# Individual and Consolidated Interim Financial Statements

## Natura Cosméticos S.A.

For the quarter ended March 31, 2014

**Natura Cosméticos S.A.**

Individual and consolidated interim financial information

For the quarter ended March 31, 2014

Contents

Independent auditor's report on review of quarterly information ..... 1

Reviewed financial statements

Balance sheet ..... 3
Statements of income ..... 4
Statements of comprehensive income ..... 5
Statements of changes in shareholders' equity ..... 6
Statements of cash flows ..... 7
Statements of value added ..... 8
Notes to financial statements ..... 9

(A free translation from Portuguese into English of Individual Interim Financial Information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, and of Consolidated Interim Financial Information prepared in Brazilian currency in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB and accounting practices adopted in Brazil)

# Report on review of quarterly information

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

**Introduction**

We reviewed the accompanying individual and consolidated interim financial information of Natura Cosméticos S.A. and subsidiaries ("Company"), included in the Quarterly Information Form (ITR) for the quarter ended March 31, 2014, comprising the balance sheet as of March 31, 2014, the related income statement, the statement of comprehensive income and the statement of changes in equity and cash flows for the three-month period then ended, and the explanatory notes.

Management is responsible for the preparation of these individual interim financial information in accordance with Accounting Pronouncement CPC 21(R1) – Interim Financial Information and of the consolidated interim financial information in accordance with CPC 21(R1) and with IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB, as well as for the fair presentation of this information in conformity with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

**Scope of review**

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The scope of a review is significantly narrower than an audit conducted in accordance with Brazilian and International Standards on Auditing and, consequently , does not enable us to obtain assurance that we would become aware of all significant matters that might have be identified in an audit. Therefore, we do not express an audit opinion.

**Conclusion on the individual interim financial information**

Based on our review, nothing came to our attention that causes us to believe that the accompanying individual interim financial information included in the quarterly information referred to above is not fairly presented, in all material respects, in accordance with CPC 21(R1) applicable to the preparation of Quarterly Financial Information (ITR), consistently with the standards issued by the Brazilian Securities Commission (CVM).

**Conclusion on the consolidated interim financial information**

Based on our review, nothing came to our attention that causes us to believe that the accompanying consolidated interim financial information included in the quarterly information referred to above is not fairly presented, in all material respects, in accordance with CPC 21(R1) and IAS 34 applicable to the preparation of Quarterly Financial Information (ITR), consistently with the standards issued by the Brazilian Securities Commission (CVM).

**Other matters**

**Statements of value added**

We have also reviewed the individual and consolidated statements of value added for the three-month period ended March 31, 2014, prepared under the responsibility of management, the presentation of which in the interim financial information is required by rules issued by the Brazilian Securities Commission (CVM) applicable to the preparation of Quarterly Financial Information (ITR), and as supplementary information by IFRS, whereby no statement of value added presentation is required. These statements have been subjected to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, in accordance with the overall accompanying interim individual and consolidated financial information.

São Paulo, April 23, 2014.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Drayton Teixeira de Melo
Accountant CRC-1SP236947/O-3

Alessandra Aur Raso
Accountant CRC-1SP248878/O-7

(A free translation from Portuguese into English of Individual Interim Financial Information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, and of Consolidated Interim Financial Information prepared in Brazilian currency in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB and accounting practices adopted in Brazil)

NATURA COSMÉTICOS S.A.

'BALANCE SHEETS AS OF MARCH 31, 2014 AND DECEMBER 31, 2013
(In thousands of Brazilian reais - R$)

| | | Company ( BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|---|---|---|---|---|
| ASSETS | Note | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 5 | 65,867 | 99,535 | 1,379,626 | 1,016,293 |
| Short-term investments | 6 | 1,374,078 | 927,202 | 401,793 | 293,015 |
| Trade receivables | 7 | 621,053 | 668,903 | 752,966 | 807,001 |
| Inventories | 8 | 236,344 | 162,290 | 912,847 | 799,521 |
| Recoverable taxes | 9 | 23,104 | 23,800 | 182,999 | 181,104 |
| Related parties | 28 | 6,617 | 9,369 | - | - |
| Derivatives | 4.2. | 95,378 | 163,732 | 85,825 | 153,634 |
| Other receivables | 12 | 193,675 | 184,185 | 261,007 | 262,365 |
| Total current assets | | 2,616,116 | 2,239,016 | 3,977,063 | 3,512,933 |
| NONCURRENT ASSETS | | | | | |
| Long-term assets: | | | | | |
| Recoverable taxes | 9 | 24,286 | 24,660 | 187,064 | 175,062 |
| Deferred income tax and social contribution | 10.a) | 80,748 | 56,038 | 220,523 | 193,767 |
| Escrow deposits | 11 | 333,527 | 321,514 | 426,537 | 412,404 |
| Other noncurrent assets | 12 | 11,079 | 19,057 | 29,061 | 37,165 |
| Investments | 13 | 1,515,101 | 1,522,921 | - | - |
| Property, plant and equipment | 14 | 542,468 | 551,696 | 1,539,160 | 1,439,704 |
| Intangible assets | 14 | 328,587 | 303,866 | 514,743 | 477,286 |
| Total noncurrent assets | | 2,835,796 | 2,799,752 | 2,917,088 | 2,735,388 |
| TOTAL ASSETS | | 5,451,912 | 5,038,768 | 6,894,151 | 6,248,321 |

| | | Company ( BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|---|---|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| CURRENT LIABILITIES | | | | | |
| Borrowings and financing | 15 | 641,884 | 576,841 | 759,683 | 693,117 |
| Trade and other payables | 16 | 189,459 | 271,722 | 666,811 | 706,586 |
| Suppliers - related parties | 28.1. | 220,894 | 276,518 | - | - |
| Payroll, profit sharing and related taxes | | 84,258 | 99,247 | 151,638 | 177,636 |
| Taxes payable | 17 | 341,428 | 397,642 | 596,097 | 659,309 |
| Other payables | | 46,000 | 52,775 | 62,400 | 90,192 |
| Total current liabilities | | 1,523,923 | 1,674,745 | 2,236,629 | 2,326,840 |
| NONCURRENT LIABILITIES | | | | | |
| Borrowings and financing | 15 | 2,282,940 | 1,828,351 | 2,821,865 | 2,200,789 |
| Taxes payable | 17 | 149,962 | 141,411 | 225,570 | 215,647 |
| Provision for tax, civil and labor risks | 18 | 53,865 | 50,859 | 77,117 | 73,829 |
| Provision for acquisition of non-controlling interest | 19 a. | 144,764 | 141,600 | 144,764 | 141,600 |
| Others provisions | 19 b. | 46,930 | 56,165 | 114,162 | 121,366 |
| Total noncurrent liabilities | | 2,678,461 | 2,218,386 | 3,383,478 | 2,753,231 |
| SHAREHOLDERS' EQUITY | | | | | |
| Capital | 20.a) | 427,073 | 427,073 | 427,073 | 427,073 |
| Treasury shares | 20.c) | (70,990) | (83,984) | (70,990) | (83,984) |
| Capital reserves | | 148,281 | 150,442 | 148,281 | 150,442 |
| Earnings reserves | | 280,375 | 162,612 | 280,375 | 162,612 |
| Proposed additional dividend | 20.b) | 496,393 | 496,393 | 496,393 | 496,393 |
| Other comprehensive losses | | (31,604) | (6,899) | (31,604) | (6,899) |
| | | 1,249,528 | 1,145,637 | 1,249,528 | 1,145,637 |
| Total equity attributable to owners of the Company | | | | | |
| Noncontrolling interests | | - | - | 24,516 | 22,613 |
| Total shareholders' equity | | 1,249,528 | 1,145,637 | 1,274,044 | 1,168,250 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 5,451,912 | 5,038,768 | 6,894,151 | 6,248,321 |

The notes are an integral part of these statements.

(A free translation from Portuguese into English of Individual Interim Financial Information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, and of Consolidated Interim Financial Information prepared in Brazilian currency in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB and accounting practices adopted in Brazil)

NATURA COSMÉTICOS S.A.

STATEMENTS OF INCOME
FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013
(In thousands of Brazilian reais - R$, except earnings per share)

| | Note | Company ( BR GAAP) | | Consolidated (BR GAAP e IFRS) | |
|---|---|---|---|---|---|
| | | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| GROSS SALES | | | | | |
| To domestic market | | 1,733,611 | 1,597,282 | 1,733,841 | 1,596,151 |
| To foreign market | | - | - | 351,061 | 236,001 |
| Other sales | | 32 | - | 348 | 219 |
| GROSS OPERATING REVENUE | | 1,733,643 | 1,597,282 | 2,085,250 | 1,832,371 |
| Taxes on sales, returns and rebates | | (362,036) | (335,503) | (529,037) | (481,091) |
| NET REVENUE | 22 | 1,371,607 | 1,261,779 | 1,556,213 | 1,351,280 |
| Cost of sales | 23 | (505,096) | (458,143) | (466,539) | (403,939) |
| GROSS PROFIT | | 866,511 | 801,826 | 1,089,674 | 947,341 |
| OPERATING (EXPENSES) INCOME | | | | | |
| Selling, Marketing and Logistics expenses | 23 | (471,191) | (368,897) | (602,718) | (503,457) |
| Administrative, P&D, IT and Project Expenses | 23 | (193,916) | (219,908) | (271,090) | (223,772) |
| Equity in subsidiaries | 13 | (1,763) | (6,275) | - | - |
| Other operating (expenses) income, net | 26 | 2,654 | (1,663) | 11,258 | (289) |
| INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EX | | 202,295 | 206,893 | 227,124 | 219,823 |
| Financial income | 25 | 112,960 | 57,543 | 124,003 | 66,225 |
| Financial expenses | 25 | (146,396) | (86,941) | (175,896) | (104,018) |
| INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION | | 168,859 | 177,495 | 175,231 | 182,030 |
| Income tax and social contribution | 10.b) | (51,699) | (52,861) | (57,125) | (57,396) |
| NET INCOME | | 117,160 | 124,634 | 118,106 | 124,634 |
| ATTRIBUTABLE TO | | | | | |
| Owners of the Company | | 117,160 | 124,634 | 117,160 | 124,813 |
| Noncontrolling | | - | - | 946 | (179) |
| | | 117,160 | 124,634 | 118,106 | 124,634 |
| EARNINGS PER SHARE - R$ | | | | | |
| Basic | 27.1. | 0.2730 | 0.2904 | 0.2730 | 0.2903 |
| Diluted | 27.2. | 0.2725 | 0.2893 | 0.2725 | 0.2893 |

(Convenience Translation into English from the Original Previously Issued in Portuguese)
NATURA COSMÉTICOS S.A.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013
(In thousands of Brazilian reais - R$)

| | Note | Company ( BR GAAP) | | Consolidated (BR GAAP e IFRS) | |
|---|---|---|---|---|---|
| | | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| NET INCOME | | 117,160 | 124,634 | 117,160 | 124,634 |
| Other comprehensive losses- | | | | | |
| Losses from translation of financial statements of foreign subsidiaries | 13 | (24,705) | 359 | (24,705) | 359 |
| | | 92,455 | 124,993 | 92,455 | 124,993 |
| ATTRIBUTABLE TO | | | | | |
| Owners of the Company | | 92,455 | 124,993 | 91,509 | 125,172 |
| Noncontrolling | | - | - | 946 | (179) |
| | | 92,455 | 124,993 | 92,455 | 124,993 |

DEMONSTRAÇÕES DAS MUTAÇÕES DO PATRIMÔNIO LÍQUIDO
(Convenience Translation into English from the Original Previously Issued in Portuguese)
NATURA COSMÉTICOS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013
(In thousands of Brazilian reais - R$, except for dividends per share)

| | | | | Capital reserves | | | Earnings reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Capital | Treasury shares | Share premium | Tax incentive reserve Investment grants | Additional paid-in capital | Legal | Tax incentives | Reserve for acquisition of minority interest | Retained earnings | Retained earnings | Proposed additional dividend | Other comprehensive losses | Equity attributable to owners of the Company | Noncontrolling interests in subsidiaries' equity | Total shareholders' equity |
| BALANCES AS OF DECEMBER 2012 | | 427,073 | (66,105) | 97,333 | 17,378 | 41,194 | 18,650 | 20,957 | - | 272,062 | - | 491,343 | (32,449) | 1,287,436 | 1 | 1,287,437 |
| Net income | | - | - | - | - | - | - | - | - | - | 124,634 | - | - | 124,634 | - | 124,634 |
| Other comprehensive income | 13 | - | - | - | - | - | - | - | - | - | - | - | 359 | 359 | - | 359 |
| Total comprehensive income | | - | - | - | - | - | - | - | - | - | 124,634 | - | 359 | 124,993 | - | 124,993 |
| 2012 Dividends and interest on capital approved at the Annual Shareholders' Meeting of | | - | - | - | - | - | - | - | - | - | - | (491,343) | - | (491,343) | - | (491,343) |
| Sale of treasury shares by exercise of options to purchase shares | 20.c) | - | 11,804 | (889) | - | - | - | - | - | - | - | - | - | 10,915 | - | 10,915 |
| Changes in stock option plans of actions: | | | | | | | | | | | | | | | | |
| Grant of stock options | 24.1. | - | - | - | - | 3,375 | - | - | - | - | - | - | - | 3,375 | - | 3,375 |
| Exercise of stock options | 24.1. | - | - | - | - | (2,885) | - | - | - | 2,885 | - | - | - | - | - | - |
| Reserve for acquisition of non - controlling | | | | | | | | | (83,153) | | | | | (83,153) | | (83,153) |
| Total equity attributable to owners of the Company | | - | - | - | - | - | - | - | - | - | - | - | - | - | 18,729 | 18,729 |
| BALANCES AS OF MARCH 31, 2013 | | 427,073 | (54,301) | 96,444 | 17,378 | 41,684 | 18,650 | 20,957 | (83,153) | 271,357 | 124,634 | - | (9,840) | 870,883 | 18,730 | 889,613 |
| BALANCES AS OF DECEMBER 31, 2013 | | 427,073 | (83,984) | 90,580 | 17,378 | 44,061 | 18,650 | 20,957 | (141,640) | 263,068 | - | 496,393 | (6,899) | 1,145,637 | 22,613 | 1,168,250 |
| Net income | | - | - | - | - | - | - | - | - | - | 117,160 | - | - | 117,160 | - | 117,160 |
| Other comprehensive income | 13 | - | - | - | - | - | - | - | - | - | - | - | (24,705) | (24,705) | - | (24,705) |
| Total comprehensive income for the year | | - | - | - | - | - | - | - | - | - | 117,160 | - | (24,705) | 92,455 | - | 92,455 |
| 2013 Dividends and interest on shareholders' equity for the period 2013 approved at the | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sale of treasury shares for the period of options to purchase shares | 20.d) | - | 12,994 | (4,097) | - | - | - | - | - | - | - | - | - | 8,897 | - | 8,897 |
| Changes in stock option plans of actions: | | | | | | | | | | | | | | | | |
| Grant of stock options | 24.1. | - | - | - | - | 2,539 | - | - | - | - | - | - | - | 2,539 | - | 2,539 |
| Exercise of stock options | 24.1. | - | - | - | - | (2,180) | - | - | - | 2,180 | - | - | - | - | - | - |
| Reserve for acquisition of minority interest | 19.b) | | | | | | | | (3,124) | | 3,124 | | | - | | - |
| Minority interest in shareholders' equity of subsidiaries | | - | - | - | - | - | - | - | - | - | | - | - | - | 1,903 | 1,903 |
| BALANCES AS OF MARCH 31, 2014 | | 427,073 | (70,990) | 86,483 | 17,378 | 44,420 | 18,650 | 20,957 | (144,764) | 265,248 | 120,284 | 496,393 | (31,604) | 1,249,528 | 24,516 | 1,274,044 |

(Convenience Translation into English from the Original Previously Issued in Portuguese)
NATURA COSMÉTICOS S.A.

STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013
(In thousands of Brazilian reais - R$)

| | Note | Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | |
| Net income | | 117,160 | 124,634 | 117,160 | 124,634 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 14 | 30,542 | 22,605 | 56,512 | 42,068 |
| Provision (reversal ) for losses on transactions with derivative contracts " swap " and "forward " | | 78,605 | 51,749 | 40,041 | 50,571 |
| Provision (reversal ) for tax, civil and labor contingencies | 18 | 3,006 | 28 | 3,288 | (1,956) |
| Monetary restatement of escrow deposits | | (6,087) | (2,696) | (8,233) | (3,766) |
| Income tax and social contribution | 10.a) | 51,699 | 52,861 | 57,125 | 56,966 |
| Loss on sale and disposal of fixed and intangible assets | | 4,471 | 628 | 19,368 | 7,074 |
| Equity income | | 1,763 | 6,275 | - | - |
| Interest and exchange variation on loans and financing | 25 | (52,678) | (8,789) | (41,295) | (5,297) |
| Exchange variation on other assets and liabilities | | 1,281 | 461 | (25,026) | 1,216 |
| Expenses related to the grant of options to purchase shares | | 1,849 | 1,157 | 2,539 | 3,376 |
| Provision ( reversal) for doubtful accounts | 7 | 4,418 | (8,190) | 6,074 | (7,831) |
| Provision (reversal ) for losses on inventories | 8 | (2,385) | (7,971) | (7,535) | 3,375 |
| Provision of health care plan and carbon credits | 19 | 351 | (989) | 823 | (989) |
| Net income attributable to non-controlling | | - | - | 1,903 | - |
| Belated recognition of tax credit | | - | - | (6,231) | - |
| Provision for acquisition of non-controlling interest | | 3,164 | - | 3,164 | - |
| | | 237,159 | 231,763 | 219,677 | 269,441 |
| (INCREASE) DECREASE IN ASSETS | | | | | |
| Trade receivables | | 43,432 | 40,366 | 47,961 | 55,030 |
| Inventories | | (71,669) | (46,521) | (105,791) | (107,849) |
| Recoverable taxes | | 1,070 | (8,514) | (7,666) | (32,367) |
| Other receivables | | 1,240 | (13,014) | 9,462 | (72,082) |
| Subtotal | | (25,927) | (27,683) | (56,034) | (157,268) |
| INCREASE (DECREASE) IN LIABILITIES | | | | | |
| Domestic and foreign suppliers | | (83,460) | (39,572) | (41,018) | (25,907) |
| Payroll, profit sharing and related taxes, net | | (14,989) | (32,202) | (25,998) | (60,699) |
| Taxes payable | | (24,052) | (21,252) | (19,492) | (11,542) |
| Other payables | | (62,939) | 19,076 | (28,484) | 40,649 |
| Payments of provision for tax, civil and labor contingencies | | - | (912) | - | (977) |
| Subtotal | | (185,440) | (74,862) | (114,992) | (58,476) |
| CASH GENERATED BY OPERATING ACTIVITIES | | 25,792 | 129,219 | 48,651 | 53,697 |
| OUTROS FLUXOS DE CAIXA DAS ATIVIDADES OPERACIONAIS | | | | | |
| Payments of income tax and social contribution | | (100,020) | (60,499) | (117,678) | (88,979) |
| Payments of derivatives | | (10,251) | (23,942) | 27,768 | (23,963) |
| Withdrawal (payment) of escrow deposits | | (5,926) | (12,857) | (5,900) | (14,214) |
| Payment of interest on borrowings and financing | | (13,894) | (14,096) | (26,486) | (14,096) |
| NET CASH GENERATED BY OPERATING ACTIVITIES | | (104,299) | 17,825 | (73,645) | (87,555) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| Acquisition of property, plant and equipment and intangible assets | 14 | (50,506) | (21,663) | (134,553) | (60,749) |
| Proceeds from sale of property, plant and equipment and intangible assets | | - | 1,085 | - | 1,085 |
| Short-term investments | | (1,085,334) | 547,244 | (1,524,701) | 962,349 |
| Redemption of short-term investments | | 638,458 | (429,562) | 1,415,923 | (770,117) |
| Dividends received from subsidiaries | | - | 16,080 | - | - |
| Capital increase in subsidiaries | 13 | (18,042) | (152,558) | - | - |
| Noncontrolling interest | | - | - | - | 18,730 |
| NET CASH USED IN INVESTING ACTIVITIES | | (515,424) | (39,374) | (243,331) | 22,156 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| Repayments of borrowings and financing - principal | | (28,190) | (24,843) | (59,769) | (56,443) |
| Proceeds from borrowings and financing | | 605,348 | 17,871 | 729,618 | 196,099 |
| Sale of treasury shares due to exercise of stock options | | 8,897 | 10,915 | 8,897 | 10,915 |
| NET CASH GENERATED (USED) IN FINANCING ACTIVITIES | | 586,055 | 3,943 | 678,746 | 150,571 |
| Gains (losses) arising on translating foreign currency cash and cash equivalents | | - | - | 1,564 | - |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | (33,668) | (17,607) | 363,334 | 85,172 |
| Cash and cash equivalents at the beginning of the year/period | | 99,535 | 72,767 | 1,016,292 | 1,144,390 |
| Cash and cash equivalents at the end of the year/period | | 65,867 | 55,160 | 1,379,626 | 1,229,562 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | (33,668) | (17,607) | 363,334 | 85,172 |
| ADDITIONAL STATEMENTS OF CASH FLOWS INFORMATION: | | | | | |
| Limites de contas garantidas sem utilização | | 117,900 | 117,900 | 117,900 | 117,900 |
| Bank overdrafts - unused | | | | | |
| Non cash itens | | | | | |
| Capitalization of financial leasing | | 78,240 | 171,800 | 78,240 | 171,800 |

(Convenience Translation into English from the Original Previously Issued in Portuguese)
NATURA COSMÉTICOS S.A.

STATEMENTS OF VALUE ADDED
FOR THE QUARTERS ENDED MARCH 31, 2014 AND 2013
(In thousands of Brazilian reais - R$)

| | Note | Company ( BR GAAP) 03/2014 | | Company ( BR GAAP) 03/2013 | | Consolidated (BR GAAP) 03/2014 | | Consolidated (BR GAAP) 03/2013 | |
|---|---|---|---|---|---|---|---|---|---|
| REVENUES | | 1,701,357 | | 1,565,933 | | 2,056,982 | | 1,819,025 | |
| Sales of products and services | | 1,731,414 | | 1,592,869 | | 2,087,836 | | 1,849,538 | |
| Allowance for doubtful accounts | 7 | (32,711) | | (25,273) | | (42,112) | | (30,224) | |
| Other operating (expenses) income, net | 26 | 2,654 | | (1,663) | | 11,258 | | (289) | |
| INPUTS PURCHASED FROM THIRD PARTIES | | (1,043,460) | | (978,206) | | (1,070,974) | | (1,105,935) | |
| Cost of sales and services | | (575,160) | | (556,298) | | (504,414) | | (717,184) | |
| Materials, electricity, services and others | | (468,300) | | (421,908) | | (566,560) | | (388,751) | |
| GROSS VALUE ADDED | | 657,897 | | 587,727 | | 986,008 | | 713,090 | |
| RETENTIONS | | (30,542) | | (22,605) | | (56,512) | | (42,068) | |
| Depreciation and amortization | 14 | (30,542) | | (22,605) | | (56,512) | | (42,068) | |
| VALUE ADDED GENERATED BY THE COMPANY | | 627,355 | | 565,122 | | 929,496 | | 671,022 | |
| TRANSFERRED VALUE ADDED | | 111,198 | | 50,404 | | 124,003 | | 66,225 | |
| Equity in subsidiaries | 13 | (1,762) | | (7,138) | | - | | - | |
| Financial income - includes inflation and exchange rate variations | 25 | 112,960 | | 57,542 | | 124,003 | | 66,225 | |
| TOTAL VALUE ADDED TO BE DISTRIBUTED | | 738,553 | | 615,526 | | 1,053,499 | | 737,247 | |
| DISTRIBUTION OF VALUE ADDED: | | (738,553) | 100% | (615,526) | 100% | (1,053,499) | 100% | (737,247) | 100% |
| Employees and social charges | | (106,788) | 14% | (85,751) | 14% | (250,083) | 24% | (213,034) | 29% |
| Taxes and contributions | | (360,009) | 49% | (312,184) | 51% | (495,389) | 47% | (285,770) | 38% |
| Financial expenses and rentals | | (154,596) | 21% | (92,957) | 15% | (189,921) | 18% | (113,809) | 15% |
| Net income atrtributable to Noncontrolling | | - | | - | | (946) | 0% | 179 | 0% |
| Retained earnings | | (117,160) | 16% | (124,634) | 20% | (117,160) | 11% | (124,813) | 17% |

Supplemental statement of value added information

The amounts recorded under "Taxes and contributions" in March 2014 and 2013, the amounts of R$ $150,181 and R$ 137,865, respectively, refer to the Tax on Circulation of Goods and Services - Replacement Tax - ICMS - ST levied on the presumed profit margin defined by the State Finance Secretariats obtained from sales made by (the) Consultants (the) Natura for the end consumer.

For the analysis of this tax impact on value added statements, such amounts shall be deducted from those recorded under "Sales of goods, products and services" and the heading itself "Taxes and contributions", since the revenue figures of sales do not include the estimated profit of (the) Consultants (the) Natura sale of the products in the amounts of R$ 736,159 and R$ 673,810, in March 2014 and 2013, respectively, considering the estimated profit margin 30%.

## 1. GENERAL INFORMATION

Natura Cosméticos S.A. ("Company") is a publicly-traded company, registered in the special trading segment called "Novo Mercado" in the São Paulo Stock Exchange (BM&FBOVESPA), under the ticker "NATU3", and headquartered in São Paulo, Alexandre Colares Avenue, 1188, Vila Jaguara, Postal Code 05106-000, State of São Paulo.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

### 2.1. Statement of compliance and basis of preparation

The Company's interim financial information, include in the Interim Financial Information – ITR As of March 31, 2014, includes:

- The consolidated interim financial information prepared in accordance with CPC 21 – Interim Financial Information and IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board - IASB and presented in accordance with the standards established by the Brazilian Securities and Exchange Commission (CVM), applicable to the Interim Financial Information - ITR.

- The individual interim financial information prepared in accordance with CPC 21 – Interim Financial Information and presented in accordance with the standards established by the Brazilian Securities and Exchange Commission (CVM), applicable to the Interim Financial Information – ITR.

- The individual financial information includes investments in subsidiaries and joint ventures which are measured under the equity method, as required by the legislation prevailing in Brazil. Therefore, the individual financial information is not fully compliant with IFRS, which requires that these investments be stated at fair value or acquisition cost.

The interim financial information have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in

the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The main accounting practices adopted in preparing these interim financial statements were disclosed in note 2 to the annual consolidated financial statements of the Company for the year ended December 31, 2013, disclosed on February 12, 2014. These practices are consistent with those adopted in the prior reporting period.

Certain figures included in the financial statements of December 31, 2013 and presented here for comparative purposes have been reclassified for better comparability.

2.2. Consolidation

a) Subsidiaries and joint-controlled entities

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. In the applicable cases, the existence and the effect of potential voting rights, currently exercisable or convertible, are taken into consideration to determine if the company control another entity. Subsidiaries are fully consolidated from the date in which control is transferred to the Company and cease to be consolidated, when applicable, from the date that control ceases.

b) Companies include in the consolidated financial statements

| | Equity interest - % | |
|---|---|---|
| | 2014 | 2013 |
| Direct interest: | | |
| Indústria e Comércio de Cosméticos Natura Ltda. | 99.99 | 99.99 |
| Natura Biosphera Franqueadora Ltda. | 99.99 | - |
| Natura Cosméticos S.A. - Chile | 99.99 | 99.99 |
| Natura Cosméticos S.A. - Peru | 99.94 | 99.94 |
| Natura Cosméticos S.A. - Argentina | 99.97 | 99.97 |
| Natura Inovação e Tecnologia de Produtos Ltda. | 99.99 | 99.99 |
| Natura Cosméticos y Servicios de Mexico, S.A. de C.V. | 99.99 | 99.99 |
| Natura Cosméticos de Mexico, S.A. de C.V. | 99.99 | 99.99 |
| Natura Distribuidora de Mexico, S.A. de C.V. | 99.99 | 99.99 |
| Natura Cosméticos Ltda. - Colombia | 99.99 | 99.99 |
| Natura Cosméticos España S.L. - Spain | 100.00 | 100.00 |
| Natura (Brazil) International B.V. - The Netherlands | 100.00 | 100.00 |
| Natura Brazil PTY Ltd - Australia | 100.00 | 100.00 |
| Sintonia Investment Fund | - | 100.00 |
| Essencial Investment Fund | 100.00 | 100.00 |
| Indirect interest: | | |
| Via Indústria e Comércio de Cosméticos Natura Ltda.- | | |

| | Equity interest - % | |
|---|---|---|
| | 2014 | 2013 |
| Natura Logística e Serviços Ltda. | 99.99 | 99.99 |
| Via Natura Inovação e Tecnologia de Produtos Ltda.: | | |
| Natura Innovation et Technologie de Produits SAS - France | 100.00 | 100.00 |
| Via Natura (Brazil) International B.V. - The Netherlands: | | |
| Natura Brasil Inc. - USA – Delaware | 100.00 | 100.00 |
| Natura Europa SAS – France | 100.00 | 100.00 |
| Via Brasil Inc.- EUA - Delaware | | |
| Natura International Inc. – EUA – Nova York | 100.00 | 100.00 |
| Via Natura Brazil Pty Ltda - | | |
| Natura Cosmetics Australia Pty Ltd. – Australia | 100.00 | 100.00 |
| Via Natura Cosmetics Australia Pty Ltd.- Australia | | |
| Emeis Holdings Pty Lty - Australia | 65.00 | 65.00 |

The consolidated financial statements have been prepared based on the financial statements as of the same date and consistent with the Company's accounting policies. 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 equity and consolidated statement of income, respectively, under the caption "Noncontrolling interest".

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

- Indústria e Comércio de Cosméticos Natura Ltda.: engaged principally in the production and sale of Natura products to Natura Cosméticos S.A. - Brazil, Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Cosméticos Ltda. - Colombia, Natura Europa SAS - France, and Natura Cosméticos de Mexico S.A. de C.V..
- Natura Biosphera Franqueadora 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 Inovação e Tecnologia de Produtos Ltda.: it is engaged in product and technology development and market research. It is the only owner of Natura Innovation et Technologie de Products SAS - France, a research and technology satellite center opened in 2007 in Paris.
- 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 and its 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 controller of the Natura Europe SAS – France, Natura Brazil Inc. and Natura International Inc.
- Natura Logística e Serviços Ltda.: engaged in the provision of administrative and logistics services to Natura Group companies based in Brazil.
- Natura Innovation et Technologie de Produits SAS - France: engaged mainly in research activities developed for in vitro testing as an alternative to animals testing, for to the safety and efficiency of test active compounds, skincare products and new packaging materials.
- Natura Brazil Inc.: Holding controller of Natura International Inc.
- Natura International Inc: Holding controller of Natura Europe SAS.
- Natura Europa SAS - France: activities are concentrated in the purchase, sale, import, export and distribution of cosmetics, fragrances, and toiletries. On October 31, 2012, Natura Europa SAS has incorporated all the shares of Natura Brazil SAS.
- Natura Brazil Pty Ltd – Holding controller of Natura Cosmetics Australia Pty Ltd operations.
- Natura Cosmetics Australia Pty Ltd – Holding controller of Emeis Holdings Pty Ltd.
- Emeis Holdings Pty Ltda: Activities focused on developing manufacturing and marketing of premium cosmetics, which operates under the brand of “Aesop”.
- Essencial Investiment Fund: refer to fixed income funds of private credit.

2.3. New standards, amendments and interpretations to existing standards

a) Effective for periods beginning on or after January 1, 2014

- Investment Entities (Revisions of IFRS 10 IFRS 12 and IAS 27)

Provide an exception to the consolidation requirements for entities that meet the definition of investment entity in accordance with IFRS 10. This exception requires entities to record the investment of investments in subsidiaries at fair value in earnings. The Company does not expect these reviews to be relevant to its interim financial information, since none of its entities qualify as investment entity.

- IAS 32 Offsetting Financial Assets and Financial Liabilities - Revised IAS 32

These revisions clarify the meaning of "currently has a legally enforceable right off the recognized amounts" and the criteria that would make the settlement mechanisms not simultaneous clearing houses to qualify for compensation. The Company does not expect these reviews to be relevant in its interim financial information.

- IFRIC 21 Tributes.

IFRIC 21 clarifies when an entity should recognize a liability for a tax when the event that triggers payment occurs. For a tax that requires your payment originates due to the achievement of some metric, the interpretation indicates that no liability shall be recognized until the metric is achieved. The Company does not expect IFRIC 21 to have a material impact on its interim financial information.

- Replacement of IAS 39 Derivatives and Hedge Accounting Continued - Revised IAS 39

This review eases the discontinuation of hedge accounting when the renewal of a derivative designated as a hedge meets certain criteria. The Company did not renew its derivatives during the reviewed period.

a) Standards, interpretations and revised standards not yet effective and which were not early adopted by the Company:

- IFRS 9 Financial Instruments

IFRS 9 as issued reflects the first phase of the work of the IASB to replace IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The announcement was initially applied to fiscal years beginning on or after January 1, 2013, but the pronouncement Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, has postponed its term to January 1,
2015. In subsequent phases, the IASB will address issues such as accounting hedges and provision for losses of financial assets. The adoption of the first phase of IFRS 9 will have an impact on the classification and valuation of the Company's financial assets, but will not impact on the classification and measurement of financial liabilities. The Company will quantify the effect in conjunction with the effects of the remaining phases of the IASB's project, once the final rule is issued consolidated.

The Company intends to adopt those standards when they come into force by disseminating and recognizing the impact on the interim financial information that may occur when the application of such adoptions.

Considering the actual operations of the Company and its subsidiaries, management das not anticipate that these new standards and amendments will have any material effect in the interim financial information when initially adopted.

There are no other standards and interpretations issued but not yet adopted that, in management's opinion, have a significant impact on the income or equity issued by the Company.

## 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's management in the process of application of accounting policies.

