollar. The Company does not have any operational derivative contract in the period.

These derivatives are measured at fair value, with gains and losses recognized in the group of costs of products sold and are broken down as follows:

Description	Principal (notional) amount 2017	Principal (notional) amount 2016	Fair value 2017	Fair value 2016
Cash flow hedge with hedge accounting:				
Net position - GBP and USD	(52,414)	-	4,109	-
Cash flow hedge without hedge accounting:				
Forwards Contracts	(3,975)	-	(112)	-
Total derivative instruments, net:	(56,389)	-	3,997	-

Sensitivity analysis

For the sensitivity analysis of the risk of foreign exchange rate exposure, the Company's Management understands it is necessary to consider in addition to the assets and liabilities, with exposure to the fluctuation of exchange rates recorded in the balance sheet, the value of the accrual value of the financial instruments contracted by the Company for the protection of certain exposures as of December 31, 2017, as shown in the table below:

	Company	Consolidated
Loans and financing registered in Brazil in foreign currency (note 16)	(495,954)	(510,477)
Receivables registered in Brazil in foreign currency	-	6,844
Accounts payable registered in Brazil in foreign currencies	(7,509)	(8,875)
Value of the financial derivatives	495,857	510,071
Net exposure	(7,607)	(2,438)

The tables below show the gain that would have been recognized in the subsequent period, assuming that the current net foreign exchange exposure remains static, based on the following scenarios:

	Company			
Description	Risk	Probable scenario	Scenario II	Scenario III
Net exposure	Appreciation of the U.S. dollar	(62)	(1,571)	(2,577)

	Consolidated			
Description	Risk	Probable scenario	Scenario II	Scenario III
Net exposure	Appreciation of the U.S. dollar	(20)	(504)	(826)

The probable scenario considers forward rates for the U.S. dollar for delivery in 90 days, based on the quotes obtained from B3 for the expected maturity dates of financial instruments with foreign-currency exposure, of (R$3.31/ US$1.00). Scenarios II and III consider appreciation in the U.S. dollar of 25% (R$4.17/US$1.00) and 50% (R$5.00/US$1.00), respectively. Probable scenarios II and III are presented as required by CVM Instruction 475/08. In assessing possible changes in exchange rates, management uses the probable scenario, which is being presented for compliance with CPC 40 / IFRS 7 - Financial Instruments: Disclosures.

Net exposure of The Body Shop is very close to zero due to the effectiveness of derivative instruments.

The Group does not use derivative financial instruments for speculative purposes.

Derivative instruments designated for hedge accounting

The Company performed formal designation of its operations subject to hedge accounting for derivative financial instruments for hedging loans denominated in foreign currency and operating cash flows resulting from the purchase and sale denominated in foreign currency of The Body Shop, documenting:

- The hedge relationship;
- The Company's objective and risk management strategy in taking out the hedge transaction;
- Identification of the financial instrument;
- The hedged item or hedge transaction;
- The nature of the risk to be hedged;
- Description of the hedge relationship;
- The statement of correlation between hedge and hedged item, where applicable; and
- The prospective statement of hedge effectiveness.

The positions of derivative financial instruments designated as outstanding cash flow hedge on December 31, 2017 as set out below:

Instrument Designated as Cash Flow Hedge – company

						Others comprehensive income	
	Hedged item	Notional currency	Notional value	Accrual value	Fair value (a)	Accumulated gain (loss)	Gain (loss) in the 12-month period
Swap of currency - US$/R$	Currency	BRL	478,697	3,094	3,863	769	11,316

Instrument Designated as Cash Flow Hedge - consolidated

						Others comprehensive income	
	Hedged item	Notional currency	Notional value	Accrual value	Fair value (a)	Accumulated gain (loss)	Gain (loss) in the 12-month period
Swap of currency - US$/R$	Currency	BRL	478,697	3,094	3,863	769	11,316
Forward contract	Currency	GBP	(56,389)	2,391	3,998	1,607	2,134

(a) The method used by the Company to determine fair value consists in calculating the future value based on the contracted conditions and determines present value based on market accrual extracted from B3.

The Company designates as cash flow hedge derivative financial instruments used to offset variations from exposure to exchange rate, in the market value of contracted debts not in the functional currency.

On December 31, 2017, the consolidated position of instruments designated as cash flow hedge totaled one hundred forty-six million and eight hundred seventy-five thousand U.S. dollars (US$146,875) and twelve million and six hundred thirty-three thousand pounds sterling (£12,664) of notional amount R$478,697 and R$(56,389), respectively. A gain of R$13,450 (R$9,172 net of tax effects) and a loss of R$(2,346) R$(1,548) net of tax effects) were recognized in "other comprehensive income" in the years ended December 31, 2017 and 2016, respectively, which refer in their entirety as effective.

ii) Interest rate risk

The interest rate risk arises from investments and loans, financial instruments issued at floating rates expose the Group to cash flow risks associated with the interest rate. Financial instruments issued at fixed rates expose the Group to fair value risks associated with the interest rate.

The Company's cash flow risk associated with the interest rate arises from investments and short- and long-term loans and financing issued at floating rates. The Company's Management adopts the policy of maintaining its rates of exposure to asset and liability interest rates pegged to floating rates, Short-term investments are adjusted by the Interbank Deposit Rate (CDI) whereas borrowings and financing are adjusted based on the Long-term Interest Rate (TJLP), CDI and fixed rates, according to the contracts made with the related financial institutions, and trading securities with investors in this market.

The Group contracts swap derivatives with the purpose of mitigating the risks of loans and financing contracted at fixed rates.

On December 31, 2017, in the consolidated balance sheet, the loans issued at fixed rates do not exceed the TJLP rate (R$5,046 as of December 31, 2016). Such financings submitted as of June 30, 2017 were settled on the date agreed in the contract, August 18, 2017, in the amount of R$5,125.

Derivative instruments to hedge the risk of interest rate

On August 18, 2017, the Company settled a swap contract that was executed with counterparty represented by Banco Santander and is composed in the fiscal year 2016 as follows:

Interest rate swaps – company and consolidated

	Principal (notional) amount		Accrual value		Fair value		Gain (loss) from Fair Value adjustment	
Description	2017	2016	2017	2016	2017	2016	2017	2016
Swap contracts (a): Long position:								
Position purchased at fixed rate	-	5,000	-	5,045	-	4,935	-	(110)
Short position: variable CDI rate:								
Short position at the CDI	-	5,000	-	5,077	-	5,077	-	-
Total net Derivative Financial Instruments:	-	-	-	(32)	-	(142)	-	(110)

(a) Financial swap transaction consist of the exchange from a pre-fixed interest rate by a correction related to a variation percentage of the Interbank Certificate of Deposit - post fixed CDI.

Sensitivity analysis

On December 31, 2017, there are loans and financing denominated in foreign currency and issued at fixed rates under contract "swap ", changing the interest over the liability to CDI fluctuation. The Company is, therefore, exposed to CDI fluctuation. The table below presents the exposure to interest rate risks of transactions pegged to CDI, including derivative transactions:

	Company	Consolidated
Total borrowings and financing - in local currency (note 16)	(7,959,769)	(8,821,423)
Operations in foreign currency with derivatives pegged to CDI (a)	(495,954)	(510,477)
Short-term investments (notes 6 and 7)	1,949,405	3,113,900
Net exposure	(6,118,929)	(4,968,957)

(a) This refers to transactions involving CDI-backed derivatives to hedge the loans and financing arrangements raised in foreign currency in Brazil.

The sensitivity analysis considers the exposure of borrowings and financing pegged to CDI and TJLP rates, net of short-term investments, also pegged to the CDI rate (notes 6 and 7).

The tables below set out projected incremental gain (loss) that will be recognized in income statement for the subsequent year, assuming that the current net liability exposure will remain unaltered and the following scenarios:

	Company			
Description Net liability	Risk	Probable scenario	Scenario II	Scenario III
	Interest rate increase	7,343	(96,220)	(199,783)

	Consolidated			
Description Net liability	Risk	Probable scenario	Scenario II	Scenario III
	Interest rate increase	5,963	(78,137)	(162,236)

The probable scenario considers future interest rates obtained at B3 for the maturity dates of the financial instruments exposed to interest rate risks. Scenarios II and III consider an increase in the interest rate of 25% (8.5% per year) and 50% (10.2% per year), respectively, on the CDI rate of 6.8% per year for the probable scenario.

b) Credit risk

Credit risk refers to risk of a counterparty not complying with its contract obligations, which would result in financial losses for the Company. The Group’s sales are made to a high number of Natura’s Consultants and this risk is managed through a strict credit granting process. The result of this management is reflected in the ‘Provision for doubtful accounts’, as explained in note 8.

The Group is also subject to credit risks related to financial instruments contracted for the management of its business, primarily represented by cash and cash equivalents, short-term investments and derivative instruments.

The Company believes that the credit risk of transactions with financial institutions is low, as these are considered by the market as prime banks.

The Policy for Short-term Investments adopted by the Company's Management establishes the financial institutions with which the Group can do business and defines fund allocation limits and the amounts that may be invested in each of these financial institutions.

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 Group's consolidated liquidity level considering the expected cash flows against unused credit facilities.

Net balances are negative due to the transfer of the debtor balance of Promissory Notes from Non-current Liabilities to Current Liabilities, given the prepayment using proceeds from the capital raised on February 1, 2018, as mentioned in Note 33. The changes in the liquidity levels resulted from obtaining new long-term borrowings and financing and settlements at scheduled due dates of loans, which began last quarter, recovered the positive working capital balances, as shown below:

	Company		Consolidated	
	2017	2016	2017	2016
Total current assets	3,544,427	2,571,365	7,056,309	4,802,900
Total current liabilities	(4,803,307)	(2,981,740)	(6,912,005)	(4,177,899)
Total net working capital	(1,258,880)	(410,375)	144,304	625,001

The consolidated carrying amounts of financial liabilities, measured at amortized cost, and their corresponding maturities are as follows:

Company as of December 31, 2017	Less thn one year	One to two years	Two to five years	More than five years	Total expected cash flow	Accrued interest/Fair Value Adjustment	Carrying amount
Current:							
Borrowings, financing and debentures	3,539,940	-	-	-	3,539,940	(16,879)	3,523,061
Payables to related parties, Trade and other payables	630,551	-	-	-	630,551	-	630,551
Non-current:							
Borrowings, financing and debentures	-	1,920,969	2,951,401	331,072	5,203,442	(270,780)	4,932,662

Consolidated as of December 31, 2017	Less thn one year	One to two years	Two to five years	More than five years	Total expected cash flow	Accrued interest/Fair Value Adjustment	Carrying amount
Current:							
Borrowings, financing and debentures	4,122,166	-	-	-	4,122,166	(45,497)	4,076,669
Payables to related parties, Trade and other payables	1,553,763	-	-	-	1,553,763	-	1,553,763
Non-current:							
Borrowings, financing and debentures	-	2,102,997	3,151,823	448,474	5,703,294	(440,063)	5,255,231

5.3. Capital management

The Company's objectives in managing its capital are to ensure that the Company is continuously capable of offering return to its shareholders and benefits to other stakeholders, and maintain an optimal capital structure to reduce this capital cost.

The Company monitors capital based on the financial leverage ratios. This ratio corresponds to the net debt divided by the total equity. The net debt corresponds to total borrowings and financings (including short- and long-term borrowings, as shown in the consolidated balance sheet), deducted from cash and cash equivalents and short term investments. Net debt as shown below includes adjustments of derivative contracts to mitigate the foreign exchange risk.

The consolidated financial leverage ratios as of December 31, 2017, and December 31, 2016 are as follows:

	Company		Consolidated	
	2017	2016	2017	2016
Short- and long-term borrowings and financing (note 16)	8,455,723	3,462,687	9,331,900	4,390,171
Financial derivatives, operational derivatives and interest rate swap derivatives	(6,560)	69,864	(14,778)	73,502
Cash and cash equivalents and securities (note 6 and 7, except Certificates of Bank Deposits (CDB) Crer para Ver)	(2,001,823)	(1,210,999)	(3,648,477)	(2,278,588)
Net debt	6,447,340	2,321,552	5,668,645	2,185,085
Shareholders' equity	1,634,746	996,385	1,634,746	996,385
Financial leverage ratio	394.39%	233.00%	346.76%	219.30%

The increase in the financial leverage ratio is due to the funding operations carried out during 2017 to finance the acquisition of The Body Shop and is in line with Management's expectations for after said transaction.

5.4 Fair Value Estimate

Financial instruments that are measured at fair value at the end of the reporting period as prescribed by CPC 40 / IFRS 7- Financial Instruments: Disclosures follow the hierarchy below:

- Level 1: Prices quoted (unadjusted) in active markets for identical assets or liabilities. 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.
- Level 2: Used for financial instruments that are not traded in active markets (for example, over-the-counter derivatives) and whose fair value is determined using valuation techniques that, in addition to the quoted prices, included in Level 1, use other inputs adopted by the market for assets or liabilities, whether directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for assets or liabilities that are not based on the data adopted by the market

(i.e. unobservable inputs).

As of December 31, 2017, and December 31, 2016, the measurement of Group’s derivatives falls under the Level 2 characteristics and there were no changes in levels in the period. The fair value of exchange rate derivatives (swap and forwards) is determined based on the exchange rate at the end of the reporting period, with the resulting amount being discounted to present value.

Fair values of financial instruments measured at amortized cost (Level 2)

Short-term investments

The carrying amounts of the short-term investments approximate their fair values as transactions are conducted at floating interest rates.

Borrowings, financing and debentures

The carrying amounts of borrowings and financing, except those pegged to a fixed rate, are considered for their fair values as they are pegged to a floating rate, the CDI fluctuation. The carrying amounts of financing pegged to TJLP approximate their fair values as the TJLP is also pegged to CDI and is a floating rate.

The fair value of borrowings and financing contracted at fixed interest rates does not have significant variation related to the book value disclosed in note 16.

Trade receivables and payables

It is estimated that the carrying amounts of trade receivables and trade payables approximate their fair values in view of the short term of the transactions conducted.

The companies do not maintain any guarantees for past-due receivables and payables.

6. CASH AND CASH EQUIVALENT

	Company		Consolidated	
	2017	2016	2017	2016
Cash and banks	74,377	60,229	556,536	203,010
Certificate of Bank Deposits (a)	1,327	1,202	144,541	119,274
Repurchase agreements (b)	-	-	992,054	769,186
	75,704	61,431	1,693,131	1,091,470

(a) On December 31, 2017, investments in Certificate of Bank Deposits are remunerated at an average rate of 101.1% of CDI (101.2% of CDI as of December 31, 2016) with daily maturities redeemable with the issuer itself, without significant loss of value.

(b) Repurchase agreements are securities issued by banks with a commitment by the bank to repurchase the security, and by the client to resell the security, at a defined rate of interest and within a predetermined term, which are backed by public or private securities (depending on the bank) and are registered with the CETIP. On December 31, 2017, repurchase operations are remunerated at an average rate of 100.2% of the CDI (100.1% of the CDI on December 31, 2016).

7. SHORT TERM INVESTMENTS

	Company		Consolidated	
	2017	2016	2017	2016
Exclusive investment funds	1,926,119	1,149,568	-	-
Loan investment funds	-	-	174,668	151,363
Certificate of Bank Deposits (a)	21,959	20,341	21,959	20,341
Treasury bills	-	-	915,853	743,047
Government bonds (LFT)	-	-	864,825	292,708
	1,948,078	1,169,909	1,977,305	1,207,459

(a) Investment in Certificate of Bank Deposits are restated with yield interest of 89.21% of CDI and are referring to the amounts that will be given to Instituto Natura due to the sales of the “Crer para Ver” products (94.2% of the CDI at December 31, 2016).

The Group concentrates most of investments in an exclusive investment fund. On December 31, 2017 the companies Natura Cosméticos S.A., Natura Inovação e Tecnologia de Produtos Ltda., Natura Logística e Serviços Ltda, Indústria e Comércio de Cosméticos Natura Ltda., Natura Comercial Ltda. and Natura Biosphera Franqueadora Ltda. have interest in shares of the Fund Essential Investment.

The number of shares held by the Company is disclosed under "Investment Fund Exclusive" in the individual financial statements. The financial information of the investment fund, which the group has an exclusive interest (100 % of the shares), were consolidated and the values of their portfolio were segregated by type of investment and classified as cash equivalents or short term investments, according to the accounting practices adopted by Natura Cosméticos.

The exclusive fund is as follows:

The Essential Investment Fund is a fixed income fund of private credit managed administrated and by custody of Banco Itaú Unibanco S.A. Eligible assets in the portfolio are: government securities, CDB, financial letters and repurchase agreements. There is no grace period for redemption of shares that may be redeemed at any time.

Breakdown of the exclusive fund portfolio on December 31, 2017 and December 31, 2016 is as follows:

	2017	2016
Certificates of deposit	143,378	118,127
Repurchase agreements	992,054	769,186
Treasury bills	915,853	743,047
Government bonds (LFT)	864,825	292,708
	2,916,110	1,923,068

8. TRADE RECEIVABLES

	Company		Consolidated	
	2017	2016	2017	2016
Trade receivables	1,069,118	943,839	1,625,474	1,194,846
Provision for doubtful accounts	(74,151)	(115,618)	(117,553)	(142,945)
	994,967	828,221	1,507,921	1,051,901

The aging list of trade receivables is as follows:

	Company		Consolidated	
	2017	2016	2017	2016
Current	928,290	777,278	1,351,516	962,643
Past due:				
Up to 30 days	45,544	60,704	120,664	97,867
31 to 60 days	27,663	24,529	42,785	34,263
61 to 90 days	23,033	17,198	33,557	22,550
91 to 180 days	44,588	64,130	76,952	77,523
Provision for doubtful accounts	(74,151)	(115,618)	(117,553)	(142,945)
	994,967	828,221	1,507,921	1,051,901

The balance of trade receivables in Consolidated is basically denominated in Brazilian reais, and approximately 68% of the outstanding balance as of December 31, 2017, (81% as of December 31, 2016,), refers to real-denominated transactions. The remaining balance is denominated in several currencies and refers to sales by rather foreign subsidiaries.

The changes in the provision for doubtful accounts for the year ended December 31, 2017 are as follows:

Company				Consolidated			
Balance in 2016	Additions (a)	Write-offs (b)	Balance in 2017	Balance in 2016	Additions (a)	Write-offs (b)	Balance in 2017
(115,618)	(135,466)	176,933	(74,151)	(142,945)	(232,870)	258,262	(117,553)

The changes in the provision for doubtful accounts for the year ended December 31, 2016 are as follows:

Company				Consolidated			
Balance in 2015	Additions (a)	Write-offs (b)	Balance in 2016	Balance in 2015	Additions (a)	Write-offs (b)	Balance in 2016
(96,646)	(230,749)	211,777	(115,618)	(123,686)	(287,279)	268,020	(142,945)

(a) Provision for doubtful accounts recognized according to note 2.7.

(b) Refers to accounts overdue for more than 180 days which were written off due to uncollectible amounts.

The expense on the recognition of the provision for doubtful accounts was recorded in ‘Selling expenses’ in the income statement. When there is no expectation of recovery of additional cash, the amounts credited to line item ‘Provision for doubtful accounts’ are in general reversed against the definite write-off of the receivable and is recorded in net income or loss.

Maximum exposure to credit risk at the reporting date is the carrying amount of each aging range, net of the provision for doubtful accounts, as shown in the aging list above. The Group does not have any guarantee for past-due receivables.

9. INVENTORIES

	Company		Consolidated	
	2017	2016	2017	2016
Finished products	188,597	195,653	1,064,714	676,835
Raw materials and packaging	-	-	230,100	182,778
Promotional material	22,986	18,200	92,264	94,630
Work in progress	-	-	16,857	13,293
Provision for losses	(19,195)	(10,495)	(160,010)	(131,614)
	192,388	203,358	1,243,925	835,922

The changes in the provision for inventory losses for the year ended December 31, 2017 are as follows:

Company				Consolidated			
Balance in 2016	Additions (a)	Write-offs (b)	Balance in 2017	Balance in 2016	Additions (a)	Write-offs (b)	Balance in 2017
(10,495)	(20,543)	11,843	(19,195)	(131,614)	(117,287)	88,891	(160,010)

The changes in the provision for inventory losses for the year ended December 31, 2016 are as follows:

Company				Consolidated			
Balance in 2015	Additions (a)	Write-offs (b)	Balance in 2016	Balance in 2015	Additions (a)	Write-offs (b)	Balance in 2016
(15,420)	1,916	3,009	(10,495)	(100,236)	(119,103)	87,725	(131,614)

(a) Refer to the recognition of the provision for losses due to discontinuation, expiration and quality, to cover expected losses on the realization of inventories, pursuant to the Group's policy.

(b) Consist of write-offs of products discarded by the Group.

10. RECOVERABLE TAXES

	Company		Consolidated	
	2017	2016	2017	2016
ICMS on purchase of goods (a)	2,183	2,411	443,756	409,710
Taxes on purchase of goods (International Oper.)	-	-	50,694	26,548
ICMS recoverable on tax incentives - Sponsorship	-	96	-	96
Taxes - foreign subsidiaries	-	-	784	1,906
ICMS on purchases of fixed assets	2,586	3,001	10,343	19,188
PIS and COFINS on purchases of fixed assets	33,791	31,055	58,012	37,046
PIS and COFINS on purchase of goods	55,362	21,586	56,270	21,590
PIS and COFINS resulting from win on a lawsuit (b)	-	-	-	7,670
Withholding PIS, COFINS and CSLL	502	43	2,210	2,682
IPI recoverable	8,681	2,114	23,553	28,291
Others	-	-	4,080	-
	103,105	60,306	649,702	554,727
		-		-
Current	67,239	28,054	210,563	274,093
Non-current	35,866	32,252	439,139	280,634

(a) Accumulated ICMS tax credits were mainly generated from the purchases, which tax rate is higher than average sales rates. Additionally, the Company has increased its exports, whose tax rate is zero. The credits are accumulated in the State of São Paulo and the Company's Management has already a short and long-term recovery plan.

(b) The amount shown relates to the recognition of tax credits of Social Integration Program - PIS and Contribution to Social Security Financing - COFINS the lawsuit challenging the constitutionality and legality of the tax base for calculating contributions cited, established by Law No. 9,718/98. The Company obtained authorization from the Federal Revenue of Brazil to offset credits of subsidiaries after the trial in March 2017.

11. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred

Deferred Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) result from temporary differences in the Group. The balance of deferred taxes on tax losses and tax loss carryforwards was also recognized in certain subsidiaries and the Company. The amounts are as follows:

Breakdown of deferred income tax and social contribution - Net Assets:

	2017	2016	2017	2016
Tax loss carryforwards and negative basis of social contribution tax	10.243	43.161	60.363	68.052
Allowance for doubtful accounts (note 8)	25.211	39.310	46.110	51.867
Allowance for losses on inventories (note 9)	6.526	3.568	44.982	45.884
Provision for tax, civil and labor contingencies (note 18)	50.215	21.951	82.308	34.307
Non-inclusion of ICMS in the PIS and COFINS basis (note 17.a)	-	845	-	101.054
Effect of changes in fair value of derivative instruments, including hedge accounting transactions (note 5.2.)	(2.230)	23.754	(4.754)	24.992
Provision for ICMS - ST (note 17.b)	51.472	56.608	51.472	56.608
Allowances for losses on advances to suppliers	1.907	1.875	1.907	1.875
Accrued benefits sharing and partnerships	14.957	14.057	16.021	14.574
Provision for profit sharing	25.524	13.156	54.944	22.348
Depreciation rate adjustment - useful life	(72.137)	(59.335)	(121.771)	(97.511)
Provision for Income Tax/Social Contribution on interest - injunction (Interest - Natura Consultants)	-	28.643	-	28.643
Provision carbon credits	4.220	1.422	4.220	1.422
Profit not eliminated in inventories	-	-	24.033	23.071
Provision for losses - property and intangible (note 14)	6.098	828	9.365	3.968
INSS with Suspended Liability (note 17)	4.573	2.854	12.303	8.820
IPI - Decree n° 8393/2015 (note 17)	-	48.364	-	50.169
Others expenses provision (a)	24.563	20.604	50.615	39.379
Other temporary differences	22.988	16.635	12.035	13.474
	174.130	278.300	344.153	492.996

(a) Refers to the recognition of a provision to comply with accrual-basis accounting, reflecting the actual expenses incurred in the period, but without the issue of invoices by suppliers.

Breakdown of deferred income tax and social contribution - Liabilities:

	Consolidated	
	2017	2016
Fair value of identifiable assets (Emeis Holding Pty Ltd. and The Body Shop) (b)	422,369	23,775

(b) Refers to the fair value of the assets identified in the business combination with Emeis Holding Pty Ltd. and with The Body Shop.

Management, based on projections of future taxable income, estimates that the recorded tax credits will be fully realized within five years.

Management's expectation is that tax liabilities and credits will be realized as follows:

	Company	Consolidated
2018	113,076	232,751
2019	67,999	116,971
2020	17,352	20,566
2021	11,055	10,937
2022	(1,673)	14,488
2023 onwards	(33,679)	(51,560)
	174,130	344,153

With respect to the foreign subsidiaries listed below, tax credits on tax loss carryforwards and temporary differences are not recorded due to the history of lack of taxable profit and taxable profit projections for the coming fiscal years.

As of December 31, 2017, tax credits calculated at the prevailing tax rates in the countries where the subsidiaries are located, are as follows:

Tax losses	R$
Mexico	87,796
Australia (Substantially by operations in the US and Brazil)	19,618
France	307,020
The Body Shop (Operations in the U.S., Brazil and France)	412,775
	827,209

Except for Mexico, tax credits on tax loss carry forwards generated by the subsidiaries can be carried forward indefinitely. For this subsidiary, the tax loss carry forwards has the following expire date:

	Mexico - R$
2018	-
2019	15,803
2020	17,907
2021	14,861
2022 onwards	39,225
	87,796

b) Reconciliation of income tax and social contribution

	Company		Consolidated	
	2017	2016	2017	2016
Income before income tax and social contribution	647,468	312,296	971,192	426,859
Income tax and social contribution at the rate of 34%	(220,139)	(106,181)	(330,205)	(145,132)
Technological research and innovation benefit - Law 11.196/05 (a)	16,453	18,222	16,453	18,222
Tax incentives	1,277	3,990	3,847	5,840
Equity in the earnings of subsidiaries (note 14)	201,598	73,502	-	-
Tax impact generated by rate differences on subsidiaries abroad	-	-	18,950	678
Recognition of prior-year tax losses - Mexico	-	-	35,393	-
Taxation on profit of subsidiaries abroad	(2,037)	(2,332)	(2,037)	(2,332)
Unrecognized tax loss in the year	-	-	(17,787)	(7,320)
Tax Benefits of interest on equity (IOE)	28,523	26,929	28,523	26,929
Changes in fair value of the firm commitment to purchase additional ownership interest in Emeis Holding Pty Ltd.(b)	-	(19,744)	-	(19,744)
Other permanent differences	(2,892)	(9,982)	(54,078)	4,238
Income tax and social contribution expenses	22,783	(15,597)	(300,941)	(118,621)
Income tax and social contribution - current	123,105	(244,650)	(140,899)	(404,039)
Income tax and social contribution - deferred	(100,322)	229,053	(160,042)	285,418
Effective rate - %	3.5	5.0	31.0	27.8

(a) Refers to the tax benefit established by Law 11.196/05, 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.

(b) This refers to the permanent tax effect on changes in fair value of the firm commitment to purchase additional ownership interest in Emeis Holding Pty Ltd.

The changes in income tax and social contribution for the year ended December 31, 2017 were as follows:

Company				Consolidated				
2016	(Debit)/ Credit to profit or loss	(Debit)/Credit Other comprehensive income	2017	2016	Acquisition of subsidiary (a)	(Debit)/ Credit to profit or loss	(Debit)/Credit Other comprehensive income	2017
278,300	(100,322)	(3,848)	174,130	492,996	16,719	(161,284)	(4,278)	344,153

The changes in income tax and social contribution for the year ended December 31, 2016 were as follows:

Company				Consolidated				
2015	(Debit)/ Credit to profit or loss	(Debit)/Credit Other comprehensive income	2016	2015	(Debit)/ Credit to profit or loss	(Debit)/Credit Other comprehensive income	Transfer between deferred income tax and social contribution liabilities and asset	2016
48,525	229,053	722	278,300	212,608	284,137	798	(4,547)	492,996

The changes in deferred income tax and social contribution liabilities for the year ended

December 31, 2017 and 2016 in consolidated figures were as follows:

Consolidated						Consolidated				
2015	(Debit)/ Credit to profit or loss	(Debit)/ Credit Other comprehensive income including exchange rate variation	Transfer between deferred income tax and social contribution liabilities and asset	2016		2016	(Debit)/Credit to profit or loss	Acquisition of subsidiary (a)	(Debit)/ Credit Other comprehensive income of exchange rate variation	2017
(34,073)	1,281	4,470	4,547	(23,775)		(23,775)	1,242	(397,754)	(2,222)	(422,509)

(a) Opening balance from the acquisition of net assets of The Body Shop.

12. JUDICIAL DEPOSITS

Represent the restricted assets of the Group related to amounts deposited and held by the courts until the litigation to which they are linked is resolved.

The judicial deposits of the Group as of December 31, 2017 and December 31, 2016 are as follows:

	Company		Consolidated	
	2017	2016	2017	2016
Unaccrued tax lawsuits (a)	152,660	155,575	198,161	161,833
Accrued tax lawsuits (b) (note 18 and 19)	97,041	84,620	105,594	128,727
Unaccrued civil lawsuits	997	1,287	1,269	1,591
Accrued civil lawsuits (note 19)	664	757	988	882
Unaccrued labor lawsuits	3,905	3,663	5,496	5,035
Accrued labor lawsuits (note 19)	6,947	3,987	7,925	5,006
Total judicial deposits	262,214	249,889	319,433	303,074

(a) The proceedings related to these judicial deposits basically refer to ICMS - ST, note 19 (a) - contingent liability - possible risk of loss.

(b) The proceedings related to these judicial deposits basically refer to the sum of amounts disclosed in note 18, item (a), (b) and the amount accrued as explained in the note 19.

13. OTHER CURRENT AND NON-CURRENT ASSETS

	Company		Consolidated	
	2017	2016	2017	2016
Marketing and advertising advances	45,456	84,480	45,591	99,977
Supplier advances (c)	8,422	141,546	44,606	144,377
Employee advances	4,881	2,698	9,764	5,602
Rent advances (b)	-	-	79,024	19,205
Insurance	3,191	4,241	9,263	7,240
Customs broker advances - Import taxes	-	-	11,825	8,523
Assets held for sale	160	160	160	160
Carbon credits (a)	10,114	8,998	10,114	8,998
Other	14,235	2,266	47,006	15,690
	86,459	244,389	257,353	309,772
Current	86,299	228,629	211,208	286,739
Non-current	160	15,760	46,145	23,033

(a) Carbon Neutral program (note 2.9).

(b) Mainly refers to advances of property rents and security deposits where certain stores of the subsidiary "The Body Shop" are located.

(c) In 2017, the amounts related to capitalized charges arising from lease agreements were reclassified, as detailed in note 15, item (h).

14. INVESTMENTS

	Company	
	2017	2016
Investments in subsidiaries	6,602,469	2,104,217

Information and changes in the balances for the years ended December 31, 2017 and 2016:

	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	Natura Inovação e Tecnologia de Produtos Ltda	Natura Cosméticos de México S.A. (*)	Natura Cosméticos Ltda. - Colombia	Natura (Brasil) International B.V. - The Netherlands (*)	Natura Cosméticos España S.L.	Natura Biosphera Franqueadora Ltda.	Natura Comercial Ltda.	Natura Brazil Pty Ltd (*)	Total
Percentage of interest	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%	99.99%	99.99%	100.00%	
Shareholders' equity of subsidiaries	1,648,881	135,734	20,512	201,663	232	29,054	45,471	49,507	4,090,845	101	10,938	37,475	369,019	6,639,432
Share in shareholders' equity	1,611,972	135,720	20,510	201,643	232	29,051	45,466	49,502	4,090,845	101	10,937	37,471	369,019	6,602,469
Net income for the period of subsidiaries	308,713	27,053	5,181	90,518	-	22,166	35,466	7,701	79,097	(53)	6,172	(2,571)	13,544	592,987
Balance as of December 31, 2015	1,251,225	111,453	7,970	219,273	436	77,649	(21,519)	26,170	14,298	603	6,398	-	285,757	1,979,713
Equity in subsidiaries	65,059	35,367	9,181	45,003	-	35,628	5,202	18,787	(36,380)	-	(5,832)	(58)	44,225	216,182
Exchange variation and other adjustments in the conversion of investments of subsidiaries abroad	8	(15,272)	(2,223)	(71,594)	(207)	(1,251)	2,840	(3,771)	(1,588)	-	-	-	(67,662)	(160,720)
Contribution of the company to share option plans granted to executives of subsidiaries and other reserves	1,207	-	-	-	-	(482)	-	-	-	-	-	-	-	725
Actuarial gains (losses)	9,517	-	-	-	-	(942)	-	-	-	-	-	-	-	8,575
Effect on net hedge accounting of tax effects	(147)	-	-	-	-	-	-	-	-	-	-	-	-	(147)
Effect of change of interest in indirect subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(207,983)	(207,983)
Effect of change in Natura Cosméticos' interest in the fair value of the net assets acquired from Emeis Holding Pty Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	11,672	11,672
Distribution of dividends	-	(7,063)	-	-	-	(72,676)	-	-	-	-	-	-	-	(79,739)
Increase in capital	-	-	-	-	-	-	24,081	-	32,309	-	4,200	16,100	259,249	335,939
Balances as of December 31, 2016	1,326,869	124,485	14,928	192,682	229	37,926	10,604	41,186	8,639	603	4,766	16,042	325,258	2,104,217
Equity in subsidiaries	308,682	27,050	5,180	90,509	-	22,164	35,462	7,700	79,097	(53)	6,171	(2,571)	13,544	592,935
Exchange variation and other adjustments in the conversion of investments of subsidiaries abroad	(57)	9,211	402	(31,126)	3	-	(600)	616	213,070	(449)	-	-	30,217	221,287
Contribution of the company to share option plans granted to executives of subsidiaries and other reserves	(12,401)	-	-	-	-	268	-	-	-	-	-	-	-	(12,133)
Actuarial gains (losses)	(11,352)	-	-	-	-	(1,072)	-	-	-	-	-	-	-	(12,424)
Effect on net hedge of tax effects	231	-	-	-	-	-	-	-	1,473	-	-	-	-	1,704
Distribution of dividends	-	(25,026)	-	(50,422)	-	(30,235)	-	-	-	-	-	-	-	(105,683)
Increase in capital	-	-	-	-	-	-	-	-	3,788,566	-	-	24,000	-	3,812,566
Balances at December 31, 2017	1,611,972	135,720	20,510	201,643	232	29,051	45,466	49,502	4,090,845	101	10,937	37,471	369,019	6,602,469

(*) Consolidated information of the following companies (see note 2.2 c)):

Indústria e Comércio de Cosméticos Natura Ltda. - Indústria e Comércio de Cosméticos Natura Ltda. and Natura Logística e Serviços Ltda.