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 follows:

a) Income tax, social contribution, and other taxes

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

b) Provision for tax, civil, and labor contingencies

The Company is a party to several lawsuits and administrative proceedings, as described in note 18. Provisions are recognized for all 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 outside legal counsel. Management believes that these provisions for tax, civil and labor contingencies are fairly presented in the financial statements.

c) Retirees' healthcare plan

The current amount of the retirees' 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 19a). The change in one of these estimates could impact the results presented.

d) Stock option plan

The stock option plan is measured at fair value on grant date and is expensed during the vesting period as a balancing item to "Additional paid-in capital", in shareholders' equity. At the end of the reporting period, the Company's management reviews its estimates on the number of options vesting based on the conditions fulfilled and, when applicable, recognizes in the income statement the effect arising from the revision of the initial estimates as a balancing item to shareholders' equity. The details are disclosed in note 24.1..

e) Fair Value measurement of contingent consideration

Contingent, from a business combination is measured at fair value at the acquisition date as part of the business combination. If the contingent consideration is classified a financial liability shall be subsequently remeasured to fair value at the balance sheet date. The fair value is based on discounted cash flow. The main assumptions consider the probability of achieving each objective and the discount factor.

f) Provision for acquisition of non-controlling interest

Reflects a Liability recorded as obligation signed the purchase and sale of non-controlling interest arising from a business combination and it is measured at fair value at the acquisition date, with subsequent adjustment by the remeasurement of the obligation should be recognized in the income statement.

## 4. FINANCIAL RISK MANAGEMENT

### 4.1 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 Treasury Committee and subsequently submitted to the analysis of the Audit Committee, the Executive Committee and the Board of Directors.

Risk management is performed by the Company's general treasury function, which is also responsible for approving the short-term investments and loan transactions conducted by the Group's subsidiaries.

### 4.2. Financial risk factors

The Group's activities expose them 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 risks

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

i) Foreign exchange risk

The Group is exposed to the foreign exchange risk arising from financial instruments denominated in currencies different from their functional currencies. To reduce this exposure, the Group implanted a policy to hedge against the foreign exchange risk that establishes exposure limits linked to this risk (Foreign Exchange Hedging Policy).

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

Exchange rate Protection Policy considers the values of foreign currency receivables and Payables balances of commitments already made and recorded in the financial statements from the operations of the Company and its subsidiaries, as well as future cash flows, with an average of six months, still not recorded in the balance sheet.

As of March 31, 2014 and of December 31, 2013, the Group is basically exposed to risks of fluctuations in the U.S. dollar. The subsidiary in Argentina is exposed to Real. To hedge against foreign exchange exposures, the Group contracts derivative (swaps) and non-deliverable forward (NDF) transactions. The Foreign Exchange Hedging Policy establishes that the derivatives contracted by the Group should limit loss due to exchange rate depreciation related to the net income estimated for the current year considering the expected depreciation of the Brazilian real against the U.S. dollar. This limit sets the cap on the maximum foreign exchange exposure that the Group can undertake in relation to the U.S. dollar.

As of March 31, 2014, the Company's and the consolidated balance sheets include accounts denominated in foreign currency which, in the aggregate, represent net liabilities of R$2,023,248 e R$2,032,195, respectively (R$2,096,564 and R$2,106,255 as of December 31, 2013, respectively). These accounts are substantially represented by borrowings and financing which, as of March 31, 2014 and December 31, 2013, are hedged by swap arrangements.

Derivatives to hedge foreign exchange risk

The Company classifies derivatives into "financial" and "operating". "Financial" derivatives include swaps or forwards contracted to hedge against the foreign

exchange risk associated with foreign-currency-denominated borrowings and financing. "Operating" derivatives (usually forwards) include derivatives contracted to hedge against the foreign exchange risk on the business's operating cash flows.

As of March 31, 2014, outstanding swap and forward contracts, with maturities between April 2014 and July 2020, were entered into the counterparties represented by the banks Bank of America (34%), HSBC (21%), Itaú (19%), Bradesco (9%), Citibank (9%), and Tokyo Bank (8%), broken down as follows:

## Financial swaps – Company

| | Principal | | Fair value | | Gain for the year | |
|---|---|---|---|---|---|---|
| Type of transaction | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Swap contracts (1) | | | | | | |
| Asset position: | | | | | | |
| Long position – U.S. dollar | 1,896,762 | 1,897,430 | 2,043,042 | 2,115,870 | 95,378 | 163,732 |
| Liability position: | | | | | | |
| CDI floating rate: | | | | | | |
| Short position in CDI | 1,896,762 | 1,897,430 | 1,947,664 | 1,952,138 | - | - |

## Financial swaps – Consolidated

| | Principal | | Fair value | | Gain for the year | |
|---|---|---|---|---|---|---|
| Type of transaction | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Swap contracts (1) | | | | | | |
| Asset position: | | | | | | |
| Long position – U.S. dollar | 1.906.002 | 1,907,095 | 2.053.478 | 2,127,095 | 96.789 | 165,569 |
| Liability position: | | | | | | |
| CDI floating rate: | | | | | | |
| Short position in CDI | 1.906.002 | 1,907,095 | 1.956.689 | 1,961,526 | - | - |

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

## Operating forwards - Company and consolidated

| | Notional amount | | Fair value | | Gain (loss) for the year | |
|---|---|---|---|---|---|---|
| Type of transaction | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Forward contracts (2): | | | | | | |
| Asset position: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Long position - Australian dollar | - | - | - | - | - | - |
| Real position of purchase | - | 7,500 | - | 6,346 | - | (1,154) |
| Liability position | | | | | | |
| Fixed rates: | | | | | | |
| Short position in Australian dollar | - | - | - | - | - | - |
| Real position of purchase | - | 7,500 | - | 7,500 | - | - |

(2) Forward transactions establish a future parity between the Brazilian real and the foreign currency based on their equivalence when contracted, adjusted by a fixed interest rate.

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 March 31, 2014 and December 31, 2012, due to the fact contracts are directly entered into with the financial institutions and not through São Paulo Stock Exchange (BM&FBOVESPA), there are no margin calls deposited as guarantee of the related transactions.

Sensitivity analysis

For the sensitivity analysis of derivatives, the Company's management understands it is necessary to take into consideration corresponding assets and liabilities with exposure to exchange rates recorded in the balance sheet.

| | Company | Consolidated |
|---|---|---|
| Loans and financing in foreign currency (*) | 2,023,248 | 2,032,195 |
| Receivables in foreign currency | - | (5,174) |
| Accounts payable in foreign currencies | 5,418 | 10,703 |
| Provision for acquisition of noncontrolling interests | 144,764 | 144,764 |
| Value of the "financial" derivatives | (2,020,767) | (2,031,822) |
| Net passive exposure | 152,663 | 150,666 |

The tables below show the gain (loss) that would have been recognized in profit or loss for the quarter ended March 31, 2014 based on the following scenarios:

| | Company | | | |
|---|---|---|---|---|
| Description | Company's risk | Probable scenario | Scenario II | Scenario III |
| Net liability exposure | Us dollar appreciation | (3,575) | (38,166) | (76,331) |

| | Consolidated | | | |
|---|---|---|---|---|
| Description | Company's | Probable | Scenario | Scenario |

| | risk | scenario | II | III |
|---|---|---|---|---|
| Net liability exposure | Us dollar appreciation | (3,529) | (37,666) | (75,333) |

The probable scenario considers future U.S. dollar rates obtained at BM&FBOVESPA for the maturity dates of the financial instruments exposed to foreign exchange risks. Scenarios II and III consider a 25% (R$ 2.83/US$1.00) and 50% (R$3.39/US$1.00) appreciation of U.S. dollar, 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 IFRS 7 – Financial Instruments: Disclosures.

The Group does not use derivatives for speculative purposes.

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.

Management believes that the risk of significant changes in the CDI and TJLP in the next 12 months is low taking into consideration the stability achieved with the current monetary policy implemented by the Federal Government, in addition to the history of adjustments in Brazilian policy rate over the past years. For this reason, the Company has not conduct derivative transactions to hedge against this risk.

The Group contracts swap transactions to mitigate risks on borrowing and financing transactions subject to an index other than CDI, TJLP or fixed rates, except for loans and financing contracted at fixed rates at levels below the current TJLP..

On March 31, 2014, consolidated balance sheet includes loans issued at higher fixed rates level TJLP represent a liability of R$205,582 (R$ 206,131 in December 31, 2013, there were loans issued at higher fixed rates TJLP). Such funding submitted in March 31, 2014, is protected derivative of the "swap".

Derivative instruments to hedge the risk of interest rate

On March 31, 2014, outstanding contracts "swap" mature between February 2016 and March 2016, were entered into with counterparties represented by Itaú (63%) and HSBC (37%) and are as follows.

Derivative "swap" – Consolidated

| | Notional amount | | Fair value | | Gain (loss) for the year | |
|---|---|---|---|---|---|---|
| Description | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| "swap" contracts (3): | | | | | | |
| Asset position: | | | | | | |
| Long position | | | | | | |
| Fixed rate | 202,500 | 202,500 | 194,573 | 195,107 | - | - |
| Liabilities position: | | | | | | |
| CDI rate post fixed: | | | | | | |
| Short position in CDI | 202,500 | 202,500 | 205,536 | 205,888 | (10,964) | (10,781) |

(3) The operations of financial "swap" involving the exchange of an interest rate pre-set by a related to a percentage of the variation of the Interbank Deposit Correction - postfix CDI.

Sensitivity analysis

As described in the foreign exchange risk section above, as of March 31, 2014 almost all foreign-currency-denominated borrowings and financing are hedged by swap arrangements that exchange the foreign-currency liability index for the CDI rate fluctuation, in light of the Company's policy to hedge such risks. The Company is, therefore, exposed to CDI fluctuation. The table below presents the exposure to interest rate risks of transactions pegged to CDI and TJLP, including derivative transactions:

| | Company | Consolidated |
|---|---|---|
| Total borrowings and financing - in local currency (note 15) | (901,576) | (1,486,924) |
| Derivatives pegged to CDI/TJLP | (2,023,248) | (2,032,195) |
| Short-term investments (notes 5 and 6) | 1,374,883 | 1,587,655 |
| Net liability exposure | (1,549,941) | (1,991,464) |

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 5 and 6).

The tables below show the loss (gain) that would have been recognized in profit or loss for the quarter ended March 31,2014 based on the following

scenarios:

| | | Company | | |
|---|---|---|---|---|
| Description | Company's risk | Probable scenario | Scenario II | Scenario III |
| Net liabilities | Interest rate increase | (3,100) | (40,880) | (81,759) |

| | | Consolidated | | |
|---|---|---|---|---|
| Description | Company's risk | Probable scenario | Scenario II | Scenario III |
| Net liabilities | Interest rate increase | (3,988) | (52,589) | (105,178) |

The probable scenario considers future interest rates obtained at BM&FBOVESPA 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% (13.2% per year) and 50% (25.8% per year), respectively.

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. Sales of the Group are made to a great number of sales representatives (Natura Beauty Consultants) and this risk is managed through a strict credit granting process. The result of this management is reflected in the 'Allowance for doubtful accounts', as explained in note 7.

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 Company's consolidated liquidity level considering the expected cash flows against unused credit facilities the carrying amounts of financial

liabilities are measured at amortized cost, and their corresponding maturities are as follows:

| Company as of March 31, 2014 | Less than one year | One to two years | Two to five years | More than five years | Fair value 2012 | Discount effect | Carrying amount 2012 |
|---|---|---|---|---|---|---|---|
| Current: | | | | | | | |
| Borrowings and financing | 727,656 | - | - | - | 727,656 | (85,772) | 641,884 |
| Trade payables | 395,941 | - | - | - | 395,941 | - | 395,941 |
| Financial instruments | 91,816 | - | - | - | 91,816 | 3,562 | 95,378 |
| Noncurrent: | | | | | | | |
| Borrowings and financing | - | 1,182,762 | 1,039,270 | 511,410 | 2,733,442 | (450,502) | 2,282,940 |

| Consolidated as of March 31, 2014 | Less than one year | One to two years | Two to five years | More than five years | Fair value 2012 | Discount effect | Carrying amount 2012 |
|---|---|---|---|---|---|---|---|
| Current: | | | | | | | |
| Borrowings and financing | 906,455 | - | - | - | 906,455 | (146,772) | 759,683 |
| Trade payables | 652,399 | - | - | - | 652,399 | - | 652,399 |
| Financial instruments | 93,002 | - | - | - | 93,002 | (7,177) | 85,825 |
| Noncurrent: | | | | | | | |
| Borrowings and financing | - | 1,357,462 | 1,383,287 | 718,041 | 3,458,790 | (636,925) | 2,821,865 |

## 4.3. 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 cost.

The Company monitors capital based on the financial leverage ratios. This ratio corresponds to the net debt divided by the total capital. 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. Net debt as shown below includes adjustments of derivative contracts to mitigate the foreign exchange risk.

The consolidated financial leverage ratios as of March 31, 2014 and December 31, 2013 are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Short- and long-term borrowings and financing | 2,924,824 | 2,405,192 | 3,581,548 | 2,893,906 |
| Derivative financial instruments | (95,378) | (163,732) | (85,825) | (153,634) |
| Cash and cash equivalents and Short-term investments | (1,439,945) | (1,026,737) | (1,781,419) | (1,309,308) |
| Net debt | 1,389,501 | 1,214,723 | 1,714,304 | 1,430,964 |
| Shareholders' equity | 1,249,528 | 1,145,637 | 1,274,044 | 1,168,250 |

| | | | | |
|---|---|---|---|---|
| Financial leverage ratio | 111,20% | 106,03% | 134,56% | 122,49% |

Loans and financing of short and long term are reflected in the values of government grant in March 31, 2014, R$6,499 and R$52,006, consolidated, and December 31, 2013, to R$15,495 the Parent Company and R$59,341, consolidated, in accordance with CPC 07 Grants and Government Assistance and IAS 20.

4.4. Fair value estimate

Financial instruments are measured at fair value at the end of the reporting period as prescribed by CPC 40 – Financial Instruments: Disclosures and according to the following hierarchy:

- 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 March 31, 2014 and December 31, 2013, the measurement of all the Company's and its subsidiaries' derivatives falls under the Level 2 characteristics. 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

Short-term investments

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

Borrowings and financing

The carrying amounts of borrowings and financing, except those pegged to a fixed rate, approximate 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 15.

Trade and other 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 subsidiaries do not have any guarantee for late.

Provision for acquisition of noncontrolling interests

The estimated amount of the obligation signed the purchased and sale must be adjusted at fair value at the acquisition date and it's subsequent adjustment incurred at the income statement.

## 5. CASH AND CASH EQUIVALENTS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Cash and banks | 65,062 | 85,410 | 193,765 | 240,390 |
| Certificates of deposits CDB (a) | 805 | 14,125 | 326,340 | 345,842 |
| Repurchase agreements (b) | - | - | 859,521 | 430,061 |
| | 65,867 | 99,535 | 1,379,626 | 1,016,293 |

(a) Investments in Bank Deposit Certificates are restated with yield interest ranging from 95.0% to 112.4% of CDI.

(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 fixed price (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.

## 6. SHORT-TERM INVESTMENTS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Exclusives investments funds | 1,360,836 | 927,202 | - | - |
| Investments funds | - | - | 33,611 | 25,254 |
| Certificates of deposits CDB (a) | 13,242 | - | 13,242 | - |
| Financial letters | - | - | 141,541 | 141,514 |
| Government security | - | - | 213,399 | 126,247 |
| | 1,374,078 | 927,202 | 401,793 | 293,015 |

(a) Investment in Bank Deposit Certificates are restated with yield interest ranging from

95,0% a 112,4% 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.

The Company focuses most of its investments in exclusive investment funds. On March 31, 2014 and December 31, 2013, the amount related to the exclusive investment fund is valued at fair value through profit or loss. According to CVM Instruction n. 408/04, the financial investments in Investment Funds in which the Company has an exclusive interest were consolidated.

The exclusive fund is as follow:

The Essential Investment Fund is a fund fixed income credit under private management, administration and custody of Itaú Unibanco. Eligible assets in the portfolio are: government securities, time deposits, financial bills and repurchase agreements. There is no grace period for redemption of shares that may be redeemed at any time yield.

Breakdown of the exclusive fund portfolio at March 31, 2014 is as follows:

| | Essencial |
|---|---|
| Floating rate bank certificates of deposits (CDBs) | 347,255 |
| Repurchase agreements | 859,521 |
| Financial letters | 141,541 |
| Government security (LFT) | 213,399 |
| | 1,561,716 |

## 7. TRADE RECEIVABLES

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Trade receivables | 705,094 | 748,526 | 858,957 | 906,918 |
| Allowance for doubtful accounts | (84,041) | (79,623) | (105,991) | (99,917) |
| | 621,053 | 668,903 | 752,966 | 807,001 |

The aging list of trade receivables is as follows:

| | Controladora | | Consolidado | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Current | 574,907 | 599,649 | 685,344 | 696,840 |

| | | | | |
|---|---|---|---|---|
| Past due: | | | | |
| Up to 30 days | 39,871 | 66,117 | 58,012 | 100,037 |
| 31 to 60 days | 20,642 | 22,726 | 25,702 | 27,654 |
| 61 to 90 days | 18,376 | 16,526 | 21,989 | 20,585 |
| 91 to 180 days | 51,298 | 43,508 | 67,910 | 61,802 |
| Allowance for doubtful accounts | (84,041) | (79,623) | (105,991) | (99,917) |
| | 621,053 | 668,903 | 752,966 | 807,001 |

The balance of trade receivables in Consolidated is basically denominated in Brazilian reais, and approximately 80% of the outstanding balance as of March 31, 2014 refers to real-denominated transactions (83% as of December 31, 2013). The remaining balance is denominated in several currencies and refers to sales of foreign subsidiaries.