Natura Cosméticos de México S.A.: Natura Cosméticos y Servicios de México, S.A. de C.V., Natura Cosméticos de Mexico, S.A. de C.V. e Natura Distribuidora de Mexico, S.A. de C.V.

Natura (Brazil) International B.V. - Netherlands: Natura (Brazil) International B.V. (Netherlands), Natura Brasil Inc. (USA – Delaware), Natura International Inc. (USA – New York), Natura Europa SAS (France) and The Body Shop International Limited.

Natura Brazil Pty. Ltd.: Natura Brazil Pty. Ltd., Natura Cosmetics Australia Pty. Ltd. and Emeis Holdings Pty. Ltd.

15. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment

	Company						
	Useful life range (in years)	2016	Additions	Write-offs	Transfers	Other changes	2017
Cost value:							
Vehicles	2 to 5	39,960	12,132	(13,673)	-	(192)	38,227
Tools and accessories	3 to 20	-	133	-	-	-	133
Machinery and accessories	2 to 15	178,349	47	(127)	922	2,324	181,515
Leasehold improvements (a)	3 to 60	67,365	6,929	(5,312)	24,044	(1,212)	91,814
Buildings	14 to 60	331,823	8,739	-	136,532	-	477,094
Furniture and fixture	2 to 25	13,153	1,155	(622)	9,678	-	23,364
Land	-	4,413	-	-	-	-	4,413
IT equipment	3 to 15	123,978	3,501	(15,356)	(14)	(2,229)	109,880
Projects in progress	-	21,763	27,929	(2)	(42,075)	979	8,594
Total cost		780,804	60,565	(35,092)	129,087	(330)	935,034
Depreciation value:							
Vehicles		(18,015)	(7,107)	7,624	-	(31)	(17,529)
Machinery and accessories		(55,880)	(12,093)	98	-	-	(67,875)
Leasehold improvements (a)		(22,042)	(4,977)	268	-	-	(26,751)
Buildings		(24,878)	(11,661)	-	(1,530)	-	(38,069)
Furniture and fixture		(3,865)	(891)	333	-	-	(4,423)
IT equipment		(79,630)	(10,980)	15,282	1,237	-	(74,091)
Total depreciation		(204,310)	(47,709)	23,605	(293)	(31)	(228,738)
Overall total		576,494	12,856	(11,487)	128,794	(361)	706,296

	Company						
	Useful life range (in years)	2015	Additions	Write-offs	Transfers	Other changes	2016
Cost value:							
Vehicles	3 to 5	43,855	10,344	(14,062)	-	(177)	39,960
Machinery and accessories	3 to 15	166,513	2,446	7,553	1,837	-	178,349
Leasehold improvements (a)	2 to 15	69,686	411	(11,421)	8,689	-	67,365
Buildings	14 to 60	331,823	-	-	-	-	331,823
Furniture and fixture	3 to 25	14,030	186	(1,735)	774	(102)	13,153
Land	-	4,413	-	-	-	-	4,413
IT equipment	3 to 15	95,341	7,173	(3,269)	25,984	(1,251)	123,978
Projects in progress	-	8,071	45,376	(763)	(24,143)	(6,778)	21,763
Total cost		733,732	65,936	(23,697)	13,141	(8,308)	780,804
Depreciation value:							
Vehicles		(18,808)	(8,693)	7,664	-	1,822	(18,015)
Machinery and accessories		(44,432)	(11,918)	470	-	-	(55,880)
Leasehold improvements (a)		(22,754)	(4,432)	5,144	-	-	(22,042)
Buildings		(18,873)	(6,005)	-	-	-	(24,878)
Furniture and fixture		(3,731)	(826)	654	-	38	(3,865)
IT equipment		(67,029)	(16,389)	3,082	684	22	(79,630)
Total depreciation		(175,627)	(48,263)	17,014	684	1,882	(204,310)
Overall total		558,105	17,673	(6,683)	13,825	(6,426)	576,494

Consolidated

	Useful life range (in years)	2016	Acquisition of subsidiary	Additions	Write-offs	Impairment of assets	Transfers	Other changes including exchange variation	2017
Cost value:									
Vehicles	2 to 5	75,898	-	23,478	(24,778)	-	30	(853)	73,775
Molds	3	219,676	-	7,215	(5,856)	-	1,779	(3,412)	219,402
Tools and accessories	3 to 20	2,975	-	475	(11)	-	2,887	78	6,404
Facilities	3 to 60	285,083	-	4,377	(227)	-	9,214	(504)	297,943
Machinery and accessories	2 to 15	801,540	747	3,196	(24,194)	-	10,380	(8,535)	783,134
Leasehold improvements (a)	3 to 20	210,410	348,378	33,602	(17,506)	-	48,398	44,973	668,255
Buildings	14 to 60	758,892	51,756	8,739	-	-	136,532	9,677	965,596
Furniture and fixture	2 to 25	66,725	690,498	34,412	(25,954)	(7,712)	22,706	17,254	797,929
Land	-	30,525	-	-	-	-	(194)	194	30,525
IT equipment	3 to 15	175,238	98,739	22,568	(18,222)	-	1,019	15,059	294,401
Projects in progress	-	68,213	21,440	117,713	(12,738)	-	(110,476)	(5,738)	78,414
Total cost		2,695,175	1,211,558	255,775	(129,486)	(7,712)	122,275	68,193	4,215,778
Depreciation value:									
Vehicles		(31,446)	-	(14,758)	16,135	-	-	436	(29,633)
Templates		(184,000)	-	(22,918)	5,784	-	-	(179)	(201,313)
Tools and accessories		(1,985)	-	(261)	(76)	-	-	(70)	(2,393)
Facilities		(113,894)	-	(14,423)	42	-	-	(265)	(128,540)
Machinery and accessories		(289,475)	(316)	(52,666)	14,278	-	416	183	(327,579)
Leasehold improvements (a)		(84,136)	(246,676)	(53,230)	11,148	-	(25)	(12,367)	(385,286)
Buildings		(123,895)	(10,301)	(21,496)	(1,530)	-	(1,530)	(48)	(158,801)
Furniture and fixture		(24,690)	(465,980)	(31,233)	24,748	-	11	(11,799)	(508,943)
IT equipment		(106,966)	(78,334)	(26,051)	18,065	-	1,128	(4,459)	(196,617)
Total depreciation		(960,487)	(801,607)	(237,036)	88,594	-	-	(28,568)	(1,939,104)
Overall total		1,734,688	409,951	18,739	(40,892)	(7,712)	122,275	39,625	2,276,674

Consolidated

	Useful life range (in years)	2015	Additions	Write-offs	Impairment of assets	Transfers	Other changes including exchange variation	2016
Cost value:								
Vehicles	2 to 5	75,079	24,265	(21,384)	(316)	4,845	(6,591)	75,898
Molds	3	228,576	1,538	(14,237)	-	3,817	(18)	219,676
Tools and accessories	3 to 20	45,642	38	(1,235)	-	(41,237)	(233)	2,975
Facilities	3 to 60	256,580	2,538	(145)	-	27,713	(1,603)	285,083
Machinery and accessories	2 to 15	767,012	13,165	(36,467)	-	58,310	(480)	801,540
Leasehold improvements (a)	3 to 20	158,058	21,743	(24,167)	-	73,105	(18,329)	210,410
Buildings	14 to 60	758,645	247	-	-	-	-	758,892
Furniture and fixture	2 to 25	60,350	7,284	(4,235)	-	10,215	(6,889)	66,725
Land	-	30,525	-	-	-	-	-	30,525
IT equipment	3 to 15	138,525	15,936	(7,909)	-	35,784	(7,098)	175,238
Projects in progress	-	117,971	121,422	(809)	-	(153,504)	(16,867)	68,213
Total cost		2,636,963	208,176	(110,588)	(316)	19,048	(58,108)	2,695,175
Depreciation value:								
Vehicles		(29,282)	(15,652)	12,050	-	(2,971)	4,409	(31,446)
Templates		(170,542)	(27,373)	13,872	-	26	17	(184,000)
Tools and accessories		(25,696)	(448)	1,235	-	22,135	789	(1,985)
Facilities		(94,884)	(13,204)	106	-	(7,040)	1,128	(113,894)
Machinery and accessories		(275,723)	(49,265)	28,080	-	5,593	1,840	(289,475)
Leasehold improvements (a)		(68,872)	(30,198)	15,804	-	(11,827)	10,957	(84,136)
Buildings		(107,698)	(16,203)	-	-	(1)	7	(123,895)
Furniture and fixture		(18,539)	(8,505)	3,016	-	(3,727)	3,065	(24,690)
IT equipment		(93,377)	(23,652)	7,373	-	(2,044)	4,734	(106,966)
Total depreciation		(884,613)	(184,500)	81,536	-	144	26,946	(960,487)
Overall total		1,752,350	23,676	(29,052)	(316)	19,192	(31,162)	1,734,688

Intangible assets

Company	Useful life range (years)	2016	Additions	Write-offs	Transfers	Other changes	2017
Cost value:							
Software and other	2.5 to 10	732,329	73,942	(30,484)	7,443	8,786	792,016
Total cost		732,329	73,942	(30,484)	7,443	8,786	792,016
Amortization value:							
Software and other		(223,780)	(101,034)	15,623	295	(8,778)	(317,674)
Total amortization		(223,780)	(101,034)	15,623	295	(8,778)	(317,674)
Overall total		508,549	(27,092)	(14,861)	7,738	8	474,342

Company	Useful life range (years)	2015	Additions	Write-offs	Transfers	Other changes	2016
Cost value:							
Software and other	2.5 to 10	665,215	80,205	(234)	(13,141)	284	732,329
Total cost		665,215	80,205	(234)	(13,141)	284	732,329
Amortization value:							
Software and other		(164,724)	(52,633)	-	(684)	(5,739)	(223,780)
Total amortization		(164,724)	(52,633)	-	(684)	(5,739)	(223,780)
Overall total		500,491	27,572	(234)	(13,825)	(5,455)	508,549

Consolidated	Useful life range (years)	2016	Acquisition of subsidiary	Additions	Write-offs	Transfers	Other changes including exchange variation	2017
Cost value:								
Software and other	2.5 to 10	877,771	247,716	95,598	(30,724)	13,947	(9,353)	1,194,955
Trademarks and patents (Definite useful life)	25	97,341	-	453	(2,618)	-	7,900	103,076
Trademarks and patents (Indefinite useful life)		2,129	1,732,131	-	-	-	99,530	1,833,790
Goodwill Emeis Brazil Pty Ltd. (b)	-	83,401		-	-	35	7,866	91,302
Relationship with retail clients	10	1,498	-	-	-	-	140	1,638
Key money (indefinite useful life) (c)	-	12,393	49,638	10,260	(834)	(3,756)	(9,837)	57,863
Key money (Definite useful life) (d)	3 to 18	4,517	96,350	412	(11,327)	3,757	2,024	95,733
Relationship with franchisees and sub-franchisees (e)	15	-	475,425	-	-	-	20,286	495,711
Goodwill The Body Shop PLC (f)		-	1,138,118	-	-	-	39,259	1,177,377
Total cost		1,079,050	3,739,378	106,722	(45,503)	13,982	157,814	5,051,443
Amortization value:								
Software and other		(275,202)	(157,189)	(131,726)	32,419	275	(8,093)	(539,516)
Trademarks and patents		(17,323)	(5,629)	(2,705)	1,187	-	14,784	(9,686)
Amortization of key money		(1,622)	(32,663)	(11,771)	12,161	-	7,767	(26,128)
Relationship with retail clients		(649)	-	(114)	-	-	260	(503)
Total amortization		(294,796)	(195,481)	(146,316)	45,767	275	14,718	(575,834)
Overall total		784,254	3,543,897	(39,594)	263	14,257	172,532	4,475,609

	Consolidated						
	Useful life range (years)	2015	Additions	Write-offs	Transfers	Other changes including exchange variation	2016
Cost value:							
Software and other	2.5 to 10	821,976	93,648	(150)	(25,116)	(12,587)	877,771
Trademarks and patents (Definite usefull life)	25	112,440	632	-	6,185	(21,916)	97,341
Trademarks and patents (Indefinite usefull life)		-	-	-	2,129	-	2,129
Goodwill Emeis Brazil Pty Ltd. (b)	-	101,003	-	-	(1)	(17,601)	83,401
Relationship with retail clients	10	1,814	-	-	-	(316)	1,498
Key money (Indefinite usefull life) (c)		5,596	3,359	-	6,847	(3,409)	12,393
Key money (Definite usefull life) (d)	3 to 18	-	-	-	4,517	-	4,517
Total cost		1,042,829	97,639	(150)	(5,439)	(55,829)	1,079,050
Amortization value:							
Software and other		(213,034)	(72,088)	7	4,519	5,394	(275,202)
Trademarks and patents		(12,743)	(3,395)	-	(3,016)	1,831	(17,323)
Key money		-	-	-	(1,622)	-	(1,622)
Relationship with retail clients		(571)	(788)	-	(25)	735	(649)
Total amortization		(226,348)	(76,271)	7	(144)	7,960	(294,796)
Overall total		816,481	21,368	(143)	(5,583)	(47,869)	784,254

(a) The depreciation rates take into consideration the lease terms of leased properties, which range from three to fifteen years.

(b) Goodwill on Emeis Holdings Pty Ltd. acquisition, classified as a future economic benefits from synergies. It does not have defined useful life and it is subject to annual impairment tests.

(c) Key money with an indefinite useful life refers basically to a payment to an existing lessee to take over a lease on the existing lease terms. The balance is subject to an annual impairment test and was originated at Natura Comercial, Natura Europa SAS - France, Emeis Holding Pty Ltd stores located in France, Switzerland and Denmark and from The Body Shop stores located in France and Monaco.

(d) Key money with definite useful life refers basically to a lease premium payable to a landlord on inception of a lease contract in addition to agreeing an annual rent for the lease term and cannot be recovered. The balance is amortized over the term of the contracts and subject to an annual impairment test. The balances belong to Emeis Holding Pty Ltd for certain stores in France, Japan, Germany, United Kingdom, United States and Italy and The Body Shop stores located in France, Denmark, Germany, Austria, Netherlands, Belgium, Sweden, Spain, Portugal and Mexico.

(e) The balance refers to identifiable intangible assets from relationship with The Body Shop franchisees (relationship where the franchisee owns all rights to operate within a territory) and sub-franchisees (relationship where a franchisee operate a single store within a market), with estimated useful life of 15 years.

(f) The balance refers to goodwill arising from the acquisition of The Body Shop, classified as a future economic benefits from synergies (see note 4). It does not have defined useful life and it is subject to annual impairment tests.

Additional information on property, plant and equipment:

(g) Assets pledged as collateral

As of December 31, 2017, the Group had pledged property, plant and equipment in defense of lawsuits in the amount of R$ 100, composed substantially of molds and land.

(h) Finance leases

As of December 31, 2017, the amount recorded under "Buildings" arising from lease transactions totaling R$698,875 (R$371,828 as of December 31, 2016) and the balance of lease payables, classified in line item "Borrowings and financing" (note 16) totals R$462,760 (R$437,274 as of December 31, 2016 - Consolidated).

On December 31, 2017 the accumulated amount of capitalized interests and PIS and COFINS credits impacting "Buildings" are R$ 150,590 and (R$ 14,058), respectively.

Impairment testing of intangible assets as an indefinite useful life

Goodwill from the expected future profitability of acquired companies and of intangible assets with indefinite useful life (brands) was allocated to the CGU groups of the Company. In accordance with CPC 01 – Impairment of Assets (IAS 36 - Impairment of Assets), when a CGU or a group of CGUs have an intangible asset with indefinite useful life allocated, the Company must test it for impairment annually. CGU groups with intangible assets with indefinite useful life are presented below:

	Consolidated		
	2017		
CGU Groups / Operational Segment	Goodwill	Trademarks and patents	Total
Aesop	91,302	-	91,302
The Body Shop	1,177,377	1,826,032	3,003,409
France / Natura Other	-	2,129	2,129
Total	1,268,679	1,828,161	3,096,840

The main assumptions used in the calculation of value in use on December 31, 2017 are presented below:

	Aesop	The Body Shop
Measurement of impairment (value in use)	Discounted cash flow	Discounted cash flow
Projected cash flow	Operational business cycle (approximately 5 years) with perpetuity	Operational business cycle (approximately 10 years) with perpetuity (*)
Budgeted gross margin	Average of gross margin based on history and projections for the following 5 years.	Average of gross margin based on history and projections for the following 10 years.
Estimated costs	Costs based on historical data and market trends.	Costs based on historical data and market trends.
Growth rate in perpetuity	Projected perpetuity without growth	Constant growth of 4%
Discount rate	These cash flows were discounted using a discount rate before taxes that varies, depending on the country, from 9.4% to 9.6% p.a. in real terms. The discount rate was based on the weighted average cost of capital that reflects the specific risk of each segment / country.	

(*) Based on the projections in the business plan used for the acquisition of The Body Shop in September 2017.

The Company conducted a sensitivity analysis of (i) discount rate and (ii) growth rate in perpetuity, due to their potential impacts on cash flows. A 1 p.p. increase in the discount rate or a 1 p.p. decrease in the growth rate in perpetuity of the cash flow of each CGU group does not result in an impairment loss.

Based on the analyses conducted by Management, there was no need to record impairment losses for these assets in the year ended December 31, 2017.

16. BORROWINGS, FINANCING AND DEBENTURES

	Company		Consolidated		
	2017	2016	2017	2016	Reference
Local Currency					
Financing Agency for Studies and Projects (FINEP)	-	-	148,157	149,916	A
Debentures (a)	3,779,843	1,461,237	3,779,843	1,461,237	B
Promissory Notes	3,792,537	-	3,792,537	-	C
BNDES	27,537	37,944	29,281	118,497	D
BNDES EXIM	-	-	417,983	298,011	E
Working capital / NCE	-	-	-	40,502	F
BNDES – FINAME	535	1,126	3,476	8,313	G
Finance leases (note 15.h)	359,317	365,729	462,760	437,274	H
Working capital - International Operation - Peru	-	-	21,402	48,392	I
Working capital - International Operation - Mexico	-	-	58,979	64,661	J
Working capital - International Operation - Australia	-	-	88,337	67,123	K
Working capital - International Operation - Colombia	-	-	16,663	37,556	L
Working capital - International Operation - The Body Shop	-	-	2,005	-	M
Total in local currency	7,959,769	1,866,036	8,821,423	2,731,482	
Foreign Currency					
BNDES	8,286	12,629	22,809	31,985	N
Resolution 4,131/62	487,668	1,584,022	487,668	1,626,704	O
Total in foreign currency	495,954	1,596,651	510,477	1,658,689	
Overall total	8,455,723	3,462,687	9,331,900	4,390,171	
Current	3,523,061	1,437,203	4,076,669	1,764,488	
Noncurrent	4,932,662	2,025,484	5,255,231	2,625,683	

(a) Debentures classified as current and non-current on December 31, 2017 are as follows:

	Company		Consolidated	
	2017	2016	2017	2016
Debentures				
Current	579,843	262,430	579,843	262,430
Noncurrent	3,200,000	1,198,807	3,200,000	1,198,807

Changes in the balances of borrowings and financings for the years ended December 31, 2017 and December 31, 2016 are presented below:

	Company		Consolidate	
	2017	2016	2017	2016
At the beginning of the year	3,462,687	4,547,669	4,390,171	5,535,880
Acquisition of subsidiary	-	-	33,729	-
New borrowings and financing	6,363,431	619,751	6,391,049	1,265,114
Amortizations	(1,464,026)	(1,277,488)	(1,725,285)	(1,869,562)
Recording of financial charges	316,185	253,199	411,515	305,320
Payment of financial charges	(201,365)	(258,054)	(252,474)	(309,466)
Exchange variation	(40,090)	(424,030)	(31,377)	(477,632)
Transfers/Reclassifications (a)	18,901	1,640	114,574	(59,483)
At the end of the year	8,455,723	3,462,687	9,331,900	4,390,171

(a) Refers mainly to reclassified balances of government subsidies considering borrowings from the BNDES (see Note 20) and the capitalization of interest on financial leases (Note 15).

Maturities of non-current liabilities are as follows:

	Company		Consolidated	
	2017	2016	2017	2016
2019	1,901,933	719,139	2,082,363	1,109,594
2020	969,996	1,039,265	1,046,263	1,071,855
2021	1,871,372	43,459	1,855,158	101,995
2022 onwards	189,361	223,621	271,447	342,239
	4,932,662	2,025,484	5,255,231	2,625,683

Reference	Currency	Maturity	Charges	Guarantees
A	Real	May 2019 and June 2023	Interest of 5% p.a. for the installment maturing in 2019 and 3.5% p.a. for the installment maturing in June 2023	Guarantee of Natura Cosméticos S.A.
B	Real	September 2021	Interest of 107% to 109% of the CDI and 1.4% + CDI and 1.75% + CDI, maturing in February 2018, March 2018, February 2019, March 2019, March 2020, September 2020 and September 2021.	None
C	Real	February 2018	108% of the CDI	Guarantee of Indústria e Comércio de Cosméticos Natura S.A. and Natura Inovação e Tecnologia de Produtos Ltda.
D	Real	Through September 2021	TJLP + interest of 0.5% p.a. to 3.96% p.a. and fixed-rate contracts of 3.5% p.a. to 5% p.a. (PSI) (d)	Bank-issued guarantee letter
E	Real	November 2018	For 30% of the credit facility, SELIC + 0.4% p.a., for 70% of the facility, TJLP. Both facilities further include BNDES basic remuneration (2% p.a.) and Intermediary Bank remuneration.	Guarantee of Natura Cosméticos S.A.
F	Real	Through August 2017	Interest of 8% p.a. (c) and interest of 107% of the CDI (c)	Guarantee of Natura Cosméticos S.A.
G	Real	Through March 2021	Interest of 4.5% p.a. + TJLP for contracts up to 2012 and for contracts executed as of 2013 fixed rate of 3% p.a. (PSI) (d); Contracts in August 2014 overpaid in 2016 at fixed rate of 6% p.a. to 10.5% p.a.	Fiduciary sale, guarantee of Natura Cosméticos S.A. and promissory notes
H	Real	Through August 2026	Interest of 9% p.a. + IPCA (b)	Fiduciary sale os assets object of lease agreements
I	Peruvian sol	Through January 2018	Interest of 5.3% p.a.	Guarantee of Natura Cosméticos S.A.
J	Mexican peso	May 2018	Interest of 0.7% p.a. to 0.9% p.a. + TIIE (e)	Guarantee of Natura Cosméticos S.A.
K	Australian dollar	August 2018	BBSY + interest of 1% and Libor + interest of 1% (f)	Bank-issued guarantee letter
L	Colombian peso	December 2018	Interest of 6.95% p.a.	Guarantee of Natura Cosméticos S.A.
M	GBP	September 2018	Interest of 0.33% p.m.	None
N	U.S. dollar	October 2020	Exchange rate variation + interest of 1.8% p.a. to 2.3% p.a. + Resolution 635 (a)	None
O	U.S. dollar	Through May 2018	Exchange rate variation + Libor + Over Libor of 1.32% p.a. to 2.9% p.a. (a)	Guarantee of Natura Cosméticos S.A. and bank-issued guarantee letter
				Guarantee of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda.

(a) Loans and financing for which swap contracts (CDI) were entered into. These loans and financing are not being shown net of their derivatives.

(b) IPCA - Consumer price index expanded

(c) Loans for which the financial instruments of the type "swap" with the exchange of fixed rate for CDI were hired. These loans and financing are not being shown net of their derivatives.

(d) PSI-Investment Support Program.

(e) TIIE-interest rate of interbank equilibrium Mexico

(f) BBSY - Bank Bill Swap Bid Rate

A description of the outstanding bank loan and financing agreements is as follows:

a) Description on bank loans and financing

1. Financing agreement with the BNDES (National Bank for Economic and Social Development)

   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 Group, in order to, for example, improvement of certain product lines, capacity building in the area of research and development, capacity building of the industrial park and distribution centers, as well as projects associated with the accessibility.

2. Export Financing - BNDES Exim

   The Company benefits from a credit facility taken out from BNDES known as BNDES Exim, a loan to finance production of goods and services for export under pre-shipment mode. The loaned amount is transferred through credit granting to subsidiary Indústria e Comércio de Cosméticos Natura Ltda., generating receiving rights to the financial institution accredited as financial agent, in this case, Banco Alfa de Investimentos S.A. and Banco Santander S.A. These financing transactions engaged referred to banks and subsidiary Indústria e Comércio de Cosméticos Natura Ltda. The contracts executed are secured by The Company collateral signatures. In addition, the Group undertook to comply with the provisions applicable to BNDES contracts.

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 FINEP's research and technological development incentive programs, which facilitates and/or co-finances equipment, scientific grants and research material for the participating universities.

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 subsidiary Indústria e Comércio de Cosméticos Natura Ltda., granting rights to receivables to the financial institution accredited as a financing agent, usually Banco Itaú Unibanco S.A. and Banco do Brasil S.A., which enters into such said financing with Indústria e Comércio de Cosméticos Natura Ltda.

   These agreements are collateralized by assigning the fiduciary ownership of the assets described in the related agreements. The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is the trustee and the Company is the guarantor of these assets. In addition, the Group is required to meet the Provisions Applicable to BNDES Agreements and the General Regulatory Terms and Conditions of FINAME-related Transactions.

5. Resolution nº 4,131/62

   The Company maintains operations of Bank Credit Note - Onlending of funds raised abroad under law nº 4,131/62, through financial institutions due to rates which are favorable under the circumstances. Funds raised in this operation aim at increasing the Company working capital.

6. NCE

   Export Note ("Nota de Crédito à Exportação") - Funds for use as working capital for export purposes.

7. Debentures

   On February 25, 2014, the Company conducted the 5th issue of unsecured, registered debentures, not convertible into shares, amounting to R$ 600 million. A total of 60,000 debentures were issued, of which 20,000 debentures allotted in the 1st series, due on February 24, 2017, in the amount of R$214,385 thousand, 20,000 debentures allocated in the 2nd series, due on February 25, 2018, and 20,000 debentures allocated in the 3rd series, due on February 25, 2019, with remuneration corresponding to 107.00%, 107.5% and 108% of the accumulated variation of the average daily Interbank Deposits - DI, respectively.

   On March 16, 2015, the Company issued the 6th series of junior unsecured, registered debentures, not convertible into shares of the Company, amounting to R$ 800 million. The Company issued 80,000 debentures, 40,000 (forty thousand) of which were allocated in the 1st series, maturing on March 16, 2018, 25,000 (twenty-five thousand) of which were allocated in the 2nd series, maturing on March 16, 2019, and 15,000 (fifteen thousand) of which were allocated in the 3rd series, maturing on March 16, 2020, remunerated at 107%, 108.25% and 109% respectively, of the accumulated variation of the average daily rate of Interbank Deposits (DI).

   On September 28, 2017, the Company carried out the 7th issue of registered, book-entry, non-convertible, unsecured debentures, in the total amount of R$ 2.6 billion. A total of 260,000 debentures were issued, of which two hundred thousand (200,000) were allocated in the 1st series, with maturity on September 28, 2020, and one hundred sixty thousand (60,000) allocated in the 2nd series, with maturity on September 28, 2021, remunerated at CDI rate + 1.4% p.a. and CDI rate + 1.75% p.a., respectively.

   On September 28, 2017, the Company carried out the optional acquisition of 9,950 debentures of the second series of the 5th issue of debentures, in compliance with clause 4.14 of the "Private Indenture of the 5th Issue of Non-Convertible, Unsecured Debentures in Three Series, for Public Distribution with Restricted Placement Efforts, maintaining these debentures in Treasury, according to said clause.

   The appropriation of costs related to the issue of debentures in the year ended December 31, 2017 was R$ 635, recorded on a monthly basis under financial expenses, in accordance with the effective interest rate method. Issue costs totaled R$ 8,158.

8. Promissory Note

On August 2, 2017, the Company carried out the 3rd issue of commercial promissory note in a single series, in the total amount of R$ 3.7 billion for public distribution with restricted efforts, according to CVM Instruction 566 of July 31, 2015. Seventy-four (74) promissory notes were issued, with maturity on February 19, 2018, and remuneration corresponding to 108% of the accumulated variation of daily average rates of Interfinancial Deposits (DI). The proceeds obtained by the Company from the issue were used to pay for the acquisition of The Body Shop, and to pay any other costs and expenses in the context of said acquisition. The balances on December 31, 2017 were settled on the maturity date (see note 33).

The appropriation of costs related to the issue of promissory notes in the year ended December 31, 2017 was R$ 32,516, recorded on a monthly basis under Financial expenses, in accordance with the effective interest rate method. Issue costs totaled R$ 44,855.

b) Finance lease obligations

Financial obligations are as follows:

	Company		Consolidated	
	2017	2016	2017	2016
Gross finance lease obligations - minimum lease payments:				
Less than one year	56,988	52,820	72,377	65,090
More than one year and less than five years	253,545	237,897	341,049	292,663
More than five years	331,073	402,991	433,800	522,959
	641,606	693,708	847,226	880,712
Future financing charges on finance leases	(282,289)	(327,979)	(384,466)	(443,438)
Finance lease obligations - carrying amount	359,317	365,729	462,760	437,274
Carrying amount of property, plant and equipment (Note 15.h)	451,733	312,632	698,875	371,828

c) Contract Covenants

BNDES

On August 16, 2017, all covenants of borrowing and financing agreements with BNDES were replaced by bank suretyships contracted from Banco Itaú.

Debentures

The covenants of this issue will only be evaluated based on the balances in the years/periods as shown in the table below.

These clauses will establish the following financial indicators for the consolidated financial statements:

12-month period ended:	Leverage Ratio*
December 30, 2017 June 30, 2018	3.75 (three point seven five)
December 30, 2018 June 30, 2019	3.50 (three point five)
December 30, 2019 June 30, 2020	3.25 (three point two five)
December 30, 2020 June 30, 2021	3.00 (three point zero)

* Leverage ratio resulting from division of Treasury Net Debt by EBITDA, which must be equal to or lower than the number established in the above table.

On December 31, 2017, the leverage ratio was below that established for the period. Accordingly, the Company is in compliance with the financial covenants:

Loans, financing and debentures	9,331,900
(-) Financial lease	(462,760)
(+) Government subsidies	57,288
(+) Derivative instruments	(10,781)
(=) Treasury debt	8,915,647
(-) Cash and cash equivalents	(1,693,131)
(-) Securities	(1,977,305)
(=) Treasury net debt	5,245,211
(÷) EBITDA	1,741,852
(=) Leverage ratio	3.01

17. TRADE AND OTHER PAYABLES

	Company		Consolidated	
	2017	2016	2017	2016
Domestic trade payables	372,623	249,087	1,034,426	703,473
Foreign trade payables (a)	7,509	2,128	368,775	4,429
"Forfait" operation (b)	28,717	16,865	150,562	107,037
	408,849	268,080	1,553,763	814,939

(a) Refer to imports mainly denominated in US dollar, euro and pound sterling, which are valued by the corresponding exchange rate.

(b) The Group has entered into contracts with Banco Itaú Unibanco S.A. for structuring, together with its major suppliers, the so-called “forfait” operation, wherein suppliers transfer the right to receive their trade notes to the Bank, which, will become the creditor of the operation. This operation did not significantly change the previously agreed-upon terms, prices and conditions, and it does not affect the Company with financial charges practiced by the financial institution, on performing a thorough analysis of suppliers by category. As such, the Group discloses this operation under the heading Trade and other payables.

18. TAX PAYABLES

	Company		Consolidated	
	2017	2016	2017	2016
Taxes on revenue (PIS/COFINS) (judicial measure) (a)	-	2,484	-	297,216
Ordinary ICMS	138,073	129,504	139,207	129,975
ICMS ST provision (b)	159,980	175,086	159,980	175,086
IRPJ and CSLL (injunction) (c)	-	342,288	-	342,289
Taxes on invoicing - (International Oper.)	-	-	91,257	32,000
IPI (injunction) (d)	-	142,246	-	147,556
INSS - suspension of the enforceability	13,449	8,393	35,146	25,178
Withholding tax (IRRF)	8,689	16,316	35,698	56,754
Other Taxes payable - foreign subsidiaries	-	-	666	5,502
Social secutity tax (INSS) and service tax (ISS)	587	398	3,023	3,072
	320,778	816,715	464,977	1,214,628
Judicial deposits (Note 12)	(72,907)	(71,209)	(80,651)	(114,559)
Current	147,347	636,225	269,850	977,115
Noncurrent	173,431	180,490	195,127	237,513

(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 Integration Program Tax on Revenue (PIS) and Social Security Funding Tax on Revenue (COFINS). Since 2007, the Company and its subsidiary were authorized by the court to pay PIS and COFINS without the inclusion of ICMS in their tax basis. The balances recorded as of December 31, 2016 refer to the unpaid amounts of PIS and COFINS, whose liability was fully suspended, plus an interest update by the SELIC rate. On March 31, 2017, the Company, based on the conclusion of the trial by the Plenary of the Federal Supreme Court, Extraordinary Appeal, which was defined, in the general repercussion system, by the unconstitutionality of the inclusion of ICMS on the basis of Calculation of PIS and COFINS, decided to reverse the provision made. The Company's decision is based on the position of its legal advisors who consider that the Supreme Court's judgment may be applicable immediately to all taxpayers and, therefore, the risk classification of the respective lawsuits has been changed to remote. As a result of the reversal, the Company recognized in the "Other operating income" the amount of R$ 197,229, related to the principal amount of the discussion and in the "Financial result", the result of the interest of the period, in the amount of R$ 104,424. Part of the balance, in the updated amount of R$ 43,190 is deposited in court on December 31, 2017. The Company awaits the position of the lower courts for the collection of judicial deposits.