The changes in the allowance for doubtful accounts for quarted ended March 31, 2014 and 2013 are as follows:

| Company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|
| Balance at 12/2013 | Additions (a) | Reversals (b) | Balance at 03/2014 | Balance at 12/2013 | Additions (a) | Reversals (b) | Balance at 03/2014 |
| (79,623) | (32,711) | 28,293 | (84,041) | (99,917) | (42,112) | 36,038 | (105,991) |

| Company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|
| Balance at 12/2012 | Additions (a) | Reversals (b) | Balance at 03/2013 | Balance at 12/2012 | Additions (a) | Reversals (b) | Balance at 03/2013 |
| (58,947) | (25,273) | 17,083 | (67,137) | (72,931) | (30,224) | 22,393 | (80,762) |

(a) Allowance recognized according to note 2.7, disclosed in note 2 to the annual consolidated financial statements of the Company for the year ended December 31, 2013, disclosed on February 12, 2014.

(b) Refers to accounts that are over 180 days past due that were written off due to uncollectible amounts.

The expense on the recognition of the allowance for doubtful accounts was recorded in 'Selling expenses' in the income statement. When recovery of additional cash is less than probable, the amounts credited to line item 'Allowance 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 allowance for doubtful accounts, as shown in the aging list above. The Group does not have any guarantee for past-due receivables.

## 8. INVENTORIES

| Company | Consolidated |
|---|---|

| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
|---|---|---|---|---|
| Finished products | 216,735 | 164,835 | 676,150 | 627,433 |
| Raw materials and packaging | - | - | 208,844 | 189,742 |
| Promotional material | 36,508 | 16,739 | 91,996 | 62,883 |
| Work in progress | - | - | 27,436 | 18,576 |
| Allowance for losses | (16,899) | (19,284) | (91,579) | (99,113) |
| | 236,344 | 162,290 | 912,847 | 799,521 |

The changes in the allowance for inventory losses for the quarter ended March 31,2014 and 2013 are as follows:

| Company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|
| Balance at 12/2013 | Additions (a) | Reversals (b) | Balance at 03/2014 | Balance at 12/2013 | Additions (a) | Reversals (b) | Balance at 03/2014 |
| (19,284) | 678 | 1,707 | (16,899) | (99,113) | (10,561) | 18,095 | (91,579) |

| Company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|
| Balance at 12/2012 | Additions (a) | Reversals (b) | Balance at 03/2013 | Balance at 12/2012 | Additions (a) | Reversals (b) | Balance at 03/2013 |
| (18,820) | (1,346) | 9,317 | (10,849) | (71,557) | (23,543) | 20,168 | (74,932) |

(a) Refer basically to the recognition of the allowance 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 Company.

## 9. RECOVERABLE TAXES

| | Controladora | | Consolidado | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| ICMS on purchases of goods | - | - | 234,535 | 218,058 |
| ICMS on tax incentives | 2,492 | 4,395 | 2,492 | 4,395 |
| Taxes - foreign subsidiaries | - | - | 33,363 | 38,187 |
| ICMS on purchases of fixed assets | 5,691 | 6,353 | 30,586 | 27,497 |
| PIS and COFINS on purchases of fixed assets | 18,750 | 18,943 | 27,506 | 20,166 |
| PIS and COFINS on purchase of goods | 21,005 | 17,678 | 23,412 | 24,027 |
| PIS and COFINS resulting from win on a lawsuit (a) | - | - | 7,881 | 7,881 |
| IRPJ and CSLL to compensate | 10 | 1,004 | 3,169 | 3,442 |
| PIS, COFINS and CSLL - withheld at source | - | - | 1,493 | 1,596 |
| Others | (558) | 87 | 6,171 | 11,510 |
| Provision for discount on sale of ICMS credits | - | - | (545) | (593) |
| | 47,390 | 48,460 | 370,063 | 356,166 |

| | | | | |
|---|---|---|---|---|
| Current | 23,104 | 23,800 | 182,999 | 181,104 |
| Noncurrent | 24,286 | 24,660 | 187,064 | 175,062 |

(a) 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. As the Company obtained authorization from the Federal Revenue of Brazil to offset credits of the parent after the transit and trial of the case in 2012, the accounting recognition of credit in the subsidiary remained until such approval is obtained.

## 10. 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 Company and in its subsidiaries. For certain subsidiaries was also recognized balance of deferred taxes on tax loss carryforwards.. These credits are kept recorded in noncurrent assets, The amounts are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Tax loss carryfowards | - | - | 11,657 | 10,430 |
| Allowance for doubtful accounts (note 7) | 28,837 | 27,072 | 28,837 | 27,072 |
| Allowance for losses on inventories realization (note 8) | 5,746 | 6,556 | 25,646 | 28,512 |
| Reserve for tax, civil and labor contingencies (note 18) | 18,244 | 17,164 | 41,129 | 39,699 |
| Non-inclusion of ICMS in the PIS and COFINS basis (note 18) | 699 | 689 | 63,197 | 60,116 |
| Allowance for losses on swap and forward contracts (note 25) | (32,429) | (55,669) | (29,180) | (52,628) |
| Provision for ICMS – ST, PR, DF, MS, MT and RJ States (note 17) | 22,014 | 20,195 | 22,014 | 20,195 |
| Allowances for losses on advances to suppliers | 3,162 | 1,982 | 3,914 | 2,703 |
| Accrued contractual obligations | 4,655 | 5,459 | 7,582 | 8,069 |
| Provision for discount on assignment of ICMS credits | - | - | 202 | 202 |
| Provisions for benefit sharing and partnerships | 6,893 | 8,133 | 6,893 | 8,133 |
| Temporary differences of foreign subsidiaries | - | - | 9,909 | 11,482 |
| Provision for profit sharing | 6,699 | 10,598 | 9,949 | 15,666 |
| Depreciation rate adjustments to useful lives (RTT) | (83) | (287) | (14,569) | (13,653) |
| Injunction interest provision (Interest CN's interest and goodwill amortization) | 7,270 | 6,315 | 7,270 | 6,315 |
| Allowance for Carbon Credit | 1,119 | 1,486 | 1,119 | 1,486 |
| INSS suspended | 793 | 779 | 3,362 | 3,139 |
| Allowance for losses with fixed assets | 2,718 | 2,718 | 4,028 | 4,028 |
| Other temporary differences | 4,411 | 2,848 | 17,564 | 12,801 |
| | 80,748 | 56,038 | 220,523 | 193,767 |

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

Tax credits will be realized as follows:

| | Company | Consolidated |
|---|---|---|

| | | |
|---|---|---|
| 2014 | 28,081 | 80,867 |
| 2015 | 9,094 | 27,393 |
| 2016 | 6,924 | 74,008 |
| 2017 and thereafter | 36,649 | 38,255 |
| | 80,748 | 220,523 |

With respect to the Company's foreign subsidiaries, except for the operation in Argentina and Peru which reports taxable income, the other subsidiaries do not record tax credits on tax loss carry forwards and temporary differences in their financial statements due to the absence of a history of taxable income and taxable income projections for the coming fiscal years.

As of March 31, 2014, tax credits calculated at the prevailing tax rates in the countries where the subsidiaries are located, are as follows:

Tax loss carry forwards:

| | |
|---|---|
| Mexico | 207,731 |
| Colombia | 110,722 |
| France | 165,598 |

Tax credits on tax loss carry forwards generated by the subsidiaries can be carried forward indefinitely, except for the subsidiary in Mexico, which expire the tax loss carry forwards as follows:

| | Mexico |
|---|---|
| 2015 | 12,495 |
| 2016 | 17,349 |
| 2017 to 2022 | 177,887 |
| | 207.731 |

b) Reconciliation of income tax and social contribution

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Income before income tax and social contribution | 168,859 | 177,495 | 175,231 | 182,030 |
| Income tax and social contribution at the rate of 34% | (57,412) | (60,348) | (59,579) | (61,890) |
| Technological research and innovation benefit - Law 11196/05 (a) | 4,524 | 4,637 | 4,524 | 4,637 |
| Tax incentives – donations | 1,478 | 1,220 | 1,684 | 1,383 |
| Equity in investees (note 13) | (599) | (2,134) | - | - |
| Unrecognized deferred taxes on tax losses generated by foreign subsidiaries | - | - | 3,011 | (2,879) |
| Tax Transition Regime (RTT) - Provisional Act 449/08 – Law 11,638/07 adjustments | (691) | (294) | (1,194) | (1,049) |
| Other permanent differences | 1,001 | 4,058 | (5,571) | 2,402 |

| | | | | |
|---|---|---|---|---|
| Income tax and social contribution expenses | (51,699) | (52,861) | (57,125) | (57,396) |
| Income tax and social contribution - current | (76,409) | (54,430) | (83,882) | (62,859) |
| Income tax and social contribution - deferred | 24,710 | 1,569 | 26,757 | 5,463 |
| Effective rate - % | 30.6 | 29.8 | 32.6 | 31.5 |

(a) Refers to the tax benefit established by Law 11196/05, which allows for the direct deduction from the calculation of taxable income and the social contribution tax basis of the amount corresponding to 60% of the total expenses on technological research and innovation, observing the rules established in said Law.

The changes in tax and social co were as follows:

| Company | | | Consolidated | | |
|---|---|---|---|---|---|
| Balance at 12/2013 | Charged/(credit) to profit or loss | Balance at 03/2014 | Balance at 12/2013 | Charged)/(credit) To profit or loss | Balance at 03/2014 |
| 56.038 | 24.710 | 80.748 | 193.767 | 26.756 | 220.523 |

## 11. ESCROW DEPOSITS

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

The Group's escrow deposits as of March 31, 2014 and December 31, 2013 are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| ICMS - ST (note 18.(a)) | 109,279 | 105,996 | 109,279 | 105,996 |
| ICMS - ST suspended collection (note 17 (b)) | 143,320 | 134,941 | 143,320 | 134,941 |
| Other accrued tax obligations (note 17 ((a) (d) (e) e (f)) | 6,641 | 6,469 | 82,249 | 80,706 |
| Other suspended tax obligations (noteº 18.(c)) | 11,815 | 11,704 | 11,815 | 11,704 |
| Unaccrued tax lawsuits | 45,815 | 43,479 | 58,220 | 54,322 |
| Accrued tax lawsuits (note 18) | 7,461 | 7,356 | 8,062 | 7,949 |
| Unaccrued civil lawsuits | 1,328 | 32 | 1,328 | 122 |
| Accrued civil lawsuits (note 18) | 958 | 2,078 | 2,997 | 2,194 |
| Unaccrued labor lawsuits | 3,869 | 4,750 | 6,226 | 7,456 |
| Accrued labor lawsuits (note 18) | 3,041 | 4,709 | 3,041 | 7,014 |
| | 333,527 | 321,514 | 426,537 | 412,404 |

## 12. OTHER CURRENT AND NONCURRENT ASSETS

| Controladora | Consolidado |
|---|---|

| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
|---|---|---|---|---|
| Advances to advertisement services | 153,363 | 151,913 | 164,568 | 164,150 |
| Advances to trade payables | 28,811 | 23,347 | 55,454 | 49,532 |
| Advances to employee | 5,707 | 6,043 | 8,669 | 8,559 |
| Insurance | 2,044 | 2,867 | 3,415 | 3,661 |
| Import taxes | - | 781 | 12,124 | 8,699 |
| Asset held for sale (a) | 4,413 | 4,413 | 22,165 | 22,165 |
| Carbon Credit (b) | 9,297 | 9,317 | 9,297 | 9,317 |
| Contingence Liability | - | - | - | 16,770 |
| Others | 1,119 | 4,561 | 14,376 | 16,677 |
| | 204,754 | 203,242 | 290,068 | 299,530 |
| Current | 193,675 | 184,185 | 261,007 | 262,365 |
| Non-current | 11,079 | 19,057 | 29,061 | 37,165 |

(a) This balance refers to assets which the company intends to sell one of the next 12 months as CPC 31-non-current assets held for sale (IFRS 5). These assets are measured at the lower value between the carrying amount and fair value less costs to sell. The company classifies these assets under this heading by considering selling highly probable and the assets are available for immediate sale in its present condition. Once classified as intended for sale, the assets are not depreciated or amortized.

(b) Carbon Neutral program, disclosed in note 2.10, to the annual consolidated financial statements of the Company for the year ended December 31, 2013, disclosed on February 12, 2014.

## 13. INVESTMENTS

| | Company | |
|---|---|---|
| | 03/2014 | 12/2013 |
| Investments in subsidiaries and jointly controlled entities | 1,515,101 | 1,522,921 |

## Information and changes in the balances for the quarter ended March 31,2014 and 2013

| | Indústria e Comércio de Cosméticos Natura Ltda. (*) | Natura Cosméticos S.A. - Chile | Natura Cosméticos S.A. - Peru | Natura Cosméticos S.A. - Argentina | Natura Cosméticos Ltda. - Venezuela | Natura Inovação e Tecnologia de Produtos Ltda. (*) | Natura Cosméticos de México S.A. (*) | Natura Cosméticos Ltda. - Colômbia | Natura (Brasil) International B.V. - Holanda (*) | Natura Cosméticos España S.L. | Natura Biosphera Franqueadora Ltda. | Natura Brasil Pty Ltd (*) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital | 427,073 | 116,599 | 48,498 | 70,417 | 5,443 | 5,008 | 248,752 | 123,047 | 38,089 | 606 | 300 | 154,284 | 1,238,116 |
| Equity interest | 99.99% | 99.99% | 99.94% | 99.97% | 99.99% | 99.99% | 99.99% | 99.99% | 100.00% | 100.00% | 99.99% | 100.00% | |
| Subsidiaries' shareholders' equity | 1,134,491 | 58,618 | 14,287 | 83,078 | 253 | 38,535 | 4,479 | 14,559 | 21,952 | 603 | 249 | 165,867 | 1,536,971 |
| Interest in shareholders' equity | 1,112,666 | 58,612 | 14,278 | 83,053 | 253 | 38,531 | 4 ,479 | 14,558 | 21,952 | 603 | 249 | 165,867 | 1,515,101 |
| Subsidiaries' net income (loss) for the year | (8,490) | 2,068 | (717) | 5,146 | - | 3,721 | (3,555) | (2,132) | (5,549) | - | 23 | 7,723 | (1,762) |
| Carrying amount of investments | | | | | | | | | | | | | |
| Balance as of December, 2012 | 1,101,623 | 36,533 | 5,466 | 80,538 | 334 | 30,801 | 30,213 | 10,862 | 10,283 | 142 | 89 | - | 1,306,884 |
| Equity in investees | 90,883 | 24,887 | (8,760) | 30,549 | - | 17,456 | (25,724) | (15,385) | (18,199) | - | (63) | 3,893 | 99,537 |
| Exchange rate change and other adjustments on the translation of investments in foreign subsidiaries | 49 | 1,117 | (144) | (13,723) | (72) | 776 | 3,737 | 362 | 2,174 | - | - | 5,391 | (333) |
| Company's contribution to the stock options plan of subsidiaries' executives and other reserves | 3,323 | - | - | - | - | 1,837 | - | - | - | - | - | | 5,160 |
| Gain/Losses actuarial | 4,679 | | | | | 200 | | | | | | | 4,879 |
| Profit distribution | (80,000) | - | - | - | - | (16,080) | - | - | - | - | - | | (96,080) |
| Capital increases | - | - | 19,006 | 2,281 | - | - | - | 11,210 | 21,348 | 464 | - | 148,565 | 202,874 |
| Balance as of December, 2013 | 1,120,557 | 62,537 | 15,568 | 99,645 | 262 | 34,990 | 8,226 | 7,049 | 15,606 | 606 | 26 | 157,849 | 1,522,921 |
| Equity in investees | (8,489) | 2,068 | (717) | 5,144 | - | 3,721 | (3,555) | (2,132) | (5,549) | - | 23 | 7,723 | (1,763) |
| Exchange rate change and other adjustments on the translation of investments in foreign subsidiaries | (102) | (5,993) | (573) | (21,736) | (9) | (170) | (192) | (661) | 4,438 | (3) | - | 295 | (24,706) |
| Company's contribution to the stock options plan of subsidiaries' executives and other reserves | 700 | - | - | - | - | (10) | - | - | - | - | - | - | 690 |
| Capital increases | - | - | - | - | - | - | - | 10,302 | 7,457 | - | 200 | - | 17,959 |
| Balance as of March, 2014 | 1,112,666 | 58,612 | 14,278 | 83,053 | 253 | 38,531 | 4,479 | 14,558 | 21,952 | 603 | 249 | 165,867 | 1,515,101 |

(*) Consolidated information of the following companies:

Natura Cosméticos de México S.A.: Natura Cosméticos y Servicios de México, S.A. de C.V., Natura Cosméticos de México, S.A. de C.V. and Natura Distribuidora de México, S.A. de C.V.
Natura (Brasil) International B.V. - The Netherlands: Natura (Brazil) International B.V. (The Netherlands), Natura Brazil Inc. (USA - Delaware), Natura International Inc. (USA - New York),

Natura Europa SAS (France) and Natura Brasil SAS (France).
Natura Inovação e Tecnologia de Produtos Ltda.: Ybios S.A (until June 29, 2012) and Natura Innovation et Technologie Produits S.A.S. - France

[this page intentionally left blank]

# 14. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | Weighted average annual depreciation rate - % | December, 31 of 2013 | Addiction | Derecognition | Reclassification /capitalization | March, 31 of 2014 |
| **Cost Value:** | | | | | | |
| Vehicles | 21 | 44,489 | 946 | (1,246) | - | 44,189 |
| Machinery and equipment | 6 | 192,012 | 2,425 | (3,189) | 6,174 | 197,422 |
| improvements in third party properties | 15 | 61,672 | 1 | - | 267 | 61,940 |
| Buildings | 15 | 242,817 | - | - | - | 242,817 |
| Furniture and fixtures | 7 | 14,151 | 13 | (24) | (689) | 13,451 |
| IT equipment | 18 | 79,678 | 41 | (11) | 2,467 | 82,175 |
| Projects in progress | - | 28,941 | 37,597 | - | (41,145) | 25,393 |
| **Total cost value** | | 663,760 | 41,023 | (4,470) | (32,926) | 667,387 |
| **depreciation** | | | | | | |
| Vehicles | 21 | (18,061) | (2,867) | 557 | - | (20,371) |
| Machinery and equipment | 6 | (30,981) | (4,564) | 759 | (2) | (34,788) |
| improvements in third party properties | 15 | (21,212) | (1,039) | - | - | (22,251) |
| Buildings | 15 | (2,537) | (1,163) | - | - | (3,700) |
| Furniture and fixtures | 7 | (3,711) | (258) | 2 | 2 | (3,965) |
| IT equipment | 18 | (35,562) | (4,283) | 5 | (4) | (39,844) |
| Projects in progress | - | - | - | - | - | - |
| **Total deprecition** | | (112,064) | (14,174) | 1,323 | (4) | (124,919) |
| **Total** | | 551,696 | 26,849 | (3,147) | (32,930) | 542,468 |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Weighted average annual depreciation rate - % | December, 31 of 2013 | Addiction | Derecognition | Reclassification /capitalization | March, 31 of 2014 |
| **Cost Value:** | | | | | | |
| Vehicles | 33 | 70,815 | 3,412 | (2,486) | (1,858) | 69,883 |
| Templates | 30 | 178,393 | 6,274 | - | 1,660 | 186,327 |
| Tools and accessories | 3 | 42,450 | 5,513 | (179) | (2,795) | 44,989 |
| Facilities | 9 | 155,347 | 304 | (1,971) | 139,051 | 292,731 |
| Machinery and equipment | 6 | 570,339 | 13,500 | (3,425) | 45,454 | 625,868 |
| Improvements in third parties (a) | 15 | 83,292 | 2,366 | - | 93 | 85,751 |
| Buildings | 4 | 386,061 | 78,240 | - | - | 464,301 |
| Furniture and fixture | 11 | 40,632 | 374 | (34) | (117) | 40,855 |
| Properties | - | 26,112 | - | - | - | 26,112 |
| IT Equipment | 19 | 108,412 | 618 | (23) | 3,209 | 112,216 |
| Projects in progress | - | 448,174 | 92,744 | - | (250,970) | 289,948 |
| **Total** | | 2,110,027 | 203,345 | (8,118) | (66,273) | 2,238,981 |
| **Depreciation** | | | | | | |
| Vehicles | 33 | (25,693) | (4,757) | 1,133 | 760 | (28,557) |
| Templates | 30 | (125,657) | (6,734) | - | (432) | (132,823) |
| Tools and accessories | 3 | (18,617) | (586) | - | 306 | (18,897) |
| Facilities | 9 | (91,772) | (2,836) | 1,728 | 656 | (92,224) |
| Machinery and equipment | 6 | (210,537) | (9,950) | 852 | 628 | (219,007) |
| Improvements in third parties (a) | 15 | (53,713) | (2,395) | 434 | 309 | (55,365) |
| Buildings | 4 | (70,351) | (3,333) | - | - | (73,684) |
| Furniture and fixture | 11 | (16,822) | (921) | 11 | 199 | (17,533) |
| Properties | 19 | (57,161) | (5,299) | 10 | 719 | (61,731) |
| | | (670,323) | (36,811) | 4,168 | 3,145 | (699,821) |
| **Total** | | 1,439,704 | 166,534 | (3,950) | (63,128) | 1,539,160 |

| | Company | | | | |
|---|---|---|---|---|---|
| | December,31 of 2013 | Addiction | Derecognition | Reclassification/ capitalization | March, 31 of 2014 |
| **Cost Value:** | | | | | |
| Software and others | 395,075 | 9,193 | (16) | 31,893 | 436,145 |
| **Total cost value** | 395,075 | 9,193 | (16) | 31,893 | 436,145 |
| | | | | | |
| **Amortization:** | | | | | |
| Software and others | (91,209) | (16,368) | 14 | 5 | (107,558) |
| **Total amortization** | (91,209) | (16,368) | 14 | 5 | (107,558) |
| **Total** | 303,866 | (7,175) | (2) | 31,898 | 328,587 |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Dezember, 31 of 2013 | Addiction | Derecognition | Reclassification capitalization | March, of 2014 |
| **Cost value:** | | | | | |
| Software and others | 462,067 | 9,448 | (16) | 48,071 | 519,570 |
| Trademarks and patents | 55,571 | - | - | (158) | 55,413 |
| Goodwill Emeis (Brazil PTY) (b) | 74,130 | - | - | (350) | 73,780 |
| Relationship with clients | 866 | - | - | - | 866 |
| Business lease – Natura Europa SAS – France (c) | 2,939 | - | - | (99) | 2,840 |
| **Total** | 595,573 | 9,448 | (16) | 47,464 | 652,469 |
| | | | | | |
| **Amortization:** | | | | | |
| Software and others | (114,495) | (19,701) | 14 | 90 | (134,092) |
| Trademarks and patents | (3,712) | - | - | 158 | (3,554) |
| Relationship with clients | (80) | - | - | - | (80) |
| **Amortization:** | (118,287) | (19,701) | 14 | 248 | (137,726) |
| **Total** | 477,286 | (10,253) | (2) | 47,712 | 514,743 |

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

(b) Goodwill the acquisition of Emeis Holdings Pty Ltd as per Note 29.

(c) The business lease generated on the purchase of a commercial location where Natura Europa SAS - France operates is supported by an appraisal report issued by independent appraisers, attributable to the fact that it is an intangible, marketable asset, the value of which does not decrease over time. The change in the balance between March 31, 2014 and December 31, 2013 is basically due to the effects of the exchange fluctuation for the period.

## Additional information on property, plant and equipment:

### a) Assets pledged as collateral

As of March 31, 2014, the Group has property, plant and equipment items pledged as collateral of bank financing and loan transactions, as well as items attached to the defense of lawsuits, as shown below:

| | Company | Consolidated |
|---|---|---|
| Vehicles | 362 | 388 |
| IT Equipment | 25 | 29 |
| Machinery and equipment | 1 | 11 |
| Buildings | - | 2 |
| Properties | - | 5 |
| Total | 388 | 435 |

### b) Leases

In 2014 the Company entered into finance lease transactions to purchase property, plant and equipment totaling R$78,240. As of March 31, 2014, the amount recorder under “Buldings” arising from lease transactions totaling R$ 320,785 and the balance of lease payables, classified in line item “Borrowings and financing” (note 15) totals R$319,237 (R$249,625 as of December 31, 2013).

### c) Balance of capitalized interest

| | 03/2014 | 12/2013 |
|---|---|---|
| Financial expenses recorded under “Buildings” | | |
| Balance at beginning of year | 4,135 | 1,453 |
| Depreciation | (97) | (387) |
| Capitalized interest | - | 2,295 |
| Balance at year end | 4,038 | 4,135 |

# 15. BORROWINGS AND FINANCING

| | Company | | Consolidated | | |
|---|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 | Referência |
| Local Currency | | | | | |
| FINEP (Financing Agency for Studies and Projects) | - | - | 124,976 | 46,421 | A |
| Debentures | 604,378 | - | 604,378 | | B |
| BNDES | 62,947 | 59,002 | 210,109 | 203,591 | C |
| Working capital / NCE | - | - | 205,582 | 206,131 | D |
| BNDES – FINAME | 1,787 | - | 20,995 | 17,253 | E |
| Financial lease | 232,464 | 249,625 | 319,237 | 249,625 | F |
| FINEP (Financing Agency for Studies and Projects) | - | - | 1,647 | 1,647 | G |
| Total in local currency | 901,576 | 308,627 | 1,486,924 | 724,668 | |
| Moeda estrangeira | | | | | |
| BNDES | 18,195 | 20,057 | 27,142 | 29,747 | H |
| Resolution 4131/62 | 2,005,053 | 2,076,508 | 2,005,053 | 2,076,508 | I |
| International operation – Peru | - | - | 10,863 | 10,981 | J |
| International operation – Mexico | - | - | 39,859 | 40,007 | K |
| International operation – Pty | - | - | 11,707 | 11,995 | L |
| Total in foreign currency | 2,023,248 | 2,096,565 | 2,094,624 | 2,169,238 | |
| Grand total | 2,924,824 | 2,405,192 | 3,581,548 | 2,893,906 | |
| Current | 641,884 | 576,841 | 759,683 | 693,117 | |
| Noncurrent | 2,282,940 | 1,828,351 | 2,821,865 | 2,200,789 | |

| Referência | Moeda | Vencimento | Encargos | Garantias |
|---|---|---|---|---|
| A | Real | March 2013 and May 2019 | TJLP (b) for the installment maturing in 2013 and interest of 5% for the installment maturing in May 2019 | Guarantee of Natura Cosméticos S,A, and bank guarantee |
| B | Real | May 2013 | Interest of 108% of CDI maturing in May 2013 | None |
| C | Real | Through September 2021 | TJLP + interest of 0,5% p.y. a 3,96% p.y. and contractos of 3,5% p.y. a 5% p.y. (PSI) (d) | Bank guarantee |
| D | Real | Through August 2016 | Interest of 8,0% p.y. (c) | Guarantee of Natura Cosméticos S,A |
| E | Real | Through September 2018 | Interest of 4,5% p.y. + TJLP for contracts up to 2012 and for contracts from 2013 to 3% p.y. (PSI) (d) | Leases are collateralized by the underlying assets |
| F | Real | February 2014 | Interest of 4,4% p.y. + TJLP | Chattel mortgage, guarantee of Natura Cosméticos S,A, and promissory notes |
| G | Real | Through August 2026 | Interest of 108,0% of DI - CETIP (b) | Leases are collateralized by the underlying assets |
| H | Real | July 2015 | none | none |
| I | Dólar | October 2020 | Exchange fluctuation + interest of 1,8% to 2,3% p.y. + Resolutionº 635 (a) | Leases are collateralized by the underlying assets |
| J | Dólar | Through August 2016 | Exchange fluctuation + Libor + Over Libor of 1,32% p.y. a 3,80% p.y. (a) | Guarantee of Indústria e Comércio de Cosméticos Natura Ltda. |
| K | Novo sol | January 2014 | Interest of 4,9% p.y. | Bank guarantee |
| L | Peso Mexicano | June 2014 | Interest of 0,98% p.y. + TIIE (e) | Guarantee of Natura Cosméticos S,A |
| M | Dolar Australiano | February 2016 | Interest of 7% p.y | Bank guarantee |

(a) Loans and financing for which swap contracts (CDI) were entered into.
(b) DI - CETIP - daily index calculated based on the average DI, disclosed by Cetip S.A. (Brazilian clearinghouse and over-the-counter market).
(c) Loans for which the financial instruments of the type "swap" with the exchange of fixed rate for CDI were hired.
(d) PSI-Investment Support Program.
(e) TIIE-interest rate of interbank equilibrium Mexico

[This page is intentionally left blank]

Maturities of noncurrent liabilities are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| 2015 | 992,174 | 1,111,358 | 1,064,915 | 1,201,342 |
| 2016 | 475,067 | 489,100 | 713,722 | 708,664 |
| 2017 | 230,330 | 29,192 | 284,946 | 58,074 |
| 2018 and thereafter | 585,369 | 198,701 | 758,282 | 232,709 |
| | 2,282,940 | 1,828,351 | 2,821,865 | 2,200,789 |

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

a) Description of bank loans

1. Financing agreements with the BNDES

The Company and its subsidiaries Indústria e Comércio de Cosméticos Natura Ltda. and Natura Inovação e Tecnologia de Produtos Ltda. have credit facility agreements with the BNDES to facilitate direct investments in the Company and its subsidiaries in order to improve certain product lines, train research and development employees, optimize operation product separation lines in the Cajamar, SP industrial facilities, build new distribution centers an recently the deployment of an industrial plant in Benevides, Para and investments at a distribution center in Parque Anhanguera in São Paulo, and projects related to digital accessibility.

2. 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.

3. 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.

4. Resolution nº 4.131/62

   Bank Credit Note - Onlending of funds raised abroad under law nº 4.131/62, through financial institutions.

5. NCE

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

6. Debentures

   On February 25, 2014, the CIA conducted the 5th issue of simple debentures, not convertible into shares, nominative and, unsecured, Natura Cosmetics SA, amounting to R$ 600 million. 60,000 debentures were issued, of which 20,000 debentures allotted in 1st grade, due on February 25, 2017, 20,000 Debentures allocated in the 2nd series, due on February 25, 2018, and 20,000 allocated debentures in 3rd grade, due on February 25, 2019, and remuneration corresponding to 107.00%, 107.5% and 108% of the accumulated variation of the average daily Interbank Deposits - DI, respectively.

b) Finance lease obligations

Financial obligations are broken down as follows:

| | Consolidated | |
|---|---|---|
| | 03/2014 | 12/2013 |
| Gross finance lease obligations - minimum lease payments: | | |
| Less than one year | 40,462 | 29,012 |
| More than one year and less than five years | 225,546 | 126,223 |
| More than five years | 432,986 | 348,064 |
| | 698,994 | 503,299 |
| Future financing charges on finance leases | (379,757) | (253,674) |
| Financial lease obligations - accounting balance | 319,237 | 249,625 |
| Accounting balance of property, plant and equipment: leasing and 'sale leaseback' | 320,785 | 240,008 |

c) Capitalized Interest

The following table presents summary financial charges and capitalized in fixed assets under "Buildings" plot.

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Total financial charges for the year | 17,645 | 67,423 | 31,092 | 103,293 |
| Capitalized interest | - | - | - | (4,135) |
| Financial expenses (Note 25) | 17,645 | 67,423 | 31,092 | 99,158 |

Financial expenses are capitalized based on the rate of the loan to which the qualifying asset is directly connected.

d) Contract Covenants

On March 31, 2014 and December 31, 2013, the majority of loans and financing held by the Company and its subsidiaries contract does not contain restrictive covenants that establish obligations regarding the maintenance of financial ratios by the Company and its subsidiaries.

Contracts with BNDES from July 2011 have restrictive covenants establishing the following financial indicators:

-EBITDA margin exceeding 15%; and

- Net debt / EBITDA less than or equal to 2.5 (two point five).

On March 31, 2014, the Company had fully complied with all such covenants.

## 16. TRADE AND OTHER PAYABLES

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Domestic trade payables | 164,155 | 242,289 | 636,475 | 671,761 |
| Foreign trade payables (a) | 5,418 | 6,428 | 10,703 | 11,396 |
| Freight payable | 19,886 | 23,005 | 19,633 | 23,429 |
| | 189,459 | 271,722 | 666,811 | 706,586 |

(a) Refer mostly to US dollar-denominated amounts.

## 17. TAXES PAYABLE

| | Controladora | | Consolidado | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Taxes on revenue (PIS/COFINS) (injunction) (a) | 2,055 | 2,025 | 185,875 | 176,813 |
| Ordinary ICMS | 92,453 | 114,647 | 90,128 | 103,780 |
| Regular and reverse charge ICMS (b) | 143,320 | 134,941 | 143,320 | 134,941 |
| IRPJ and CSLL | 86,438 | 131,736 | 99,397 | 161,713 |
| IRPJ and CSLL (injunction) (c) | 146,276 | 133,594 | 146,276 | 133,594 |
| INSS – suspension of the enforceability | 2,333 | 2,290 | 9,589 | 9,233 |
| IPI - exempt and zero-taxed products (d) | - | - | 47,533 | 46,870 |
| UFIR adjustment to federal taxes (e) | 3,237 | 3,110 | 3,297 | 3,170 |
| Action for annulment of INSS debt (f) | 3,404 | 3,361 | 3,406 | 3,361 |
| IRRF/IPI | 8,916 | 11,413 | 12,491 | 15,823 |
| Withholding PIS/COFINS/CSLL | 3,398 | 1,589 | 11,456 | 7,706 |
| PIS/COFINS | - | - | 68,198 | 76,467 |
| Service tax (ISS) | (440) | 347 | 701 | 1,485 |
| | 491,390 | 539,053 | 821,667 | 874,956 |
| Escrow deposits ((b), (e) and (f)) (note nº11) | (149,961) | (141,411) | (225,569) | (215,647) |
| Current | 341,428 | 397642 | 596,097 | 659,309 |
| Noncurrent | 149,962 | 141,411 | 225,570 | 215,647 |

(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). In June 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, starting April 2007. The balances recognized as of March 31, 2014 refer to the unpaid amounts of PIS and COFINS, from April 2007 to December 2013 adjusted using the SELIC (Central Bank's policy rate), the collection of which is on hold. Part of the balance, in the adjusted amount of R$28,008, is deposited in escrow.