(b) The Company has been discussing the illegality of changes in the state legislation for the payment of ICMS - ST (VAT - Tax substitution). Part of the unpaid amount has been discussed in court by the Company and, in certain cases, the amounts have been deposited with the courts, as mentioned in Note 12.

(c) On February 4, 2009, the Company filed for a preliminary injunction, later on confirmed by a decision that suspended enforceability of income and social contribution taxes levied on any amounts received as arrears interest on late payment of contractual liabilities in connection with sales operations to Natura's Consultants. On October 25, 2017, the Company adhered to the Special Tax Amnesty Program (PERT), established by Federal Law 13,496/17, to settle on October 26, 2017 said tax liabilities that are the subject-matter of pending legal claims.

(d) The Company and its subsidiary, Indústria e Comércio de Cosméticos Natura Ltda., in the operations in which it acts exclusively as distributor, judicially discuss the condition brought by Decree No. 8.393/2015, which equated the industrial, for purposes of tax incidence on Industrialized Products - IPI, interdependent wholesale establishments that market products provided for in said legal provision. After the delivery of judgments in favor of the Company, as well as the currently favorable jurisprudence on the issue, the Company supported by the opinion of its legal counsel, revaluated the probability of loss as possible, with a higher chance of favorable outcome, thereby reversing the balance of R$ 209,993 recorded as Tax liability under Consolidated on September 30, 2017 (see note 19). As a result of reversal of the principal amount, the Company recognized R$ 133,594 in "Other operating income," R$ 56,938 in "Gross profit," and (R$7,149) in "Inventories", and as a result of the reversal of inflation adjustment in the period, the Company recognized R$ 26,609.

19. PROVISION FOR TAX, CIVIL AND LABOR RISKS

The Group is party to tax, labor and civil lawsuits. Management believes, based on the opinion of its legal counsel, that the provision for tax, civil and labor risks are sufficient to cover potential losses. This provision is broken down as follows:

	Company		Consolidated	
	2017	2016	2017	2016
Tax	98,208	34,542	196,006	47,044
Civil	8,096	11,457	27,153	14,321
Labor	41,388	18,562	58,887	32,259
Total	147,692	64,561	282,046	93,624
Judicial deposits (note 12)	(31,745)	(18,155)	(33,856)	(20,056)
Current	-	-	17,357	-
Non-current	147,692	64,561	264,689	93,624

Tax contingencies

The provision for tax risks is broken down as follows:

	Company					
	2016	Additions	Reversals	Transfer of tax liabilities (c)	Inflation adjustment	2017
Legal fees (a)	19,780	11,313	(7,588)	-	1,656	25,161
CSLL deductibility (Law 9316/96) (b)	4,444	1,667	(6,324)	-	213	-
Payment of ICMS-ST	3,094	13,400	-	44,966	2,230	63,690
Other	7,224	1,963	(442)	-	612	9,357
Total provision for tax risk	34,542	28,343	(14,354)	44,966	4,711	98,208
Judicial deposits (note 12)	(13,411)	(15,661)	5,879	-	(941)	(24,134)

	Company					
	2015	Additions	Reversals	Transfer of tax liabilities (c)	Inflation adjustment	2016
Legal fees (a)	17,199	6,214	(5,071)	-	1,438	19,780
CSLL deductibility (Law 9,316/96) (b)	9,015	-	(4,853)	-	282	4,444
Other	3,706	4,158	(1,955)	3,925	484	10,318
Total provision for tax risk	29,920	10,372	(11,879)	3,925	2,204	34,542
Judicial deposits (Note 12)	(9,792)	(2,100)	2,968	(3,825)	(662)	(13,411)

	Consolidated						
	2016	Acquisition of subsidiary	Additions	Reversals	Transfer of tax liabilities (c)	Inflation adjustment	2017
Legal fees (a)	31,446		29,466	(17,649)	-	2,528	45,791
CSLL deductibility (Law 9316/96) (b)	4,444		1,667	(6,324)	-	213	-
Payment of ICMS-ST	-		72,750	-	44,966	2,230	119,946
Other	11,154	9,247	10,976	(3,701)	-	2,593	30,269
Total provision for tax risk	47,044	9,247	114,859	(27,674)	44,966	7,564	196,006
Judicial deposits (note 12)	(14,168)	-	(15,661)	5,879	-	(993)	(24,943)

	Consolidated					
	2015	Additions	Reversals	Transfer of tax liabilities (c)	Inflation adjustment	2016
Legal fees (a)	27,120	8,687	(6,733)	-	2,372	31,446
CSLL deductibility (Law 9,316/96) (b)	9,015	-	(4,853)	-	282	4,444
Other	4,487	4,158	(1,955)	3,925	539	11,154
Total provision for tax risk	40,622	12,845	(13,541)	3,925	3,193	47,044
Judicial deposits (Note 11)	(10,491)	(2,100)	2,968	(3,825)	(720)	(14,168)

(a) Refer to lawyer fees in connection with tax proceedings, among which we highlight the following:

(i) Tax assessments notices issued against the Company in August 2003, December 2006 and December 2007, by Brazilian IRS, claiming IRPJ and CSLL debts related to deductibility of yield of debentures issued by the Company, in 1999, 2001 and 2002, respectively.

Tax assessments had the final decision on the administrative level, in which it was held, in part, the charging of IRPJ and CSLL collection full. The Company is awaiting the outcome of the discussions in court. The legal advisors have assessed that the case involves remote loss.

(ii) Tax assessments notices in connection with IRPJ and CSLL, issued on September 30, 2009 and August 30, 2013, questioning deductibility for tax purposes of goodwill amortization, resulting from incorporation of shares of Natura Empreendimentos by Natura Participações S.A. and subsequent merger of both companies with the Company. In December 2012, a decision was handed down by Administrative Counsel of Tax Appeals (CARF) on the proceeding referring to tax assessment notice of 2009, which was partially in favor of the Company to reduce the updated fine. The Company is awaiting formalization of the decision in order to file an appeal with the CARF. In relation to the tax assessment notice of 2013, on October 4, 2017, the Special Appeal filed by the Company was denied, by majority vote, to maintain the tax assessment notice. The Company awaits formalization of decision to take the appropriate measures. In the opinion of the Company's lawyers, the operation, as structured, and its tax effects are defensible, reason why the risk of loss is assessed as remote.

(iii) IPI tax assessment notice drawn up against the subsidiary Indústria e Comércio de Cosméticos Natura Ltda., in December 2012, referring to facts occurred in the calendar year of 2008 generators, on the grounds that the subsidiary would have practiced incorrect prices on sales for the Company. Currently, await the judgment of the voluntary appeal brought by Natura Cosméticos. In the opinion of the legal counsel of the Company, as it was structured and their tax effects are defensible, reason for which the risk of loss is classified as remote.

(iv) Legal actions in which the Company and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda., Have been discussing in court, since April 2007, the non-inclusion of ICMS in the calculation basis of the PIS and COFINS contributions and the reimbursement of contributions amounts Paid on the value of ICMS in the period from March 2004 to March 2007 (See note 18 (a)).

(b) Refers to the writ of mandamus that discusses the constitutionality of Law 9,316/96, which prohibited the deductibility of CSLL from its own calculation basis and from the IRPJ calculation basis. On August 25, 2014, in order to take advantage of the benefits of the Federal Government's installment program, the Company filed a petition with no further action. Currently, it is expected to formalize the adhesion and the conversion of judicial deposit into income in favor of the Union. The amount deposited judicially is R$ 1,479 (R$ 7,533 as of December 31, 2016). The respective amount is the remaining balance after conversion of the deposit into revenue by the federal Government.

(c) The Company has administrative and judicial actions that discuss the illegality of changes in State law for recovery of ICMS-ST. It is the transfer of the provision previously incorporated in Note 18 (b) ICMS - ST Provisions in the amount of R$ 44,966.

Civil risk

	Company					
	2016	Additions	Reversals	Payments	Inflation adjustment	2017
Several civil lawsuits (a)	6,911	12,549	(5,835)	(8,504)	95	5,216
Attorney fees - environmental civil lawsuit (b)	2,884	-	(461)	-	69	2,492
Civil lawsuits and attorney fees - Nova Flora Participações Ltda. (d)	1,662	35	(1,334)	-	25	388
Total provision for civil risk	11,457	12,584	(7,630)	(8,504)	189	8,096
Judicial deposits (note 12)	(757)	(477)	619	-	(49)	(664)

	Company					
	2015	Additions	Reversals	Payments	Inflation adjustment	2016
Several civil lawsuits (a)	6,267	8,680	(526)	(7,605)	95	6,911
Attorney fees – environmental civil lawsuits (b)	2,696	173	(150)	-	165	2,884
Civil lawsuits and attorney fees - Nova Flora Participações Ltda. (d)	1,876	412	-	(760)	134	1,662
Total provision for civil risk	10,839	9,265	(676)	(8,365)	394	11,457
Judicial deposits (note 12)	(777)	(215)	328	-	(93)	(757)

	Consolidated						
	2016	Acquisition of subsidiary	Additions	Reversals	Payments	Inflation adjustment	2017
Several civil lawsuits (a)	8,680	13,826	29,585	(21,972)	(8,682)	1,668	23,105
Attorney fees - environmental civil lawsuit (b)	2,885	-	-	(461)	-	69	2,493
Attorney fees - IBAMA lawsuits (c)	1,095	-	427	-	-	33	1,555
Civil lawsuits and attorney fees - Nova Flora Participações Ltda. (d)	1,661	-	35	(1,721)	-	25	-
Total provision for civil risk	14,321	13,826	30,047	(24,154)	(8,682)	1,795	27,153
Judicial deposits (note 12)	(882)	-	(677)	628	-	(57)	(988)

	Consolidated					
	2015	Additions	Reversals	Payments	Inflation adjustment	2016
Several civil lawsuits (a)	12,354	8,859	(5,361)	(7,746)	574	8,680
Attorney fees – environmental civil lawsuits (b)	2,696	173	(150)	-	166	2,885
Attorney fees - IBAMA lawsuits (c)	997	-	-	-	98	1,095
Civil lawsuits and attorney fees - Nova Flora Participações Ltda. (d)	1,876	412	-	(760)	133	1,661
Total provision for civil risk	17,923	9,444	(5,511)	(8,506)	971	14,321
Judicial deposits (note 12)	(1,067)	(305)	577	-	(87)	(882)

(a) As of December 31, 2017, the Group is party to approximately to 3,000 civil lawsuits (2,800 as of December 31, 2016), of which 2,784 were filed by Natura's Consultants and consumers, most of which claiming compensation for damages. The balance deposited with the courts for the tax assessments notices above amounts to R$ 988 (R$ 1,260 December 31, 2016). Provisions are reviewed periodically based on the evolution of the lawsuits and the history of losses on civil claims in order to reflect the best current estimate.

Labor risks

As of December 31, 2017, the Group is party to approximately 2,200 labor lawsuits filed by former employees and service providers (approximately 1,600 as of December 31, 2016), claiming the payment of severance amounts, possible occupational disease, salary premiums, overtime and other amounts due, as a result of joint liability, and discussion about the recognition of possible employment relationship. The provision is periodically reviewed based on the progress of lawsuits and history of losses on labor claims to reflect the best current estimate.

	Company					
	2016	Additions	Reversals	Payments	Inflation adjustment	2017
Total provision for labor risk	18,562	40,312	(14,419)	(5,138)	2,071	41,388
Judicial deposits (note 12)	(3,987)	(4,305)	1,582	-	(237)	(6,947)

	Company					
	2015	Additions	Reversals	Payments	Inflation adjustment	2016
Total provision for labor risk	10,276	9,873	(1,268)	(1,852)	1,533	18,562
Judicial deposits (note 12)	(3,495)	(892)	699	-	(299)	(3,987)

	Consolidated						
	2016	Acquisition of subsidiary	Additions	Reversals	Payments	Inflation adjustment	2017
Total provision for labor risk	32,259	491	48,571	(16,859)	(8,871)	3,296	58,887
Judicial deposits (note 12)	(5,006)	-	(4,867)	2,312	-	(364)	(7,925)

	Consolidated					
	2015	Additions	Reversals	Payments	Inflation adjustment	2016
Total provision for labor risk	19,313	16,690	(2,962)	(2,800)	2,018	32,259
Judicial deposits (note 12)	(4,825)	(819)	882	-	(244)	(5,006)

Contingent liabilities - possible losses

The Group is party to tax, civil and labor proceedings for which no provision has been set up because they involve possible risk of loss as assessed by management and its legal advisors.

On December 31, 2017, contingent liabilities comprise 465 cases (748 at December 31, 2016), as under:

	Company		Consolidated	
	2017	2016	2017	2016
Tax	875,146	618,680	1,850,701	1,489,961
Civil	10,885	14,571	21,893	23,579
Labor	50,493	62,258	134,817	138,702
Total contingent liabilities not recorded in provision	936,524	695,509	2,007,411	1,652,242
Judicial deposits (note 12)	(123,776)	(135,555)	(127,433)	(139,713)

The tax cases comprise the following main proceedings:

(a) The Group is part to administrative and judicial proceedings questioning lawfulness of amendments to state legislation related to ICMS-ST collection. The amount being disputed totals R$538,708 on December 31, 2017 (R$527,473 as of December 31, 2016) and R$102,086 (R$106,534 as of December 31, 2016) being deposited with the courts on December 31, 2017.

(b) Notices served by the Brazilian IRS claiming IPI debts arising from the tariff classification adopted by the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. for certain products. A decision is expected at the administrative level. The total amount under dispute on December 31, 2017 is R$200,973 (R$119,997 as of December 31, 2016).

(c) Tax assessment issued by the São Paulo State Finance Department against the business unit branch of subsidiary Indústria e Comércio de Cosméticos Natura Ltda., seeking collection of State VAT (ICMS) under the tax substitution (ST), which was fully collected by the recipient of the goods, the company, his distributor establishment, Natura Cosméticos S.A. It is awaits a decision. The total amount in dispute as of December 31, 2017 is R$489,606 (R$446,999 as of December 31, 2016).

(d) The Company and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda., in the operations in which it operates exclusively as distributor, are legally challenging the condition brought by Decree no. 8393/2015, which classified as industrial, for the purposes of collection of Tax on Manufactured Products (IPI), interdependent wholesale establishments that sell products envisaged in said decree. After the delivery of judgments in favor of the companies, as well as the currently favorable jurisprudence on the issue, the Company, supported by the opinion of its legal counsel, revaluated the probability of loss as possible, with a higher chance of favorable outcome, thereby including in this base, on September 30, 2017, the balance of R$ 209,993 previously recorded as Consolidated tax liability (see note 18 d). The total amount under discussion as of December 31, 2017 is R$230,734 (R$160,389 as of December 31, 2016).

Contingent assets

The Group has outstanding processes whose expectation of gain is probable according to the assessment of their legal advisors, among which we highlight the following:

a) The Company and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda. claim the refund of the PIS and COFINS installments collected with the inclusion of ICMS in its calculation bases from March 2004 to March 2007. The amount involved in the requests, updated through December 31, 2017, is R$ 190,517.

The Group does not recognize in their assets the contingent assets listed above, in accordance with CPC 25 - Provisions, contingent liabilities and contingent assets.

20. OTHER LIABILITIES

	Company		Consolidated	
	2017	2016	2017	2016
Government grant (a)	3,764	12,203	57,288	160,060
Retirees' healthcare plan (b)	83,054	51,993	109,126	65,190
Carbon credit	8,054	6,070	8,054	6,070
Exclusivity contract (c)	7,800	12,000	7,800	12,000
Crer pra ver	22,982	23,344	22,982	23,344
Loyalty program, gift cards and rebates (d)	2,962	-	69,045	-
Provisions for sundry expenses (e)	59,050	44,041	76,371	55,455
Advances from rentals (f)	-	-	20,225	-
Provisions for apportionment of benefits and partnerships payable	19,135	16,125	20,979	16,125
Long-term incentives (g)	-	-	44,210	7,633
Complement of operating lease (h)	-	-	31,605	
Other provisions	15,927	16,688	84,354	82,509
Total	222,728	182,464	552,039	428,386
Current	114,662	94,298	278,744	161,686
Noncurrent	108,066	88,166	273,295	266,700

(a) Refers to long-term borrowings and financing (subsidized borrowings - BNDES; BNDES EXIM; FINAME and FINEP) that reflect the government grant, in the extension of the terms of these borrowing and financing agreements, for the year ended December 31, 2017 and December 31, 2016, which were shown under this heading for better disclosure to the requirements of IAS 20 - Government Grants.

(b) The actuarial liability for the healthcare plan of the Group refers to their current and former employees who made fixed contributions for funding the healthcare plan up to April 30, 2010, when the healthcare plan design was changed and fixed contributions were eliminated. Those who contributed to the plan for ten years or more are ensured the right to remain as a beneficiary for an indefinite term (lifetime), and those who contributed for a period of less than ten years are ensured the right to remain as a beneficiary at the rate of one year for each year in which fixed contributions were made.