(b) As of March 31, 2014, R$15,563, R$103,817, R$336 and R$23,604 of the total amount recognized refer to the ICMS - ST of State of Paraná, Federal District, State of Mato Grosso and State of Rio de Janeiro, respectively. As of December 31, 2013, R$15.282, R$98.195, R$329 and R$21.135 of the total amount recognized refer to the ICMS - ST of State of Paraná, Federal District, State of Mato Grosso do Sul, State of Mato Grosso and State of Rio de Janeiro, respectively. This unpaid ICMS-ST amount is being questioned in court by the Company and is the subject matter of a monthly judicial deposit, as also mentioned in note 18 'Contingent tax liabilities - possible risk', (a).
On November 26, 2011, the Company entered into an arrangement, to be enforced after the end of the current reporting period, with the State of Paraná to set the Value Added Margin (MVA) applicable to the calculation of ICMS-ST due on transactions conducted by consultants of the State of Paraná.

The MVA applicable to taxable events prior to November 2011.

(c) On February 4, 2009, the Company was granted an injunction, subsequently confirmed by court decision, that suspended the collection of income tax and social contribution on any amounts received as arrears interest, paid on late payment of contractual obligations receivables to the Natura Beauty Consultants. The appeal filed by the Federal

Government is awaiting judgment.

(d) Refers to Federal VAT (IPI) on zero-taxed, untaxed and exempt raw materials and packaging materials. Subsidiary Indústria e Comércio de Cosméticos Natura Ltda. filed a writ of mandamus and obtained an injunction granting the right to the credit. On September 25, 2006, the injunction was revoked by a decision that considered the request invalid. The Company filed an appeal for reconsideration of merits and reinstatement of the injunction. To suspend the payment of tax, in October 2006, the Company made an escrow deposit in the amount offset under the injunction, whose adjusted balance totals R$47,533 as of March 31, 2014 (R$46,870 as of December 31, 2013). In the fourth quarter of 2009, in order to utilize the benefits granted under Provisional Act 470/09, which creates a program for the payment and payment in installments of tax debts, the subsidiary filed a motion partially withdrawing the claims made in the injunction filed that maintains only the claim of tax credits on tax-exempt products, thus dropping the lawsuits claiming IPI credits of zero-taxed and untaxed products (see details in topic 'Tax installment plans created under Provisional Act 470/09). On this date, after having met the requirements to join the tax installment plan introduced by Provisional Act 470/09, the subsidiary awaits the tax authorities' approval to write off the suspended collection amounts and the corresponding escrow deposits. Subsequently, in December de 2011, the subsidiary filed a motion to also drop the lawsuit claiming tax credits on tax-exempt products, which did not have any amount involved. Thus, the subsidiary awaits the transfer to the State of the escrow deposits after a final and non-appealable decision is issued regarding the credits on products acquired at IPI rate reduced to zero.

(e) Refers to the inflation adjustment of 1991 federal taxes on income (IRPJ/CSLL/ILL) based on the UFIR (fiscal reference unit), discussed in a writ of mandamus. The amount involved is deposited in escrow. On February 26, 2010, the Company filed a motion dropping this lawsuit to be able to utilize the benefits granted under Law 11.941/09, which creates a program for the payment and payment in installments of tax debts and awaits the issue of a final and non-appealable decision.

(f) Refers to the social security contributions required by tax assessments issued by the National Social Security Institute - INSS inspection process, which required the Company, acting as joint contributors, contribution amounts payable on services rendered by third parties. Values are discussed in a tax debt annulment action and are deposited in escrow. On 1 March 2010, the Company filed a motion partially withdrawing the action, partially waiving its right, for purposes of adherence to the benefits provided for in Law No. 11.941/09.

Tax installment program established by Law 11.941/09

On May 27, 2009, Federal Government enacted Law 11941, as a result of the conversion of Provisional Act 449/08, which, among other changes to tax law, established the possibility of a tax debt installment plan managed by the Federal Revenue Service, the National Social Security Institute and the National Treasury Attorney General (PGFN), including the remaining balance of Consolidated debts in the REFIS (Law 9.964/00), Special Installment Plan (PAES) (Law 10.684/03) and the Exceptional Installment Plan (PAEX) (Provisional

Act 303/06), in addition to the regular payments in installments provided for by article 38 of Law 8.212/91 and article 10 of Law 10.522/02.

The entities that opted for paying or dividing into installments the debts under this Law, in the applicable cases, may settle the amounts corresponding to default and automatic fines and late-payment interest, including those related to legally enforceable debts to the Government, using tax loss carry forwards, and will benefit from reduced fines, interest and legal charges whose reduction percentage depends on the installment plan chosen.

Pursuant to the established rules, for compliance with the first stage of installment payments, the Company and its subsidiaries, after having filed motions at Court formalizing the withdrawal of lawsuits whose taxes would be paid in installments, applied for installment payments, choosing installment plans and indicating the generic nature of tax debts, paying the respective initial installments, pursuant to the provisions of Federal Revenue Service (SRF) and National Treasury Attorney General (PGFN) Joint Administrative Rule.

The tax debts recorded for payment in installments by the Company and its subsidiaries, pursuant to Law 11.941/09, are as follows:

| | Company | | |
|---|---|---|---|
| | 12/2013 | Inflation adjustment | 03/2014 |
| Action for annulment of INSS debt (a) | 3,361 | 45 | 3,406 |
| IRPJ/CSLL/ILL debts (b) | 3,110 | 125 | 3,235 |
| | 6,471 | 170 | 6,641 |

| | Consolidation | | |
|---|---|---|---|
| | 12/2013 | Inflation adjustment | 03/2014 |
| Action for annulment of INSS debt (a) | 3,170 | 127 | 3,297 |
| IRPJ/CSLL/ILL debts (b) | 3,361 | 45 | 3,406 |
| | 6,531 | 172 | 6,703 |

(a) See item (f) on this note for details.
(b) See item (e) on this note for details.

Due to the lack of tax loss carry forwards, the Company will not offset them against the remaining balance of the interest on installments.

The next steps of the Company's and its subsidiaries' tax installment plans, which are being discussed in courts, depend on a decision about the consolidation of the related debts, which

is expected in order to settle such debts by transferring existing escrow deposits to the Federal Government.

Tax installment plans created under Provisional Act 470/09

On October 13, 2009, Provisional Act 470 was enacted introducing the tax debt payment and installment plans arising from the undue use of an industry tax incentive, introduced by Article 1 of Law Decree 491, of March 5, 1969, and the undue use of IPI credits, regulated by the Attorney General of the National Treasury (PGFN) and Federal Revenue Service (RFB).

On November 3, 2009, the PGFN and the Federal Revenue Service published in the Federal Official Gazette (DOU) Joint Administrative Rule 9, which establishes the debt payment and installment plan addressed in Article 3 of Provisional Act 470/09. The debts arising from the undue utilization of industry tax incentives introduced by Article 1 of Decree Law 491/69, and those arising from the undue utilization of IPI credits challenged by the PGFN and Federal Revenue Service may be exceptionally paid at sight or in installments to each agency by November 30, 2009.

As mentioned in item (d) above, subsidiary Indústria e Comércio de Cosméticos Natura Ltda. filed a motion partially withdrawing from the injunction filed related to IPI credits claimed on products purchased at zero tax rate or tax exempt.

Pending the conversion of part of the judicial deposit and the final payment of the remaining balance survey, corresponding to low accounting records.

## 18. PROVISION FOR TAX, CIVIL AND LABOR CONTINGENCIES

The Company and its subsidiaries are parties to tax, labor and civil lawsuits and administrative tax proceedings and an arbitration proceeding. Management believes, based on the opinion and estimates of its legal counsel, that the provision for tax, civil, and labor contingencies are sufficient to cover potential losses. This provision is broken down as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Tax | 34,123 | 33,657 | 44,474 | 43,857 |
| Civil | 13,207 | 11,906 | 17,799 | 16,310 |
| Labor | 6,535 | 5,296 | 14,844 | 13,662 |
| | 53,865 | 50,859 | 77,117 | 73,829 |

Tax contingencies

The provision for tax contingencies is broken down as follows:

Company

| | 12/2013 | Inflation adjustment | 03/2014 |
|---|---|---|---|
| Late payment fines on federal taxes paid in arrears (a) | 854 | 10 | 864 |
| Tax assessment - IRPJ e CSLL –attorney (b) | 6,111 | 129 | 6,241 |
| Tax assessment - 1990 IRPJ (c) | 3,775 | 38 | 3,813 |
| Attorney and other fees (d) | 14,548 | 218 | 14,765 |
| CSLL deductibility (Law 9316/96) (Law 9.316/96) (e) | 8,369 | 71 | 8,440 |
| Total provision for tax contingencies | 33,657 | 466 | 34,123 |
| Escrow deposits (note 11) | (7,356) | (105) | (7,461) |

Consolidated

| | 12/2013 | Inflation adjustment | 03/2014 |
|---|---|---|---|
| Late payment fines on federal taxes paid in arrears (a) | 854 | 10 | 864 |
| CSLL deductibility (Law 9316/96) (e) | 8,369 | 71 | 8,440 |
| Attorney (b) | 6,111 | 129 | 6,241 |
| Tax assessment | 3,775 | 38 | 3,813 |
| 1990 IRPJ (c) | | - | - |
| Attorney and other fees (d) | 24,748 | 368 | 25,116 |
| Total provision for tax contingencies | 43,857 | 616 | 44,474 |
| Escrow deposits (note 11) | (7,949) | (113) | (8,062) |

(a) Refers to fine for late payment of Federal taxes.

(b) Refers to attorney fees for the defense in the tax assessment notices issued against the Company in August 2003, December 2006 and December 2007 by the Federal Revenue Service, claiming the payment of income tax and social contribution on the deductibility of the yield of debentures issued by the Company for fiscal years 1999, 2001 and 2002, respectively. The tax assessment notices referring to 2001 and 2002 are pending from a final and non-appealable decision from the Board of Tax Appeals (CARF) ruling. The legal counsel's opinion is that the likelihood of unfavorable outcome in these tax assessment notices is remote.

A final and non-appealable administrative decision on the tax assessment notice issued against the Company in August 2003 challenging the deductibility, in fiscal year 1999, was issued on January 2010 that maintains part of the income tax assessed and the whole of the social contribution. After this decision, on April 7, 2010, the Company filed a lawsuit to cancel the remaining installment of IRPJ and CSLL. The legal counsel considers that the likelihood of an unfavorable outcome is remote.

(c) Refers to the writ of mandamus challenging the constitutionality of Law No. 9.316/96,

which prohibited the deduction of social contribution of its own tax base and the base of the income tax calculation. In the opinion of the legal advisors of the Company, the likelihood of loss is probable, considering the current position of the STF.

(d) The balance relates to legal fees for defending the interests of the Company and its subsidiaries in tax proceedings. The amounts provided: (i) R$8,419 refers to legal fees for preparation of defense in the infringement notices of income tax and social contribution against the Company, issued on June 30, 2009 and August 30, 2013, whose object questioning the deductibility of the amortization of goodwill arising from the merger of Natura Developments Natura Participações SA and subsequent merger of both companies by Natura Cosmetics SA. In December 2012, the case concerning the tax assessment of 2009 was dismissed by the Board of Tax Appeals (CARF) which ruled partially in favor of the Company to reduce the fine aggravated. On the merits, the decision was unfavorable, which is why the Company is awaiting the finalization of the judgment to appeal the Superior Chamber of Tax Appeals (CSRF). The related 2013 tax assessment process was the subject of defense and is awaiting trial. It is noteworthy that similar cases of goodwill were judged favorably in CARF, representing important precedents for the Company. In the opinion of the legal advisors of the Company, the transaction was structured as tax and its effects are defensible, why the risk of loss is classified as remote, (ii) R$7,309 refers to legal fees for defense in case of violation of IPI, PIS and COFINS issued against the subsidiary, in December 2012, in respect of events that occurred in calendar year 2008. The main question of the tax authorities is that the subsidiary would have practiced incorrectly priced sales for the Company. In May and June 2013, the cases were tried by the Federal Revenue of Brazil Trial in Ribeirão Preto / SP, decided that (a) for the subsidiary to cancel the tax credit charged in the assessment of PIS / COFINS and (b) contrary to the Controlled to keep the tax credit charged in the assessment of IPI. Both decisions will be reconsidered on appeal stage the 2nd administrative level (Board of Tax Appeals - CARF). In the opinion of the legal advisors of the Company, the transaction was structured as tax and its effects are defensible, why the risk of loss is classified as remote.

(e) Refers to CSLL that was addressed by an injunction that questions the constitutionality of Law 9.316/96, which prohibited the deduction of CSLL from its own tax basis and the IRPJ basis. In accordance with the evaluation of the Company's legal advisors.

Civil contingencies

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | 12/2013 | Addtions | Reversals | Payments | Inflation adjustment | 03/2014 |
| Several civil lawsuits (a) | 5,510 | 2,500 | (353) | (1,217) | 26 | 6,466 |
| Lawyer fees - environmental civil lawsuit (b) | 2,290 | - | - | - | 50 | 2,340 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Civil lawsuits and lawyer fees | | | | | | |
| - Nova Flora Participações Ltda. | 4,106 | 194 | - | - | 101 | 4,401 |
| Total provision for civil contingencies | 11,906 | 2,694 | (353) | (1,217) | 177 | 13,207 |
| Escrow deposits (note 11) | (2,078) | - | 1,200 | - | (80) | (958) |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | Additions | Reversals | Payments | Inflation adjustment | 03/2014 |
| Several civil lawsuits (a) | 6,759 | 2,667 | (425) | (1,233) | 66 | 7,834 |
| Lawyer fees - environmental civil lawsuit (b) | 2,494 | - | - | - | 54 | 2,548 |
| Lawyer fees - IBAMA (c) | 2,953 | - | - | - | 63 | 3,016 |
| Civil lawsuits and lawyer fees - Nova Flora Participações Ltda. | 4,104 | 194 | - | - | 103 | 4,401 |
| Total provision for civil contingencies | 16,310 | 2,861 | (425) | (1,233) | 286 | 17,799 |
| Escrow deposits (note 11) | (2,190) | (707) | - | - | (100) | (2,997) |

(a) As of March 31, 2014, the Company and its subsidiaries are parties to 2,234 civil lawsuits and administrative proceedings (2,106 as of December 31, 2013), of which 1,980 were filed with civil courts, special civil courts and the consumer protection agency (PROCON) by Natura Beauty Consultants, consumers, suppliers and former employees, most of which claiming compensation for damages.

(b) The provision includes R$1,681 with respect to legal fees, ad exitum, for the defense of the Company's interests in the public lawsuit filed by the Federal Public Prosecution Office of Acre against the Company and other institutions for alleged access to the traditional knowledge associated to the asset ("murumuru"). Award was made in the records of that action, deciding to exclude Natura demand. However, as the prosecution filed an appeal, the case is awaiting final decision. Our legal counsel's opinion is that the risk of losses is remote.

(c) Refers to attorney fees for the defense in the tax assessment notice issued by "Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis", or IBAMA (Brazilian environmental agency) against the Company in 2010 and 2011 for alleged irregular access to biodiversity. Through December 2013, the Company had been imposed 70 fines by IBAMA, totaling approximately R$21,955, and filed administrative defenses for all of them, two of the administrative proceedings were subsequently cancelled. In the remaining cases, there was no definitive decision issued by IBAMA, which is why such fines do not represent eligible credits. The Company's management and its legal counsel consider the risk of loss in these fines for the alleged non-sharing of benefits and the fines for the alleged irregular access to biodiversity as remote due to full compliance with all the principles established in the Convention on Biological Diversity ("CBD"), an international treaty signed during Rio-92 and of the illegality and unconstitutionality of the current legal framework, which incorporates the CBD in the

Brazilian legal system. Except for inputs from Federal Government land - which refuses to negotiate – despite having recently established the Negotiation Committees, the Company shares benefits in 100% of the accesses in the use of biodiversity; it is the first to share benefits with traditional communities and detains the most of the requests with the Regulatory Body for authorization to have access to biodiversity as well as in relation to the authorizations already issued to private companies.