This group of current employees, in the event of retirement, may opt to remain in the plan in accordance with applicable legislation. In this case, the retiree will be responsible for making full payment of the monthly plan fee charged by the healthcare plan operators. However, this monthly plan fee does not necessarily represent the total cost of the user. The actuarial liability of the Group will be determined as the difference between cost and contributions of their current and future retirees. Actuarial gains and losses are recognized in Other Comprehensive Income as mentioned in Note 2.25.

As of December 31, 2017, weighted average time was 16 years.

The population of active employees eligible for the healthcare plan upon their retirement is closed for new inclusions. For the calculation, as of December 31, 2017, the following numbers were considered for the quarters of 2018:

- 1,553 active employees of the Group, 895 of which are employees of the parent company.
- 193 retirees and dependents of the Group, 144 of which are employees of the parent company.

Actuarial liabilities were calculated as of December 31, 2017 by an independent actuary, considering the main assumptions below:

	2017	2016
Discount rate	9.94%	10.80%
Inicial medical cost growth rate	11.03%	11.67%
Inflation rate	4.25%	4.85%
Inicial medical cost growth rate	5.29%	5.90%
Rate of growth of medical costs for aging costs	3.50%	3.50%
Rate of growth of medical costs for aging contributions	0.00%	0.00%
Retirement plan membership percentage	89.00%	72.00%
Invalidity table	Wyatt 85 Class 1	Wyatt 85 Class 1
General mortality table	RP2000	RP2000
Turnover table	T-9 service table	T-9 service table

Of the experience losses of R$15,884, R$8,100 was due to the inclusion of new retired participants, their dependents and some active employees, as well as changes in plans to higher cost standards and changes in the admission dates of certain assets. R$7,784 was the impact from the change in expenses and contributions, because the average amounts used in plans were higher than expected, since there was no adjustment of the table of contributions of retirees.

Maintaining the initial level of growth in medical costs at a real rate of 6.5% resulted in a loss of around R$4,500, while the reduction in the discount rate from 10.80% p.a. to 9.94% p.a. generated a loss of R$3,230 (R$11,797 in 2016), for total loss due to financial assumptions of R$7,730. The change in the assumption for joining the health plan from 72% to 89%, which has a direct impact on the liability of assets, generated a loss of R$12,768.

The following table shows a sensitivity analysis of the medical inflation rate if such rate were to increase or decrease by 1% and the respective effect on the balance of actuarial liability (Present Value of the Obligation), maintaining other assumptions unchanged:

	Assumption	Sensitivity analysis	PVO
Medical inflation rate	11.03%	Increase of 1%	125,034
Medical inflation rate	11.03%	Decrease of 1%	95,889

The changes in actuarial liabilities for the year ended December 31, 2017 are as follows:

	Company	Consolidated
Balance at December 31, 2016	(51,993)	(65,190)
Cost of Company's current service - recognized in income	(1,568)	(2,001)
Interest cost - recognized in income	(5,555)	(6,963)
Expenses paid	1,102	1,409
Intragroup employee transfers	(1,038)	-
Actuarial (gains)/losses in Other Comprehensive Income	(24,002)	(36,379)
Balance at December 31, 2017	(83,054)	(109,124)

(c) Refers to the consideration of the exclusivity granted by the Company to a financial agent for the bank settlement service related to employees' payroll. It will be recognized in the statement of income on a straight-line basis over the contractual period since April 2017.

(d) Refers to points acquired by clients on purchases, the sale of gift cards not yet converted into product purchases and the return of products mainly of the subsidiary The Body Shop (see note 2.29).

(e) Refers to provisions for sundry expenses of the Company as also mentioned in note 11.

(f) Refers to the grace period granted by lessors for the start of payment of rental of certain stores of the subsidiary The Body Shop.

(g) Refers to the variable compensation plans of the executives of the subsidiary Aesop.

(h) Refers to complements to operating lease agreements identified in the Business Combination carried out in the acquisition of the subsidiary *The Body Shop* (see note 4).

21. SHAREHOLDERS' EQUITY

a) Issued Capital

As on December 31, 2017, the Company's capital was R$427,073 (R$427,073 as of December 31, 2016).

For the year ended on December 31, 2017 there was no change in capital, which is made up of 431,239,264 subscribed and paid-up common registered shares. (431,239,264 subscribed and paid-up common registered shares for the period ended on December 31, 2016). The Company is authorized to increase its capital, irrespective of an amendment to the articles of incorporation, up to the limit of 441,310,125 (for hundred and forty-one million, three hundred and ten thousand, one hundred and twenty-five) common shares with no par value by resolution by the Board of Directors, which will lay down the issuance conditions, including price and deadline for payment.

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, in the period, of previously recognized reserves for contingencies.

- Decrease in the amounts intended for the recognition, in the period, of the legal reserve and reserve for contingencies.

The bylaws allow the Company to prepare half-year or interim balance sheets based on which the Board of Directors may authorize the payment of interim dividends.

On April 20, 2017, dividends and interest on capital were paid in the amounts of R$ 51,276 and R$ 5,600 (R$ 4,760 net of IRRF), respectively, as recommended by the Board of Directors on February 22, 2017 and Ratified at the Annual Shareholders' Meeting held on April 11, 2017, referring to the net income for the year 2016; Which together with R$ 61,804 (R$ 52,533 net of IRRF) paid on February 10, 2017 correspond to payment of approximately 40% of the net income recorded in 2016.

On December 19, 2017, the Board of Directors decided on the distribution of interest on capital in the total gross amount of R$78,290 (R$66,546, net of IRRF) for the period from January 1, 2017 to November 30, 2017, which was paid on February 16, 2018.

Furthermore, on March 14, 2018, the Board of Directors approved, ad referendum the Annual and Extraordinary Shareholders Meeting to be held on April 20, 2018, the proposal for payment of dividends and interest on capital for December 2017, in the amounts of R$128,741 and R$6,809 (R$5,788 net of IRRF), respectively, for the profit or loss for 2017, which, combined with the R$78,290 (R$66,546, net of IRRF) paid on February 16, 2018, corresponds to the distribution of 30% of net income for 2017.

The dividends were calculated as follows:

	Company	
	2017	2016
Net income for the year	670,251	296,699
Minimum mandatory dividends	30%	30%
Minimum annual mandatory dividends	201,075	89,010
Proposed dividends	128,741	51,276
Interest on capital	85,099	67,404
IRRF on interest on capital (ii)	(12,189)	(10,111)
Total dividends and interest on capital, net of IRRF	201,652	108,569
Amount exceeding minimum mandatory dividend, net of IRRF (i)	-	19,559
Dividends per share - R$	0.2991	0.1192
Interest on capital per share, net - R$	0.1681	0.1331
Total remuneration per share, net - R$	0.4672	0.2523

i) According to CVM Instruction 683/12, interest on capital only can be attributed towards the mandatory dividend at an amount net of IRRF.

ii) Withholding Income Tax considering the exempted beneficiaries.

As mentioned in note 2.24, the portion of dividends exceeding the minimum mandatory dividend, declared by Management after the reporting period but before the date authorizing the issue of the financial statements, will not be registered as liabilities in the respective financial statements, and the effects of supplementary dividends must be disclosed in the notes. Therefore, on December 31, 2016, the following portions related to the amount exceeding the minimum mandatory dividend were recorded under shareholders' equity and presented in "Proposed additional dividend". On December 31, 2017, the Company did not declare dividends in excess of the minimum mandatory dividend.

	Company	
	2017	2016
Dividends	-	24,070
Interest on capital	-	5,600
	-	29,670

The minimum mandatory dividend declared and not paid on December 31, 2017 amounted to R$213,840.

c) Treasury shares

As of December 31, 2017, and December 31, 2016, line item 'Treasury shares' is broken down as follows:

	Number of shares	R$ (thousands)	Average price per share - R$
Balance at December 31, 2016	936,884	37,149	39.65
Utilized	(144,868)	(5,728)	39.54
Acquisition	38,490	1,123	29.18
Balance at December 31, 2017	830,506	32,544	39.19

The minimum and maximum cost of the balance of treasury shares in the period ended December 31, 2017 is R$ 29.18 and R$ 45.13, respectively.

d) Share Premium/ Sale of shares

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 6,404/76, 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 from the year in which such limit was reached.

f) Retained earnings reserve

The Retained Earnings Reserve is composed of the cumulative balance of allocations in the capital budgets approved by the Annual Shareholders Meetings.

At the Ordinary and Extraordinary Shareholders' Meeting held on April 11, 2017, the constitution of the profit reserve was made up of the equivalent of approximately 60% of the total income earned in the year 2016 in the amount of R$ 178,019 under the terms of article 196 of Law no. 6,404/76.

In the Board of Directors' Meeting held on March 14, 2018, the financial statements and the proposal for retaining profits for the fiscal year ended December 31, 2017 were presented, which will be submitted for approval of the Annual and Extraordinary Shareholders Meeting to be held on April 20, 2018. The constitution of the profit reserve equivalent to 68% of total profit for the fiscal year of 2017, in the amount of R$456,411.

g) Gain/Loss on capital transactions

Refers to the effect of changes in ownership interest in the acquisition of the remaining portion of non-controlling shareholders when the Company already has control.

h) Other comprehensive income

The Company records in this account the effect of exchange rate variation on investments in foreign subsidiaries, actuarial gains and losses from the retirees' healthcare plan result from cash flow hedge. For exchange rate variation, the accumulated effect will be reversed in profit or loss for the year as gain or loss only in the case of investment disposal or write-off. For actuarial gains and losses, the amounts will be recognized upon actuarial liability revaluation. The cash flow hedge transactions will be transferred to profit or loss for the year when an ineffective portion is identified and/or upon termination of the relationship.

22. SEGMENT INFORMATION

The determination of the Company's operating segments is based on its Corporate Governance structure, which divides the business into the following segments, for purposes of decision making and managerial analyses: Natura ("Natura Brazil Operation" and "Natura LATAM Operation", includes Corporate LATAM), Aesop (includes P&L of the Holdings Natura Brazil Pty Ltd. and Natura Cosmetics Australia Pty Ltd.), The Body Shop (operation of "The Body Shop" retail stores in all continents) and Natura (Brazil) International B.V. - the Netherlands) and Others (include P&L of France, Natura Brasil Inc. - USA).

In addition to analyses by segment, the Company's Management also analyzes its revenues at various levels, mainly through sales channels: direct sales, retail market, e-commerce and franchise. However, the segregation by this type of operation is still not considered significant for disclosure by the Management.

Net revenue by segment is as follows in the year ended on December, 31 2017:

- Natura Brasil Operation: 56.8%
- Natura LATAM Operation: 21.2%
- Aesop: 7.1%
- The Body Shop: 14.8%
- Others: 0.1%

The accounting practices for each segment are described in Note 2 of these annual financial statements of the Company for the year ended December 31, 2016. Moreover, information on the disclosure of the new “The Body Shop” segment relating to the acquisition of The Body Shop International in the third quarter of 2017 was included, to be evaluated by the senior management on an individual basis, thereby complementing the current analysis.

Performance of the Company´s segments was assessed based on net operating revenue and net income for the year, excluding the effects from financial income and expenses, income and social contribution taxes, depreciation and amortization.

The tables below present summarized financial information for the segments and the geographic distribution of commercial operations of the Company as of December 31, 2017 and December 31, 2016. The figures provided to the Board of Directors with respect to income and total assets are consistent with the balances recorded in the interim financial information, as well as the accounting policies adopted.

Operating segments

	2017					
	Net revenue	Net income (loss)	Depreciation and amortization	Financial income	Financial expenses	Income tax
Natura Brasil	5,597,212	511,451	(248,356)	555,167	(955,266)	(181,460)
Natura LATAM	2,085,886	165,884	(20,595)	31,946	(30,408)	(47,339)
Natura outros	6,608	(37,532)	(12,416)	16,113	(4,279)	1,625
Aesop	706,445	13,544	(47,966)	11	(1,888)	(47,240)
The Body Shop (a)	1,456,557	116,629	(54,019)	1,155	-	(54,194)
Corporate expenses (b)	-	(99,725)	-	-	-	27,667
Consolidated (attributable to controlling shareholders of Natura Cosméticos)	9,852,708	670,251	(383,352)	604,392	(991,841)	(300,941)

	2016					
	Net revenue	Net income (loss)	Depreciation and amortization	Financial income	Financial expenses	Income tax
Natura Brasil	5,356,845	208,340	(203,129)	998,551	(1,612,886)	(160,424)
Natura LATAM	1,961,376	91,973	(18,528)	74,585	(115,179)	(47,772)
Natura other	14,716	(36,300)	(733)	-	-	-
Aesop	579,727	44,225	(38,381)	152	(1,232)	89,574
Consolidated (attributable to controlling shareholders of Natura Cosméticos)	7,912,664	308,238	(260,771)	1,073,288	(1,729,297)	(118,622)

(a) The results disclosed by The Body Shop refer to the period from its acquisition, on September 7, 2017, through December 31, 2017.

(b) Corporate expenses refer substantially to the expenses incurred during the year with the acquisition of The Body Shop and the expenses with the Group’s Operational Committee (COG), incurred since its creation in September 2017 to support the Company’s development, to determine and allocate funds and to identify synergies among group companies, for the year ended December 31, 2017.

	2017			2016		
	Non-current assets	Current liabilities	Total assets	Non-current assets	Current liabilities	Total assets
Natura Brasil	3,092,173	5,542,678	8,033,068	3,133,219	3,543,273	6,988,043
Natura LATAM	203,859	532,018	996,415	165,693	516,310	901,414
Natura Other	10,372	4,994	22,421	6,387	14,494	23,755
Aesop	382,774	120,239	654,265	313,380	103,822	508,367
The Body Shop	4,211,975	712,076	5,251,293	-	-	-
Consolidated	7,901,153	6,912,005	14,957,462	3,618,679	4,177,899	8,421,579

Net revenue and Non-current assets by geographic region

	Net revenue	Non-current assets
	2017	2017
Asia	316,475	86,113
North America	857,361	323,440
South America	7,308,229	3,347,551
Europe	1,000,843	3,684,922
Oceania	369,800	459,127
Consolidated	9,852,708	7,901,153

In terms of net revenue by country, Brazil accounts for 57% of total net revenue. No other country had net sales greater than 10% of total.

The Company has predominantly a class of products sold by Natura's Consultants, denominated as "Cosmetics". In the case of the subsidiaries Emeis Holding Pty Ltd. ("Aesop") and The Body Shop Limited ("The Body Shop"), cosmetics are sold through a wholesale structure, both in own stores as in department stores, franchises and e-commerce.

No individual or aggregate customer (economic group) represents more than 10% of the Company's net revenues.

23. NET REVENUE

	Company		Consolidated	
	2017	2016	2017	2016
Gross revenue:				
Domestic market	7,889,218	7,735,563	7,963,375	7,754,729
Foreign market	-	-	5,773,637	3,236,722
Other sales	255	4	13,864	1,691
	7,889,473	7,735,567	13,750,876	10,993,142
Returns and cancellations	(24,696)	(24,397)	(51,414)	(47,686)
Commercial discounts and rebates	-	-	(607,231)	-
Taxes on sales	(1,997,402)	(2,094,185)	(3,239,523)	(3,032,792)
Net revenue	5,867,375	5,616,985	9,852,708	7,912,664

24. OPERATING EXPENSES AND COST OF SALES

(a) Breakdown of operating expenses and cost of sales by function:

	Company		Consolidated	
	2017	2016	2017	2016 Reclassified
Cost of sales	2,329,717	2,188,578	2,911,077	2,446,959
Selling, marketing and logistics expenses	2,170,859	2,143,235	4,198,733	3,336,634
Administrative, R&D, IT and Project expenses	859,333	673,343	1,535,945	1,100,628
Total	5,359,909	5,005,156	8,645,755	6,884,221

(b) Breakdown of operating expenses and cost of sales by nature:

	Company		Consolidated	
	2017	2016	2017	2016
Cost of sales	2,329,717	2,188,578	2,911,077	2,446,959
Raw material/packaging material/resale	2,329,717	2,188,578	2,402,340	1,962,313
Personnel expenses	-	-	261,859	247,476
Depreciation and amortization	-	-	69,433	77,298
Others	-	-	177,445	159,872
Selling, marketing and logistics expenses	2,170,859	2,143,235	4,198,733	3,336,634
Logistics costs	402,351	415,105	669,657	605,162
Personnel expenses	402,551	400,028	1,027,690	711,845
Marketing, salesforce and other selling expenses	1,328,131	1,295,357	2,375,934	1,947,167
Depreciation and amortization	37,826	32,745	125,452	72,460
Administrative, R&D, IT and project expenses	859,333	673,343	1,535,945	1,100,628
Investments in innovation	-	-	80,027	76,647
Personnel expenses	247,313	186,375	692,242	513,714
Other administrative expenses	501,105	418,816	575,209	399,254
Depreciation and amortization	110,915	68,152	188,467	111,013
Total	5,359,909	5,005,156	8,645,755	6,884,221

Certain comparison amounts have been reclassified to improve presentation, due to the breakdown of the personnel expenses and logistics expenses lines. Moreover, amounts related to Emeis Holding Pty Ltd. ("Aesop") were also reclassified from the group "Administrative, R&D, IT and Project expenses" to "Selling, Marketing and Logistics expenses" in the total amount of R$ 226,465 for the year ended December 31, 2016 (see note 2.31.b)).

25. PERSONNEL EXPENSES

	Company		Consolidated	
	2017	2016	2017	2016
Payroll, profit sharing and bonuses	419,573	369,007	1,510,175	1,033,513
Pension Plan (note 25.2)	1,949	2,692	7,099	3,753
Share-based compensation (note 25.1)	16,610	7,688	19,136	8,782
Charges on restricted stock (note 25.1)	6,117	1,880	7,801	2,585
Taxes and social contributions	29,065	25,354	93,910	83,322
Health medical care, food, transportation and other benefits	87,877	92,177	197,524	195,738
	561,191	498,798	1,835,645	1,327,693
INSS (a)	88,673	87,605	146,146	145,342
Total - Personnel Expenses	649,864	586,403	1,981,791	1,473,035

(a) INSS expenses were included in said note for better presentation of personnel expenses.

25.1. Share-based Payment

The Board of Directors meets annually in order to establish the option granting plan for the current year, on the basis approved by the Management and employees, indicating the directors and managers who may receive stock options to purchase or subscribe shares of the Company and the total number to be distributed.

From 2009 to 2014, the plans vest for exercise at the end of the fourth year after grant date, with the possibility of early maturity after the third year, conditioned to renouncing of 50% of the options granted in the plans. The Company established a maximum term of four years for option exercise as from the end of the fourth year after vesting.

At the Special Shareholders' Meeting held on February 06, 2015, Natura Cosméticos' shareholders approved a new Stock Option Plan and a Restricted Stock Plan. On March 16, 2015, the Company's Board of Directors approved these plans ("2015 Plans"). The grant of the options to the eligible employees and managing directors who joined the 2015 Plan was approved by the Board Meeting on April 10, 2015.

At the Special General Meeting (SGM) held on July 27, 2015, the Company's shareholders approved a Program of Stock Option or Subscription of Shares for "Strategy Acceleration", and also adjustments to the Restricted Stock Plan, approved at the SGM held on February 6, 2015. On July 28, 2015, the Company's Board of Directors approved the Stock Option or Subscription of Shares Program denominated "Strategy Acceleration Plan" for 2015, and on August 14, 2015, the Company's Board of Directors approved the list of employees eligible to the Restricted Stock Plan.

On March 16, 2016, the Company´s Board of Directors approved the Stock Option or Share Subscription Plan and the restricted stock option plan for 2016 ("2016 Plans"). Stock options granted to eligible managing officers and employees who joined the 2016 Plans were approved at the Board Meeting held on April 14, 2016. Additionally, on July 4, 2016, the Company's Board of Directors approved the inclusion of beneficiaries and also revisited the amount of Restricted Stock Option Plan of actions for the year 2016 due to inclusion and exclusion of beneficiaries.

On July 11, 2016, the Company's Board of Directors approved the Stock Option Plan Option or Subscription Bonus for "Strategy Acceleration" for the year 2016.

On March 10, 2017, the Company's Board of Directors approved the Stock Option Plan or Subscription Bonus, the restricted stock option plan and the Stock Option Plan or Subscription Bonus for Strategy Acceleration for 2017, therefore, the Company began accruing the respective provisions.

The Stock Option Plan effective for 2017, 2016 and 2015 sets out that options may be exercised over three years, one third each year, as from the second year.

The Stock Option Plan or Subscription Bonus termed as "Strategy Acceleration" Plan related to 2015, 2016 and 2017 provides that 50% of the options may be exercised in the fourth year anniversary and the rest in the fifth year.

The Restricted Stock Plan implemented in 2015 consists in the grant of the Company's common shares to a group of managing officers and employees. The rights of the participants referring to restricted shares will only be fully vested to the extent that the participants remain linked to the Group as a managing officer or employee, in the period between grant date and the following dates, in these proportions:

(a) 1/3 (one third) as from the 2nd anniversary of the grant date;

(b) 2/3 (two thirds) as from the 3rd anniversary of the grant date; and

(c) 100% as from the 4th anniversary of the grant date.

In the Restricted Stock Plan, there will be no financial disbursement by the Group employee or managing officer upon end of the vesting period.

The changes in the number of outstanding stock options and their related weighted-average prices, as well as variations in the amount of restricted stock are as follows:

	Stock Option Plan and Strategy Acceleration Plan			
	2017		2016	
	Average exercise price per share - R$	Options (thousands)	Average exercise price per share - R$	Options (thousands)
Balance at beginning of year	36.17	6,381	37.91	6,234
Granted	26.07	1,699	24.43	2,566
Expired	44.81	(866)	47.32	(2,419)
Exercised	28.09	(10)	-	-
Balance at end of year	33.15	7,204	36.17	6,381

	Restricted stock (thousands)	
	2017	2016
Balance at beginning of year	875	510
Granted	453	512
Expired	(134)	(129)
Exercised	(135)	(18)
Balance at end of year	1,060	875

From the 7,204 outstanding options as of December 31, 2017 (6,381 outstanding options as of December 31, 2016), 1,376 outstanding options are vested (1,692 outstanding options as of December 31, 2016). The options exercised during the year ended December 31, 2017 resulted in the use of 10 thousand treasury shares (no options exercised during the year ended December 31, 2016).

The expense relating to the fair value of stock options and restricted stock, including social security and related expenses calculated over restricted stock, recognized in the year ended December 31, 2017, according to the period elapsed for entitlement to exercise the options and restricted shares, was of R$22,276 and R$26,937 company and consolidated, respectively. On December 31, 2017, expenses totaled R$9,568 and R$11,367 company and consolidated, respectively.

The stock options outstanding and the restricted stock at the end of the year have the following vesting dates and exercise prices:

As of December 31, 2017 -Stock option plan

Grant date	Exercise price - R$	Fair value	Existing options	Remaining contractual life (years)	Vested options
March 19, 2010	54.49	10.82	287,155	0.2	287,155
March 23, 2011	63.60	16.45	422,472	1.2	422,472
March 18, 2013	69.49	12.10	401,125	3.3	401,125
March 17, 2014	46.50	8.54	531,309	4.3	265,655
March 16, 2015 (24 months - vesting)	28.09	9.70	236,017	5.3	236,017
March 16, 2015 (36 months - vesting)	28.09	10.10	236,580	5.3	-
March 16, 2015 (48 months - vesting)	28.09	10.57	236,580	5.3	-
July 28, 2015 (Strategy Acceleration Program - 48 months - vesting)	26.68	12.46	632,500	5.7	-
July 28, 2015 (Strategy Acceleration Program - 60 months - vesting)	26.68	12.40	632,500	5.7	-
March 15, 2016 (24 months - vesting)	26.55	14.31	128,381	6.3	-
March 15, 2016 (36 months - vesting)	26.55	14.65	115,453	6.3	-
March 15, 2016 (48 months - vesting)	26.55	14.85	115,453	6.3	-
July 11, 2016 (Strategy Acceleration Program - 48 months - vesting)	23.70	26.96	770,000	6.6	-
July 11, 2016 (Strategy Acceleration Program - 60 months - vesting)	23.70	26.96	770,000	6.6	-
March 10, 2017 (24 months - vesting)	26.07	13.31	194,468	7.3	-
March 10, 2017 (36 months - vesting)	26.07	13.35	194,496	7.3	-
March 10, 2017 (48 months - vesting)	26.07	13.35	194,497	7.3	-
March 10, 2017 - Strategy Acceleration Program (48 months de vesting)	26.07	13.78	552,500	7.3	-
March 10, 2017 - Strategy Acceleration Program (60 months - vesting)	26.07	13.73	552,500	7.3	-
			7,203,986		1,612,424

As of December 31, 2017 - restricted stock

Grant date	Existing stock	Fair value	Remaining contractual life (years)	Vested stock
March 16, 2015 (24 months - vesting)	-	22.27	-	-
March 16, 2015 (36 months - vesting)	133,509	21.33	5.3	-
March 16, 2015 (48 months - vesting)	133,449	20.42	5.3	-
March 15, 2016 (24 months - vesting)	124,744	25.70	6.3	-
March 15, 2016 (36 months - vesting)	124,744	24.82	6.3	-
March 15, 2016 (48 months - vesting)	124,744	23.97	6.3	-
March 10, 2017 (24 months - vesting)	136,667	25.02	7.3	-
March 10, 2017 (36 months - vesting)	145,407	24.19	7.3	-
March 10, 2017 (48 months - vesting)	136,667	23.39	7.3	-
	1,059,929		-	-

As of December 31, 2016 - Stock option plan

Grant date	Exercise price - R$	Fair value	Existing options	Remaining contractual life (years)	Vested options
April 22, 2009	36.07	7.83	291,689	0.57	291,689
March 19, 2010	52.93	10.82	414,432	1.49	414,432
March 23, 2011	61.77	16.45	504,121	2.49	504,121
March 18, 2013	67.50	12.10	481,332	4.53	481,332
March 17, 2014	45.12	8.54	682,814	5.54	-
March 16, 2015 (24 months - vesting)	28.22	9.70	265,401	6.29	-
March 16, 2015 (36 months - vesting)	28.22	10.10	265,401	6.29	-
March 16, 2015 (48 months - vesting)	28.22	10.57	265,401	6.29	-
July 28, 2015 (Strategy Acceleration Program - 48 months - vesting)	26.81	12.46	632,500	6.67	-
July 28, 2015 (Strategy Acceleration Program - 60 months - vesting)	26.81	12.40	632,500	6.67	-
March 15, 2016 (24 months - vesting)	26.69	14.31	143,790	7.31	-
March 15, 2016 (36 months - vesting)	26.69	14.65	130,863	7.31	-
March 15, 2016 (48 months - vesting)	26.69	14.85	130,863	7.31	-
July 11, 2016 (Strategy Acceleration Program - 48 months - vesting)	23.84	26.96	770,000	7.64	-
July 11, 2016 (Strategy Acceleration Program - 60 months - vesting)	23.84	26.96	770,000	7.64	-
			6,381,107		1,691,574

As of December 31, 2016 - restricted stock

Grant date	Existing stock	Fair value	Remaining contractual life (years)	Vested stock
March 16, 2015 (24 months - vesting)	145,444	22.27	6.29	-
March 16, 2015 (36 months - vesting)	163,144	21.33	6.29	-
March 16, 2015 (48 months - vesting)	145,444	20.42	6.29	-
March 15, 2016 (24 months - vesting)	140,410	25.70	7.31	-
March 15, 2016 (36 months - vesting)	140,410	24.82	7.31	-
March 15, 2016 (48 months - vesting)	140,410	23.97	7.31	-
	875,262			

On December 31, 2017, the market price was R$ 33.06 (R$ 23.02 as of December 31, 2016) per share.

The pricing of stock options and restricted stock was based on the binomial model and significant data included in the fair value pricing model of the stock options and restricted stock granted in the year ended December 31, 2017 were:

	Stock option plan					Restricted stock		
	March 10, 2017							
	(24 months - vesting)	(36 months - vesting)	(48 months - vesting)	(Strategy Acceleration Program - 48 months - vesting)	(Strategy Acceleration Program - 60 months - vesting)	(24 months - vesting)	(36 months - vesting)	(48 months - vesting)
Volatility	41.00%	41.00%	41.00%	41.10%	41.10%	41.00%	41.00%	41.00%
Dividend yield	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
Expected option life for the year	2 years	3 years	4 years	4 years	5 years	2 years	3 years	4 years
Risk-free annual interest rate	9.40%	9.50%	9.60%	9.60%	9.60%	9.40%	9.50%	9.60%

The pricing of stock options and restricted stock was based on the binomial model and significant data included in the fair value pricing model of the stock options and restricted stock granted in 2016 were:

	Stock option plan					Restricted stock		
	March 15, 2016			July 11, 2016		March 15, 2016		
	(24 months - vesting)	(36 months - vesting)	(48 months - vesting)	(Strategy Acceleration Program - 48 mmonths - vesting)	(Strategy Acceleration Program - 60 months - vesting)	(24 months - vesting)	(36 months - vesting)	(48 months - vesting)
Volatility	37.20%	37.20%	37.20%	39.40%	39.40%	37.20%	37.20%	37.20%
Dividend yield	3.40%	3.40%	3.40%	4.60%	4.60%	3.40%	3.40%	3.40%
Expected optin life for the year	2 years	3 years	4 years	4 years	5 years	2 years	3 years	4 years
Risk-free annual interest rate	12.90%	13.20%	13.20%	11.50%	11.50%	12.90%	13.20%	13.20%

The pricing of stock options and restricted stock was based on the binomial model and significant data included in the fair value pricing model of the stock options and restricted stock granted in 2015 were:

	Stock option plan					Restricted stock		
	March 16, 2015			July 28, 2015		March 16, 2015		
	(24 months - vesting)	(36 months - vesting)	(48 months - vesting)	(Strategy Acceleration Program - 48 months - vesting)	(Strategy Acceleration Program - 60 months - vesting)	(24 months - vesting)	(36 months - vesting)	(48 months - vesting)
Volatility	30.40%	30.40%	30.40%	32.00%	32.00%	30.40%	30.40%	30.40%
Dividend yield	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%
Expected option life for the year	2 years	3 years	4 years	4 years	5 years	2 years	3 years	4 years
Risk-free annual interest rate	12.60%	12.60%	12.60%	12.20%	12.20%	12.60%	12.60%	12.60%

25.2. 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 contribution 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.

The contributions made by the Company totaled R$1,949 and R$3,397 company and consolidated, respectively, in the year ended December 31, 2017 (R$2,692 company and R$ 3,753 consolidated in the year ended December 31, 2016), and were recorded as expenses in the year.

26. FINANCIAL INCOME (EXPENSES)

	Company		Consolidated	
	2017	2016	2017	2016
Financial income:				
Interest on short-term investments	81,119	188,326	164,442	255,437
Gains on exchange rate variations (a)	156,009	700,729	176,450	745,365
Gains on swap and forward transactions (c)	28,872	42,960	34,055	45,467
Gains on fair value adjustment of swap and forward derivatives	152	-	606	-
Reversal of inflation adjustment of provision for tax risks and tax liabilities	26,707	-	129,770	-
Effect of adherence to special tax regularization program (PERT) created by Law 13,496/17	70,348	-	70,348	-
Other financial income	19,569	20,432	28,721	27,019
	382,776	952,447	604,392	1,073,288
Financial expenses:				
Interest on financing	(337,123)	(267,248)	(387,658)	(317,589)
Losses on monetary and exchange rate variations (b)	(116,472)	(275,593)	(141,499)	(359,742)
Losses on swap and forward transactions (d)	(160,972)	(653,848)	(161,802)	(698,774)
Loss on fair value adjustment of swap and forward derivatives	-	(14,423)	-	(12,292)
Inflation adjustment of provision for acquisition of non-controlling interest	-	(58,071)	-	(58,071)
(Forward) derivative instruments engaged to hedge the provision for acquisition of non-controlling interest, including mark-to-market (MTM) adjustment	-	(65,136)	-	(65,136)
(NDF) derivative instruments engaged to hedge the transaction to acquire The Body Shop, including mark-to-market (MTM) adjustment	(27,400)	-	(27,400)	-
Inflation adjustment of provision for tax, civil and labor risks and tax liabilities	(59,353)	(79,093)	(89,792)	(108,923)
Effect of reclassification of government grant (CPC07)	(1,747)	(10,198)	(29,976)	(65,768)
IOF on remittance of funds abroad for acquisition of non-controlling interest	(14,218)	-	(14,218)	-
Debt structuring expenses for acquisition of non-controlling interest (e)	(60,919)	-	(60,919)	-
Other financial expenses	(70,457)	(35,267)	(78,577)	(43,002)
	(848,661)	(1,458,877)	(991,841)	(1,729,297)
Financial income (expenses)	(465,885)	(506,430)	(387,449)	(656,009)

The objective of the breakdowns below is to explain more clearly the foreign exchange hedging transactions contracted by the Company and the related balancing items in the income statement shown in the previous table:

	Company		Consolidated	
	2017	2016	2017	2016
(a) Gains on exchange rate variations	156,009	700,729	176,450	745,365
Gains on exchange rate variation on loans	155,940	699,399	159,952	744,743
Exchange rate variation on imports	69	1,330	-	622
Exchange rate variation on export receivables	-	-	2,746	-
Exchange rate variation on accounts payable to subsidiaries abroad	-	-	13,752	-
(b) Losses on monetary and exchange rate variations	(116,472)	(275,593)	(141,499)	(359,742)
Losses on exchange rate variation on loans	(116,339)	(275,271)	(124,753)	(290,712)
Exchange rate variation on imports	-	-	(27)	-
Exchange rate variation on export receivables	(21)	-	-	(17,364)
Exchange rate variation on accounts payable to subsidiaries abroad	-	-	-	(41,674)
Exchange rate variation on financing	(112)	(322)	(16,719)	(9,992)
(c) Gains on swap and forward transactions	28,872	42,960	34,055	45,467
Revenue from swap exchange coupons	28,872	42,960	29,091	45,467
Exchange rate variation on forward transactions	-	-	4,964	-
(d) Losses on swap and forward transactions	(160,972)	(653,848)	(161,802)	(698,774)
Losses on exchange rate variation on swap instruments	(40,595)	(422,573)	(39,287)	(449,764)
Financial costs of swap instruments	(120,377)	(231,275)	(122,420)	(247,515)
Losses on swap of interest rate	-	-	(95)	(1,495)
(e) Other financial expenses	(60,919)	-	(60,919)	-
Expenses to structure debt for the acquisition of The Body Shop, due to the change of financing agent providing the credit facility	(60,919)	-	(60,919)	-

27. OTHER OPERATING INCOME (EXPENSES), NET

	Company		Consolidated	
	2017	2016	2017	2016
Result on write-off of property, plant and equipment	(23,186)	(851)	(25,623)	3,418
ICMS credit (a)	7,785	4,725	7,785	4,725
BNDES, FINAME and FINEP subsidy (b)	1,747	10,198	29,976	65,769
Crer para ver line (c)	(16,785)	(32,305)	(22,771)	(32,305)
ICMS-ST (d)	(31,745)	(18,580)	(33,784)	(18,580)
Sale of customer portfolio (e)	28,701	27,000	28,701	27,000
Exclusion of ICMS based on PIS/COFINS (f)	1,248	-	197,230	-
Acquisition costs - “The Body Shop”(g)	(68,580)	-	(87,106)	-
Reversal of IPI - commercial equality (h)	129,061	-	133,595	-
Tax contingencies	(5,267)	-	(38,765)	-
Freight regularization	(2,848)	-	(2,848)	4,398
Other operating income (expenses)	(7,179)	528	(34,702)	-
Other operating income (expenses), net	12,952	(9,285)	151,688	54,425

(a) The balance above includes ICMS tax credits recognized from refund as a result of tax substitution.