Labor contingencies

As of March 31, 2014, the Company and its subsidiaries are parties to 678 labor lawsuits filed by former employees and third parties (615 as of December 31, 2013), claiming the payment of severance amounts, salary premiums, overtime and other amounts due, as a result of joint liability. 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 | | | | |
|---|---|---|---|---|---|
| | 12/2013 | Additions | Reversals | Inflation adjustment | 03/2014 |
| Total provision for labor contingencies | 5,296 | 1,555 | (439) | 123 | 6,535 |
| Escrow deposits (note 11) | (4,709) | - | 1,668 | - | (3,041) |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | 12/2013 | Additions | Reversals | Inflation adjustment | 03/2014 |
| Total provision for labor contingencies | 13,662 | 1,555 | (549) | 176 | 14,844 |
| Escrow deposits (note 11) | (7,014) | - | 3,973 | - | (3,041) |

Contingent liabilities - possible risk

The Company and its subsidiaries are parties to tax, civil and labor lawsuits, for which there is no reserve for losses recorded, because the risk of loss is considered possible by management and their legal counsel. These lawsuits are as follows:

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Tax: | | | | |
| Declaratory Action - ICMS - ST (a) | 109,279 | 105,996 | 109,279 | 105,996 |
| IPI assessment notice | - | - | - | - |
| Administrative proceeding - ICMS - ST assessment, DF (b) | 9,573 | 9,489 | 9,573 | 9,489 |
| Administrative proceeding - ICMS - ST assessment, PA (b) | 571 | 571 | 571 | 571 |
| Administrative proceeding - tax debt - ICMS - ST, RS (c) | 10,724 | 10,535 | 10,724 | 10,535 |
| Tax assessment notice - São Paulo State Department of Finance - ICMS audit (d) | 154,494 | 152,380 | 154,494 | 152,380 |
| Administrative proceeding – Offset - COFINS / Freight (e) | 37,081 | 36,502 | 37,081 | 36,502 |
| Administrative proceeding - ICMS - ST assessment, DF (f) | 123,474 | 104,739 | 123,474 | 104,739 |
| Administrative proceeding - tax debt - ICMS - ST –RS (g) | 34,640 | 34,292 | 34,640 | 34,292 |
| Outras | 130,767 | 145,055 | 151,561 | 165,085 |

| | | | | |
|---|---|---|---|---|
| Civil (h) | 14,454 | 68,036 | 14,939 | 68,505 |
| Labor | 38,985 | 37,517 | 68,814 | 66,602 |
| | 664,042 | 705,112 | 715,150 | 754,696 |

(a) As of March 31, 2014, the balance recorded is broken down as follows:

1. ICMS - ST - PR - R$48,470 (R$47,499 as of December 31, 2013) - lawsuit filed by the Company challenging the changes in ICMS - ST tax basis introduced by Paraná Decree 7018/06. The amount discussed in the lawsuit, related to the period from January 2007 to November 2011, is fully deposited in escrow, as mentioned in notes 11 and 17 (b), and its collection is suspended.
2. ICMS - ST - DF - R R$33,451 (R$31,723 as of December 31, 2013) - declaratory action filed by the Company to challenge its liability for the payment of ICMS - ST due to the lack of a statute on and statutory criteria for the determination of the tax base of this tax or, subsequently, the need to enter into an Agreement to set out the ICMS - ST tax basis. The amount under litigation, related to the period from February 2009 to March 2014, is fully deposited in escrow, as referred to in notes 11 and 17 (b), and its collection is suspended.
3. ICMS - ST - MT – R$4,000 (R$3,922 as of December 31, 2013) - declaratory action filed by the Company to challenge its liability for the payment of ICMS - ST to the State of Mato Grosso due to the lack of a statute on and statutory criteria for the determination of the tax base of this tax or, subsequently, the need to enter into an Agreement to set out the ICMS - ST tax basis. The amount under litigation, related to the period from October 2009 to July 2011, is fully deposited in escrow, as referred to in notes 11 and 17 (b), and its collection is suspended.
4. ICMS - ST - SC – R$23,358 (R$22,852 as of December 31, 2013) - declaratory action filed by the Company to challenge its liability for the payment of ICMS - ST to the State of Santa Catarina due to the lack of a statute on and statutory criteria for the determination of the tax base of this tax or, subsequently, the need to enter into an Agreement to set out the ICMS - ST tax basis. The amount under litigation, related to the period from July 2011 to August 2011 and February 2012 to March 2013, is fully deposited in escrow, as referred to in notes 11 and 17 (b), and its collection is suspended.

(b) Tax assessment for ICMS - ST, required by the Federal District and the State of Pará, due to the alleged underpayment related to the difference required as ICMS - ST. The Company presented its defense at the administrative level and is awaiting the final judgment.

(c) Assessment notice for ICMS - ST, required by the state of Rio Grande do Sul, by reason of their status as tax substitute, for the collection of ICMS allegedly, due to the alleged underpayment related to the difference required to as ICMS - ST. The Company proposed annulment action to remove this requirement and awaits its final judgment.

(d) assessment notices issued by the State of Parana for alleged incorrectness of ICMS-ST due to the state in the period from February to December 2007, January-April 2008, October 2008 to January 2009, March 2009 to September 2010, November 2010 and April-August 2011. The ICMS-SP charged by the state is filed in a lawsuit

filed by the Society for discussing the legality of the changes promoted by the calculation basis Paraná Decree 7.018/06, as mentioned in notes 11 and 17 (b). The tax assessments are awaiting trial at the administrative level.

(e) Refers to the refusal of refund claimed the credit right order acknowledgment (COFINS), calculated (belatedly) on expenditure incurred on freight in sales of products subject to taxation concentrated (single-phase) in the period between May 2004 to October 2007, and therefore not approved the compensation declared. The Company filed a defense at the administrative level and is awaiting their final judgment.

(f) Infraction notices by the Federal District for alleged incorrectness of ICMS-ST due to the State for the periods from January 2007 to December 2011. The tax is levied by the State filed the lawsuits filed by the Company for discussing the illegality of updates to base calculation promoted by the State, as mentioned in notes 11 and 17. The Company filed a defense at the administrative level and is awaiting his trial.

(g) Annulment Action aiming cancel tax requirements object of automobiles Release No. 0018669050 and No. 0018669069, which are demanded by the alleged differences in ICMS for the periods 01/01/2006 to 31/12/2006 and 01/01 / 2007 to 28/02/2008, to (I) use the benefit of reduced basis of ICMS-ST without a proportional reduction of their claims relating to the inputs of goods (condition for enjoyment) argument, and (II) undue reduction of the internal rate when performing the calculation of the tax payable by applying the percentage reduction benefit calculation base.

(h) On April 9, 2012, Natura Cosmetics SA submitted to arbitration controversial issues of the Private Rental Atypical and Other Covenants, entered into on December 21, 2010 with RB Capital Real Estate Investment Fund Anhanguera - IFI and Marcacel holdings resulting from delay in delivery of the Enterprise, as well as bursts in construction spending much higher values and that Natura recognizes as " additional requests for scope" and amounting to R$11,780 (see financial leasing fixed and intangible notes 14 and Borrowings 15). The total disputed amounts to nominal values , approximately R$51 million in addition to fines and indemnities in minimum nominal amounts of R$ 16 million that Natura charged in his favor. 's Terms of Reference was signed by parties on 19 September 2012 and in November 5, 2012 Natura Cosmetics SA ("Applicant") filed its Initial claims. The sentence was given on February 26,2014, upholding the application of Natura that RB Capital balked with bursts in construction spending, and the Natura just bear with the additional values resulting from design changes requested by it, subsequent to conclusion of the contract. Requests for fines and indemnities relating to late delivery of the construction were rejected. On March 13, 2014 the parties requested clarification. On March 17, 2014 the Arbitral Tribunal determined that the parties to express their views about their requests for clarification. On March 24, 2014 parties presented their demonstrations. On April 7, 2014 the decision was handed down in the arbitration court on requests for clarifications, dismissing the claims of the parties and keeping therefore the arbitration sentence.

Contingent assets

The Company and its subsidiaries material contingent assets are as follows:

a) The Company and its subsidiaries Industry and Trade Cosmetics Natura Ltda., Natura Innovation and Technology Products Ltda. and Natura Logistics and Services Ltda. plead the refund of the ICMS and Service Tax - ISS included in the calculation basis of PIS and COFINS, collected from March 2004 to March 2007. The amounts of the refund claims, updated through March 31, 2014 amounted to R$161,800 (R$147,220 on December 31, 2013). The opinion of legal counsel is that the probability of loss is possible.

The Company and its subsidiaries do not recognize as its assets contingent assets listed above, as the pronouncement CPC 25 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS.

## 19. OTHER PROVISIONS

a) Provision for acquisition of non-controlling interest

Liability recorded as obligation signed the purchase and sale of Emeis Holdings Pty Ltd contract, which defines the acquisition of non-controlling interest from 2015, with a maximum term in 2025. Payment will be made based on the performance of the Company on the date of exercise of the option.

b) Other liabilities

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Retirees' healthcare plan (*) | 27,853 | 26,420 | 38,512 | 36,606 |
| Carbon credit | 8,628 | 9,710 | 8,628 | 9,710 |
| Other provisions | 10,449 | 19,995 | 67,022 | 75,050 |
| | 46,930 | 56,125 | 114,162 | 121,366 |

(*) The Company and its subsidiaries offer a group of paid staff who made inactive and fixed contributions to the health care plan, the right to stay in the health plan after retirement by paying the average premium. The recognition of actuarial gains and losses are recognized through other comprehensive income (OCI) as mentioned in Note 2.25. On March 31, 2014, the weighted average life is 19 years and had 912 to 1,770 employees in the Company and Consolidated, respectively.

On March 31, 2014, the Company and its subsidiaries had a provision for actuarial

liabilities related to this plan in the amount of R$27,853 and R$38,512 in the parent company and Consolidated, respectively (R$26,420 and R$36,606, respectively, in the Company and Consolidated at December 31, 2013).

During the year the consequences of this plan in income are related to the cost of service in the amount of R$448 and R$608 in the Company and Consolidated, respectively, and the interest cost of R$985 and R$1,296 in the company and Consolidated, respectively.

The actuarial liability shown was calculated by an independent actuary considering the following main assumptions:

| | 2013 |
|---|---|
| Financial discount rate | 11.50 |
| Increase in medical expenses | 11.40 to 6.40 |
| Long-term inflation rate | 5.40 |
| Final rate of medical inflation – after 10 years | 6.40 |
| Rate of growth of medical costs for ageing costs | 3.50 |
| Rate of growth of medical costs for aging contributions | 1.50 |
| Invalidity table | Wyatt 85 |
| General mortality table | Class 1 |
| Turnover table | RP2000 |
| | T-9 service table |

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 12/2013 | 03/2014 | 12/2013 |
| Company current service cost | 448 | 1,790 | 608 | 2,433 |
| Cost of interest | 985 | 3,938 | 1,296 | 5,173 |
| Recognition of actuarial Losses/(Gains) in OCI | - | (21,015) | - | (25,883) |
| | 1,433 | (15,287) | 1,904 | (18,277) |

## 20. SHAREHOLDERS' EQUITY

### a) Issued capital

As of March 31, 2014, the Company's capital was R$427,073.

In the three month period ended in March, 31 of 2014 there was no change in capital, which is made up of 431,239,264 subscribed and paid-up common registered shares. 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.
- Whenever the amount of the minimum mandatory dividend exceeds the portion of the net income realized for the year, management may propose, and the General Assembly approve, to allocate the excess to the earnings reserve.

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

On April 16, 2014 the Company paid dividends totaling R$474,004 and interest on capital in the total gross amount of R$22,388 (R$19,030, net of withholding tax), as distribution recommended by the Board of Directors on February 12 2014, and ratified at the Annual General Meeting held on April 11, 2014, relating to the net profit of the year 2013, which added to R$337,305 of dividends and R$27,528 of interest on equity paid in August 2013 correspond to a distribution of approximately 100 % of net income in fiscal 2013.

In November 2013 was published the Provisional Measure nº. 627 establishing that the tax exemption for the payment of dividends only applies to profits calculated based on Brazilian accounting standards in accordance with the provisions of Law nº 6.404/76 force in December 2007.

For income earned in 2013 measures the change in legislation to deal with Provisional Measure, Natura calculate the profit for dividend purposes were considered this changes.

c) Treasury shares

The Company repurchased during the period of 2013 1,375,500 common shares, at the average price of R$43, 74, in order to meet the exercise of options granted to the Company's and its direct and indirect subsidiaries' management and employees.

As of December 31, 2013, line item 'Treasury shares' is broken down as follows:

| | 12/2013 | | |
|---|---|---|---|
| | Number of Share | R$' 000 | Average price per share - R$ |
| Balance at beginning of year | 1,941,345 | 66,105 | 34.05 |
| Repurchased | 1,375,500 | 60,172 | 43.75 |
| Used | (1,196,386) | (42,293) | 35.35 |
| Balance at yearend | 2,120,459 | 83,984 | 39.61 |

As of March 31, 2014, line item 'Treasury shares' is broken down as follows:

| | 03/2014 | | |
|---|---|---|---|
| | Number of Share | R$' 000 | Average price per Share - R$ |
| Balance at beginning of year | 2,120,459 | 83,984 | 39.61 |
| Repurchased | (325,875) | (12,994) | 39.87 |
| Used | 1,794,584 | 70,990 | 39.56 |
| Balance at end of quarter | 2,120,459 | 83,984 | 39.61 |

d) Share premium

Refers to the premium generated on the issuance of 3,299 common shares resulting from the capitalization of debentures totaling R$100,000, occurred on March 2, 2004. During the period ended on March 31, 2014, the use of 325,875 treasury shares in connection with the stock option plan involved premium of R$4,097.

e) Legal reserve

Since the balance of legal reserve plus capital reserves, addressed by article 182, paragraph 1, of Law 6404/76, exceeded 30% of the capital, the Company decided, in accordance with article 193 of the same Law, not to recognize a legal reserve on net income earned in the years from 2006.

f) Retained earnings reserve

On March 31, 2014 and 2012, the Company has not recognized a reserve for retained earnings in accordance with Article 196 of Law No. 6.404/76. The Annual General Meeting to approve the financial statements also performs the necessary decisions in order to meet the legal requirements on the limit of the balance of profit booking.

g) Other comprehensive income

The Company recognizes in this account the effect of exchange rate fluctuations on investments in foreign subsidiaries and actuarial gains and losses arising from employee benefit plan, as outlined in note 24. To exchange differences accumulated effect will be reversed to the income statement as a gain or loss on the disposal or write-off of investment. For Actuarial gains and losses, the amounts will be recognized at the time of reassessment of actuarial liabilities.

## 21. SEGMENT INFORMATION

Segment reporting is consistent with management reports provided by the main operating decision-maker to assess the performance of each segment and the allocation of funds. Although the main decision-maker analyzes the information on revenue at its different levels, according to the reports used by management to make decisions, the Company's business is mainly segmented based on the sales of cosmetics by geography, which are as follows: Brazil, Latin America ("LATAM") and other countries. In addition, LATAM is divided into two groups for analysis: (a) Argentina, Chile and Peru ("Consolidating

Operations"); and (b) Mexico and Colombia ("Operations in Implementation"). The segments' business features are similar and each segment offers similar products through the same consumer access method.

Net revenue by geography in the three month period ended in March, 31 of 2014 is as follows:

- Brazil: 81.6%
- Consolidating Operations: 9.3%
- Operations under Implementation: 5.7%
- Other: 3.3%

The accounting practices for each segment are the same as those described in note 2, description of Natura's business and significant accounting policies. The performance of segments of The Company has been evaluated on the basis of the information described in the table below.

The amounts provided to the Executive Committee related to net income and total assets are consistent with the balances recorded in the financial statements and with the accounting policies applied.

| | 03/2014 | | | | |
|---|---|---|---|---|---|
| | Net revenue | Net income | Depreciation and amortization | Financial expenses net | Income tax |
| Brazil | 1,270,521 | 101,750 | (50,990) | (51,914) | (52,205) |
| Argentina, Chile e Peru | 145,109 | 18,826 | (1,326) | 829 | (4,355) |
| México, Venezuela e Colombia | 89,314 | (5,687) | (1,113) | (709) | (303) |
| Other (*) | 51,269 | 2,271 | (3,083) | (98) | (262) |
| Consolidated | 1,556,213 | 117,160 | (56,512) | (51,892) | (57,125) |

| | 03/2013 | | | | |
|---|---|---|---|---|---|
| | Net revenue | Net income | Depreciation and amortization | Financial expenses net | Income tax |
| Brazil | 1,164,534 | 134,828 | (39,407) | (37,283) | (55,848) |
| Argentina, Chile e Peru | 115,841 | (289) | (1,341) | (421) | (1,432) |
| México e Colombia | 55,990 | (1,977) | (739) | (18) | (53) |
| Other (*) | 14,915 | (7,928) | (581) | (71) | (63) |
| Consolidated | 1,351,280 | 124,634 | (42,068) | (37,793) | (57,396) |

| | 03/2014 | | | 12/2013 | | |
|---|---|---|---|---|---|---|
| | Noncurrent assets | Current liabilities | Total assets | Noncurrent assets | Current liabilities | Total assets |
| Brazil | 2,663,329 | 1,958,225 | 6,152,782 | 2,483,488 | 1,998,633 | 5,453,787 |
| Argentina, Chile e Peru | 42,924 | 151,396 | 309,714 | 41,403 | 168,869 | 348,993 |

| | | | | | | |
|---|---|---|---|---|---|---|
| México, Venezuela e Colombia | 15,995 | 86,261 | 145,413 | 17,551 | 95,469 | 151,013 |
| Other (*) | 194,840 | 40,747 | 286,242 | 193,455 | 63,869 | 294,528 |
| Consolidated | 2,917,088 | 2,236,629 | 6,894,151 | 2,735,897 | 2,326,840 | 6,248,321 |

(*) Includes operations in France and Corporate LATAM and Aesop.