(b) Refers to the reclassification of the subsidized loans interest expense as a result of the financial accounting pronouncement IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance.

(c) Allocation of operating profit from sales of "Crer para Ver" line of non-cosmetic products to Natura Institute, specifically directed to social projects for developing the quality of education.

(d) Refers to the requirement of ICMS tax substitution, for different states, see details in note 18 (c).

(e) Refers to the revenue from the sale of securities portfolio of customers overcome over 180 days, which began in the last quarter of 2016, which is no longer made up the balance of trade accounts receivable of the Company on the date of the transfer of the risks and benefits. During 2017, was held new sale for invoices that have completed 180 days and had the same characteristics of the portfolio previously sold by the end of 2016. It is worth noting that the Company has the policy to perform the write-off of invoices above 180 days. It is noteworthy that this sale was made without the right of return and with credit risk transfer to buyer.

(f) See details in note nº 18(a).

(g) Refer to the initial transaction costs of acquisition of "The Body Shop", with consultants, lawyers, and others.

(h) See details in note 18(d).

28. EARNING PER SHARE

28.1. Basic

Basic earnings per share are calculated by dividing the net income attributable to the owners of the Company by the weighted average of common in outstanding shares, less common shares bought back by the Company and held as treasury shares.

	2017	2016
Net income attributable to owners of the Group	670,251	296,699
Weighted average of common outstanding shares	431,239,264	431,239,264
Weighted average of treasury shares	(867,934)	(949,409)
Weighted average of outstanding common shares	430,371,330	430,289,855
	1.5574	0.6895
Basic earnings per share - R$		

28.2. 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, restricted actions and strategy acceleration.

	2017	2016
Net income attributable to owners of the Group	670,251	296,699
Weighted average of outstanding common shares	430,371,330	430,289,855
Adjustment for stock options and restricted stock	641,156	1,275,824
Weighted average number of common shares for diluted earnings per share calculation purposes	431,012,486	431,565,679
Diluted earnings per share - R$	1.5551	0.6875

At December 31, 2017, a total of 6,570,788 existing options (6,035,573 at December 31, 2016), were not considered in the calculation of diluted earnings per share due to the fact that the exercise price is higher than average market price of the common shares during the period ended on those dates, therefore there was no dilution effect.

29. RELATED-PARTY TRANSACTIONS

29.1. Receivables from and payables to related parties are as follows:

	Company	
	2017	2016
Current assets:		
Natura Inovação e Tecnologia de Produtos Ltda. (a)	-	1,527
Natura Logística e Serviços Ltda. (b)	72	438
Indústria e Comércio de Cosméticos Natura Ltda. (c)	-	4,126
Natura Biosphera Franqueadora Ltda.	244	185
Aesop Brasil Comércio de Cosméticos Ltda. (subsidiary of Emeis Holdings Pty Ltd.)	2	922
Natura Comercial Ltda.	-	774
The Body Shop International - United Kingdom (h)	8,878	-
Natura Cosméticos S.A. - Chile	195	-
Natura Cosméticos S.A. - Peru	195	-
Natura Cosméticos Ltda. - Colombia	195	-
Natura Cosméticos S.A. - Mexico	195	-
Natura Cosméticos S.A. - Argentina	195	-
	10,171	7,972
Current liabilities:		
Trade payables:		
Indústria e Comércio de Cosméticos Natura Ltda. (c)	214,295	217,980
Natura Logística e Serviços Ltda. (d)	-	741
Natura Inovação e Tecnologia de Produtos Ltda. (e)	7,407	23,362
	221,702	242,083

Related-party transactions are as follows:

	Company			
	Sale of products		Purchase of products	
	2017	2016	2017	2016
Aesop Brasil Comércio de Cosméticos Ltda. (subsidiary of Emeis Holdings Pty Ltd.)	21	2,606	-	-
Natura Comercial Ltda.	7,985	3,331	-	-
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	2,801,421	2,729,261
	8,006	5,937	2,801,421	2,729,261

	Company			
	Sale of services		Purchase of services	
	2017	2016	2017	2016
Administrative structure: (f)				
Natura Logística e Serviços Ltda.	3,450	9,436	-	-
Natura Cosméticos S.A. - Brasil	-	-	3,450	9,436
	3,450	9,436	3,450	9,436
Product and technology research and development: (g)				
Natura Inovação e Tecnologia de Produtos Ltda.	221,176	230,707	-	-
Natura Cosméticos S.A. – Brazil	-	-	221,176	230,707
	221,176	230,707	221,176	230,707
Total sale or purchase of services and products	224,626	240,143	224,626	240,143

The Company holds 100% interest in the Investment Fund Essencial, which refers to the exclusive private credit fixed-income investment fund, whose breakdown is presented below (see Note 7):

	2017	2016
Certificate of time deposits	143,378	118,127
Repurchase agreement	992,054	769,186
Treasury bills	915,853	743,047
Government bonds (LFT)	864,825	292,708
	2,916,110	1,923,068

(a) Advances granted for provision of product and technology development and market research services.

(b) Advances granted for provision of product separation, packaging for transportation and mailing services, logistics advisory, human resources management and human resources training.

(c) Payables for the purchase of products.

(d) Payables for services described in item (f).

(e) Payables for services described in item (g).

(f) Services of separate, packing and mailing goods, logistic consulting, manager human resources and training in human resources

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

(h) Refers to the transfer of software licensing expenses

The main intercompany balances as of December 31, 2017 and December 31, 2016, as well as the intercompany transactions that affected the period then ended in those dates, refer to operations conducted between the Company and its subsidiaries.

The prices, terms and other conditions of transactions between the Company, its subsidiaries and other related parties were agreed in contracts between the parties.

Due to the Company and its 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 Company and to its foreign subsidiaries.

There is no provision for doubtful accounts recognized for intercompany receivables on December 31, 2017 and December 31, 2016 since there are no past-due receivables with risk of default.

According to note 16, the Group companies usually grant each other pledges and collaterals to guarantee bank loans and financing.

On June 5, 2012, an agreement was entered into, still present, between Indústria e Comércio de Cosméticos Natura Ltda. and Bres Itupeva Empreendimentos Imobiliários Ltda., ("Bres Itupeva"), for the construction and lease of processing, distribution, storage (HUB), in the city of Itupeva / SP a distribution center (HUB), in the city of Itupeva/SP. Messrs. Antonio Luiz da Cunha Seabra, Guilherme Peirão Leal and Pedro Luiz Barreiros Passos, members of the group of controlling shareholders of Natura Cosméticos S.A., indirectly hold controlling interests in Bres Itupeva. The amount involved in the registered transaction is "Buildings" in the amount of R$54,008 (R$58,881 as of December 31, 2016).

In September 2014, Natura Cosméticos S.A. entered into with Dédalus Administração e Participações Ltda. ("Dédalus") and Homagus Administração and Participações Ltda.("Homagus") an aircraft assignment agreement, still present for use thereof. Under the agreement, upon aircraft use by Natura Cosméticos S.A., the amount charged will be that established in the Brazilian Code of Aeronautics. Dédalus and Homagus are the property of Messrs. Guilherme Peirão Leal and Antonio Luiz Seabra, both belonging to the group of controlling shareholders of Natura Cosméticos S.A.

In 2017, the amount of R$128 was paid to the company Dédalus. This agreement was terminated on July 19, 2017, upon the execution of the settlement instrument by the Parties, without any pending items.

Natura Cosméticos S.A. and Raia Drogasil S.A. entered into a purchase and sale agreement and other covenants for selling products in Raia and Drogasil. Mr. Antonio Luiz da Cunha Seabra, Mr. Guilherme Peirão Leal and Mr. Pedro Luiz Barreiros Passos, members of the Natura Cosméticos S.A. control block, indirectly hold shareholding interest in Raia Drogasil S.A.

In the fiscal year ended December 31, 2017, Natura Cosméticos S.A. and its subsidiary transferred to the Natura Institute, in the form of a donation associated with maintenance, the amount of R$993 (R$2,288 on December 31, 2016) corresponding to 0.5% of net income for the prior fiscal year, and a donation associated with the net sales of products in the Natura Crer Para Ver line, in the amount of R$23,818 on December 31, 2017 (R$23,500, on December 31, 2016).

29.2. Key management personnel compensation

The total compensation of the Company’s Management is as follows:

	2017			2016		
	Compensation			Compensation		
	Fixed (a)	Variable (b)	Total	Fixed (a)	Variable (b)	Total
Board of Directors	8,700	7,300	16,000	5,147	2,305	7,452
Officers	24,681	46,729	71,410	18,836	11,433	30,269
	33,381	54,029	87,410	23,983	13,738	37,721

As from 2017, due to the organizational structure of the Company, the balances stated above comprise the compensation of the key management personnel of other companies forming the Group.

(a) In the item Officers (statutory) it is included the amount of R$ 8,441 referred to the amortization of the Confidentiality and Non-Compete Agreement, during the in the six month period ended December 31, 2017.

(b) Refers to profit sharing, on an accrual basis, net of reversals, regarding the Restricted Stock Plan and Strategy Acceleration Program, including charges, as applicable, to be determined in the year. The amounts include additions to and/or reversals of provisions made in the previous year, due to final assessment of the targets established for board members and officers, statutory and non-statutory, in relation to profit sharing.

As a result of an agreement signed by Management with the Company's former director, at the Annual and Extraordinary Shareholders' Meeting to be held on April 11, 2017, a matter will be put to the vote regarding the transfer of restricted shares to the participant of the Restricted Stock Plans granted in the years of 2015 and 2016 that was not vested on the date of his resignation from the Company. For this reason, the caption "Statutory Directors" includes the cost of the restricted shares granted to such participant, maintaining all other terms and conditions of the Restricted Stock Plans granted in 2015 and 2016 applicable to such restricted shares, including vesting schedules.

For this reason, the caption "Statutory Executive Officers" includes the cost of restricted shares granted to such former director, except for the amount corresponding to the first batch of restricted shares that became vested on March 16, 2017 (referring to 33.33% of the restricted shares granted under the Restricted Stock Plan of 2015), which was paid to him through financial compensation, after approval at said meetings.

29.3. Share-based payments

Breakdown of Natura Cosméticos officers and executives' compensation:

	Grant of options					
	2017			2016		
	Stock option balance (number) (a)	Average fair value of stock options	Average exercise price - R$ (b)	Stock option balance (number) (a)	Average fair value of stock options	Average exercise price - R$ (b)
Officers	4,917,574	12.44	33.15	2,529,024	12.52	36.17

	Restricted stock			
	2017		2016	
	Stock option balance (number) (a)	Average exercise price - R$ (b)	Stock option balance (number) (a)	Average exercise price - R$ (b)
Officers	281,195	23.35	231,262	22.50

(a) Refers to the balance of the options and restricted shares ripe ("vested") and mature ("unvested"), not carried out, at the balance sheet dates.

(b) Refers to the weighted-average exercise price of the option at the time of the stock option plans, adjusted for interest based on the Extended Consumer Price Index (IPCA) through the end of the reporting period. The new Stock Option Plan and Restricted Stock Plan, both implemented in 2015, include no monetary adjustment.

30. COMMITMENTS ASSUMED

30.1. 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, as follows:

(a) agreement effective until December 31, 2017, whereby a minimum monthly volume of 3.6 Megawatts shall be purchased, equivalent to R$ 373;

(b) agreement effective until 2018, whereby a minimum monthly volume of 0.8 Megawatts shall be purchased, equivalent to R$ 110.

As of December 31, 2017, the subsidiary was in compliance with this agreement's commitments.

The amounts are carried based on electric power consumption estimates in accordance with the contract period, whose prices are based on volumes, also estimated, resulting from the subsidiary's continuous operations.

Total minimum supply payments, measured at nominal value, according to the contract, are:

	2017	2016
Less than one year	1,406	1,253
More than one year and less than five years	-	5,781
Total	1,406	7,034

30.2. Operating lease transactions

The Group has commitments arising from real estate operating leases where the following are located: some of its foreign subsidiaries, administrative offices, distribution centers in Brazil and properties, where there are shops abroad and in Brazil, of subsidiaries Emeis Holdings Pty Ltd. and The Body Shop International Limited, as well as properties where shops in Brazil of its subsidiary Natura Comercial Ltda. 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.

As of December 31, 2017, and December 31, 2016, the commitment made for future payments of these operating leases had the following maturities:

	Company		Consolidated	
	2017	2016	2017	2016
Less than one year	13,833	13,883	457,348	71,265
More than one year and less than five years	16,993	29,795	833,655	200,549
More than five years	-	-	133	71,847
Total	30,826	43,678	1,291,136	343,661

On December 31, 2017, the Group incurred R$284,565 (on December 31, 2016, R$109,979) in expenses with operating leases.

30.3. Obligations resulting from service transition agreement:

On September 7, 2017, the subsidiary The Body Shop International Limited hired a series of transitional services to be provided by L'Oréal SA ("Seller") from September 2017 to February 2019, to ensure the continuity of activities during the period of integration into the Company. The agreement envisages the current services described in the table below and services with previously negotiated amounts that are provided on demand according to the needs of the business. Total minimum supply payments, measured at nominal value, according to the agreement, are provided herein by type of service:

Type of service	Less than one year	More than one year and less than five years
TD, licenses, infrastructure and spaces	6,668	26
HR management (payroll and benefit management)	2,661	867
Product research and development	1,481	-
Accounting and financial processes	440	-
Logistics and sale operations	526	-
Other	108	-
Total	11,884	893

31. INSURANCE

The Group has an insurance policy that considers principally risk concentration and materiality, and insurance is obtained 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, 2017, insurance coverage is as follows:

Item	Type of coverage	Amount insured
Industrial complex	Any damages to buildings, facilities, inventories, and machinery and equipment	2,685,285
Vehicles	Fire, theft and collision for 891 vehicles	51,390
Loss of profits	No loss of profits due to material damages to facilities buildings and production machinery and equipment	1,520,597
Marine transport	Damages to products in maritime transit	4,453

32. ADDITIONAL STATEMENTS OF CASH FLOWS INFORMATION

The following table presents additional information on transactions related to the cash flow statement:

	Company		Consolidated	
Non-cash items	2017	2016	2017	2016
Hedge accounting, net of tax effects	7,468	(1,401)	9,172	(1,548)
Effect of change in Natura Cosméticos' interest in subsidiaries abroad	-	52,417	-	-
Dividends and interest on shareholders' equity declared and not distributed yet	213,840	118,680	213,840	118,680

33. EVENTS AFTER THE REPORTING PERIOD

Issue of notes by the Company

On January 18, 2018, the Company informed the market and the shareholders that the Board of Directors approved the issue in the international market of Notes in the amount of up to US$1,150,000.

On February 1, 2018, a total of US$750,000 was raised from the placement of Notes maturing on February 1, 2023 at a rate of 5.375% p.a., with semiannual interest payments in February and August.

The proceeds from the Notes issue were fully used to pay part of the liabilities of the Company arising from the 3rd issue of 74 commercial promissory notes, in a single series, in the amount R$3,700,000, which were issued to finance the acquisition of The Body Shop International Limited.

Simultaneously to the issue of the Notes in the international market, the Company contracted derivative instruments ("swaps") to eliminate from profit or loss the exchange variations arising from the exposures of the principal contracted and interest owed in accordance with the contractual maturities of the respective issue.

New debentures issue

On February 4, 2018, the Company conducted the eighth (8th) issue of non-convertible and unsecured debentures, with personal guarantee, in a single series, for public distribution with limited placement efforts, in accordance with Instruction 476 issued by the Securities and Exchange Commission of Brazil (CVM), on January 16, 2009 ("Issue", "Limited Offer", "Debentures", "CVM Instruction 476", respectively), in the aggregate amount of one billion and four hundred million reais (R$1,400,000), whose proceeds will be used to settle the promissory notes.

34. APPROVAL OF FINANCIAL STATEMENTS

The Company's financial statements were approved by the Board of Directors and authorized for issue at the meeting held on March 14, 2018.