The Company has only on class of products that is sold to Natura Beauty Consultants which is classified as "Cosmetics". As such, disclosure of information by products and services is not applicable.

The Company has a diversified customer portfolio, with no concentration of revenue.

The revenue from foreign related parties reported to the Executive Committee was measured in accordance with that presented in the income statement.

## 22. NET REVENUE

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Gross revenue: | | | | |
| Domestic market | 1,733,611 | 1,597,282 | 1,733,841 | 1,596,151 |
| Foreign market | - | - | 351,061 | 236,001 |
| Other sales | 32 | - | 348 | 219 |
| | 1,733,643 | 1,597,282 | 2,085,250 | 1,832,371 |
| Returns and cancellations | (5,299) | (4,027) | (8,468) | (6,964) |
| Taxes on sales | (356,737) | (331,476) | (520,569) | (474,127) |
| Net revenue | 1,371,607 | 1,261,779 | 1,556,213 | 1,351,280 |

## 23. OPERATING EXPENSES AND COST OF SALES

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

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Cost of sales | 505,096 | 458,143 | 466,539 | 403,939 |
| Marketing and selling expenses | 471,191 | 368,897 | 602,718 | 503,457 |
| General and administrative expenses | 193,916 | 219,908 | 271,090 | 223,772 |
| Total | 1,170,203 | 1,046,948 | 1,340,347 | 1,131,168 |

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

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Cost of sales | 505,096 | 458,143 | 466,539 | 403,939 |
| Raw material/packaging Material | 505,096 | 458,143 | 365,638 | 321,231 |
| Workforce | - | - | 48,469 | 41,644 |

| | | | | |
|---|---|---|---|---|
| Depreciation | - | - | 17,079 | 11,650 |
| Others | - | - | 35,353 | 29,414 |
| Marketing and selling expenses | 471,191 | 368,897 | 602,718 | 501,627 |
| Freight | 65,260 | 64,428 | 67,037 | 65,199 |
| Marketing, sales force and other sales expenses | 399,293 | 299,551 | 528,627 | 430,779 |
| Depreciation | 6,639 | 4,918 | 7,054 | 5,649 |
| General and administrative expenses | 193,916 | 219,908 | 271,090 | 225,602 |
| Research and development | - | - | 41,497 | 35,956 |
| Other administrative expenditure | 172,579 | 204,767 | 197,214 | 164,877 |
| Depreciation | 21,337 | 15,141 | 32,379 | 24,769 |
| Total | 1,170,203 | 1,046,948 | 1,340,347 | 1,131,168 |

## 24. EMPLOYEE BENEFITS

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Payroll and bonuses | 75,479 | 55,428 | 170,193 | 119,846 |
| Pension Plan (note 24.2) | 1,043 | 500 | 1,540 | 1,231 |
| Gain based on stocks (note 24.1) | 1,937 | 1,157 | 2,539 | 3,419 |
| Taxes payable | 25,369 | 20,668 | 42,848 | 35,051 |
| | 103,828 | 77,753 | 217,840 | 159,547 |

### 24.1. Gain based on stocks

The Board of Directors, upon granting of options, meets annually in order to establish the option granting plan for the current year, on the basis approved by the General Meeting, indicating the directors and managers who will receive the options and the total number to be distributed.

Under the program format valid until 2008, the options granted had maturity term of four years. Under this format, 50% of the options matured at the end of the third year and the remaining 50% matured at the end of the fourth year. The maximum option exercise term is of 6 years as from March 30 of the year in which the related plan was approved.

In 2009, the program format was changed so that 100% of the options were considered to have matured at the end of the fourth year, with the possibility of early maturity at the end of the third year, under the condition of cancelation of 50% of the options granted in the plans. The maximum option exercise term started to be of 8 years as from the Board of Directors Meeting that approved the plan.

In 2014 1,548,107 options were granted at an exercise price of R$36.87.

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

| 03/2014 | 03/2013 |
|---|---|

| | Average exercise price per share - R$ | Options (thousands) | Average exercise price per share - R$ | Options (thousands) |
|---|---|---|---|---|
| Balance at beginning of year | 43.97 | 6,641 | 35.52 | 5,985 |
| Granted | 36.87 | 1,548 | 51.95 | 2,388 |
| Cancelled | 51.46 | (180) | 46.24 | (716) |
| Exercised | 27.08 | (325) | 29.65 | (1,196) |
| Balance at yearend | 43.83 | 7,054 | 43.97 | 6,461 |

Out of the 7,504 outstanding options as of March 31, 2014 (6,461 outstanding options as of December 31, 2013), 3,354 outstanding options are vested (2,374 outstanding options as of December 31, 2013). The Options exercised in 2014 resulted in the use of 325,000 shares of outstanding treasury shares (1,196 shares for the year ended December 31, 2013).

The expense related to the fair value of the options granted during the quarter ended March 31,2014, according to the elapsed vesting period, was R$1,937 and R$2,539, Company and on a Consolidated basis, respectively (R$1,157 Company and R$3,375 on a Consolidated basis, respectively, as of March 31, 2013).

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

As of March 31, 2014

| Grand date | Exercise price - R$ | Existing options | Remaining contractual life (years) | Vested options |
|---|---|---|---|---|
| April 22, 2009 | 29.45 | 1,307,749 | 3 | 1,308,749 |
| March 19, 2010 | 43.20 | 1,443,345 | 4 | 1,443,345 |
| March 23, 2011 | 50.43 | 1,205,221 | 5 | 602,601 |
| March 18, 2013 | 55.10 | 1,999,115 | 7 | - |
| March 17,2014 | 36.87 | 1,548,107 | 8 | - |
| | | 7,503,537 | | 3,354,755 |

As of December 31, 2013

| Grant date | Exercise price - R$ | Existing options | Remaining contractual life (years) | Vested options |
|---|---|---|---|---|
| April 22, 2008 | 26.42 | 277,856 | 0.31 | 277,856 |
| April 22, 2009 | 28.82 | 1,355,815 | 3.36 | 1,355,815 |
| March 19, 2010 | 42.49 | 1,480,171 | 4.28 | 740,086 |
| March 23, 2011 | 49.35 | 1,251,405 | 5.28 | - |
| March 18, 2013 | 53.93 | 2,095,861 | 7.32 | - |
| | | 6,461,108 | | 2,373,757 |

As of March 31, 2014, market price per share was R$38.12 (R$41.37 as of December 31, 2013).

The options were measured at their fair values on grant date, pursuant to IFRS 2 -

Shared Based Payments. The weighted average fair value of the options as of March 31, 2014 was R$11.07.

Significant data included in the fair value pricing model of the options granted in 2013:

- Volatility of 30.4 % (30% as of March 18, 2013).
- Dividend yield of 5.65% (4% as of March 18, 2013).
- Expected option life of three and four years.
- Risk-free annual interest rate of 12.9% (8.7% as of March 18, 2013).

24.2. 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 share is equivalent to 60% of the employee's contribution according to a contribution scale based on salary ranges from 1% to 5% of the employee's monthly compensation.

As of March 31, 2014, the Group did not have actuarial liabilities arising from the former employees' pension plan.

The contributions made by the Company and its subsidiaries totaled R$1,432 (Company) and R$1,904 (Consolidated) in the period ended March 31, 2014 (R$500, Company and R$748, Consolidated in the in the period ended March 31, 2013) and were recorded as expenses in the period.

## 25. FINANCIAL INCOME (EXPENSES)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Financial income: | | | | |
| Interest on short-term investments | 23,542 | 18,043 | 29,257 | 23,797 |
| Inflation adjustment and foreign exchange gains (a) | 69,921 | 26,932 | 70,119 | 27,082 |
| Gains on swap and forward transactions (b) | 12,177 | 10,750 | 15,700 | 10,781 |
| Other financial income | 7,320 | 1,818 | 8,927 | 4,565 |
| | 112,960 | 57,543 | 124,003 | 66,225 |
| Financial expenses: | | | | |
| Interest on financing | (17,645) | (20,575) | (31,092) | (26,677) |
| Inflation adjustment and foreign exchange losses (a) | (95) | (6) | (2,757) | (3,567) |
| Losses on swap and forward transactions (b) | (117,632) | (60,855) | (121,269) | (60,379) |
| Gains (losses) on the mark-to-market of swap and forward derivatives | 628 | (1,645) | (325) | (4,710) |

| | | | | |
|---|---|---|---|---|
| Other financial expenses | (11,992) | (3,860) | (20,453) | (8,685) |
| | (146,396) | (86,941) | (175,896) | (104,018) |
| Financial expenses, net | (33,436) | (29,398) | (51,893) | (37,793) |

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:

| | Consolidated | |
|---|---|---|
| | 03/2014 | 03/2013 |
| Gains on monetary and exchange variations: | | |
| Exchange rate on loans | 70,097 | 26,909 |
| Exchange rate changes in accounts payable in foreign subsidiaries | 22 | - |
| Exchange variation of receivables export | - | 137 |
| Monetary variations of financing | - | 36 |
| (a) | 70,119 | 27,082 |
| Gains and forward swap transactions: | | |
| Exchange variation of imports | (480) | (3,056) |
| Exchange rate changes in accounts payable in foreign subsidiaries | - | (511) |
| Exchange variation of receivables export | (2,277) | - |
| (b) | (2,757) | (3,567) |
| Gains and forward swap transactions: | | |
| Gain on exchange coupon “swap” | 11,550 | 9,105 |
| Gain on pre swap rate | 4,150 | 1,676 |
| (c) | 15,700 | 10,781 |
| Losses swap and forward: | | |
| Financial costs swap instruments | (67,413) | (26,434) |
| Exchange rate on swap instruments | (53,856) | (25,566) |
| Exchange variation forward | - | (8,379) |
| (d) | (121,269) | (60,379) |

## 26. THER OPERATING INCOME (EXPENSES), NET

| | Company | | Consolidated | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Gain (loss) on sale of property, plant and equipment | 200 | 491 | 387 | 667 |
| PIS and COFINS credits (*) | 6,241 | - | 6,241 | - |
| Untimely used PIS and COFINS credits | - | - | 6,231 | - |
| Other operating income (expenses) | (3,787) | (2,154) | (1,601) | (956) |
| Other operating income (expenses), net | 2,654 | (1,663) | 11,258 | (289) |

(*) The stated amount includes the recognized PIS and COFINS tax credits arising from a favorable outcome in a lawsuit claiming the unconstitutionality and illegality of the PIS and COFINS taxable basis broadening established by Law 9718/98.

## 27. EARNINGS PER SHARE

### 27.1. 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 shares issued during the year, less common shares bought back by the Company and held as treasury shares.

| | 03/2014 | 03/2013 |
|---|---|---|
| Net income attributable to owners of the Company | 117,160 | 124,634 |
| Weighted average of common shares issued - thousands | 431,239,264 | 431,239,264 |
| Weighted average of treasury shares | (2,109,339) | (1,863,072) |
| Weighted average of outstanding common shares | 429,129,925 | 429,376,192 |
| Basic earnings per share - R$ | 0.2730 | 0.2903 |

### 27.2. Diluted

Diluted earnings per share is calculated by adjusting the weighted average outstanding common shares supposing that all potential common shares that would cause dilution are converted. The Company has only one category of common shares that would potentially cause dilution: the stock options.

| | 03/2014 | 03/2013 |
|---|---|---|
| Net income attributable to owners of the Company | 117,160 | 124,634 |
| Weighted average of outstanding common shares | 429,129,925 | 429,376,198 |
| Adjustment for stock options | 823,789 | 1,508,487 |
| Weighted average number of common shares for diluted earnings per share calculation purposes | 429,953,714 | 430,884,685 |
| Diluted earnings per share - R$ | 0.2725 | 0.2893 |

## 28. RELATED-PARTY TRANSACTIONS

### 28.1. Intergroup balances and transactions

Receivables from and payables to related parties are as follows:

| | Company | |
|---|---|---|
| | 03/2014 | 12/2013 |
| Current assets: | | |
| Natura Inovação e Tecnologia de Produtos Ltda. (a) | 1,178 | 2,072 |
| Natura Logística e Serviços Ltda. (b) | 1,461 | 1,927 |
| Indústria e Comércio de Cosméticos Natura Ltda. (c) | 3,978 | 5,370 |
| | 6,617 | 9,369 |
| Current liabilities: | | |
| Trade payables: | | |
| Indústria e Comércio de Cosméticos Natura Ltda. (c) | 193,236 | 249,843 |
| Natura Logística e Serviços Ltda. (d) | 13,265 | 12,886 |
| Natura Inovação e Tecnologia de Produtos Ltda. (e) | 14,393 | 13,789 |
| | 220,894 | 276,518 |
| Dividends and interest on capital payable | 452 | 452 |

Related-party transactions are as follows:

| | Company | | | |
|---|---|---|---|---|
| | Product Sales | | Product purchases | |
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Indústria e Comércio de Cosméticos Natura Ltda. | 765,029 | 670,832 | - | - |
| Natura Cosméticos S.A. - Brasil | - | - | 693,716 | 619,973 |
| Natura Cosméticos S.A. - Peru | - | - | 11,949 | 9,200 |
| Natura Cosméticos S.A. - Argentina | - | - | 18,023 | 13,746 |
| Natura Cosméticos S.A. - Chile | - | - | 18,031 | 11,032 |
| Natura Cosméticos S.A. - México | - | - | 15,035 | 9,820 |
| Natura Cosméticos Ltda. - Colombia | - | - | 7,335 | 5,822 |
| Natura Europa SAS - Franca | - | - | 676 | 855 |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 213 | 374 |
| Natura Logística e Serviços Ltda. | - | - | - | - |
| Natura Biosphera Comércio | - | - | 51 | 10 |
| | 765,029 | 670,832 | 765,029 | 670,832 |

| | Service provided | | Services received | |
|---|---|---|---|---|
| | 03/2014 | 03/2013 | 03/2014 | 03/2013 |
| Administrative structure: (f) | | | | |
| Natura Logística e Serviços Ltda. | 52,885 | 54,243 | - | - |
| Natura Cosméticos S.A. - Brasil | - | - | 41,493 | 42,733 |
| Indústria e Comércio de Cosméticos Natura Ltda. | - | - | 7,369 | 7,450 |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 4,023 | 4,060 |
| | 52,885 | 54,243 | 52,885 | 54,243 |

| | | | | |
|---|---|---|---|---|
| Products and technology research and development: (g) | | | | |
| Natura Inovação e Tecnologia de Produtos Ltda. | 43,859 | 57,615 | - | - |
| Natura Cosméticos S.A. – Brasil | - | - | 43,859 | 57,615 |
| | 43,859 | 57,615 | 43,859 | 57,615 |
| Research and testing "in vitro": (h) | | | | |
| Natura Innovation et Technologie de Produits SAS - Franca | 125 | 345 | - | - |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 125 | 345 |
| | 125 | 345 | 125 | 345 |
| Lease of properties and shared charges: (i) | | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. | 1,970 | 1,966 | - | - |
| Natura Logística e Serviços Ltda. | - | - | 1,221 | 1,139 |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 490 | 458 |
| Natura Cosméticos S.A. - Brasil | - | - | 259 | 369 |
| | 1,970 | 1,966 | 1,970 | 1,966 |
| Total of sales and purchases and services | 863,868 | 785,001 | 863,868 | 785,001 |

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

(b) Advances granted for provision of logistics and general administrative services.

(c) Payables for the purchase of products.

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

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

(f) Logistics and general administrative services.

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

(h) Provision of in vitro research and testing services.

(i) Lease of part of the industrial complex located in Cajamar, SP and buildings located in the municipality of Itapecerica da Serra, SP.

The main intercompany balances as of March 31, 2014 and December 31, 2013, as well as the intercompany transactions that affected the years then ended, refer to transactions between the Company and its subsidiaries.

Because of the Company's and subsidiaries' operational model, as well as the channel chosen to distribute products, direct sales via Natura Beauty Consultants, a substantial portion of sales is made by the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. to the parent company Natura Cosméticos S.A. in Brazil and to its foreign subsidiaries.

Sales to unrelated parties amounted to R$3,011 for the period ended March 31, 2014 (R$2,118 for the period ended March 31, 2013).

There is no allowance for doubtful accounts recognized for intercompany receivables on March 31, 2014 and December 31, 2013 since there are no past-due receivables

with risk of default.

According to note 14, the Group companies usually grant each other pledges and collaterals to guarantee bank loans and financing.

On June 5, 2012, an agreement was signed between Indústria e Comércio de Cosméticos Natura Ltda. and Bres Itupeva Empreendimentos Imobiliários Ltda., ("Bres Itupeva"), for the construction and lease of 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 interest in Bres Itupeva.

In May 2013, the company Eva Movies Audiovisual Ltda. ME, one of whose members is the son of Mr. Alessandro Carlucci, Natura Cosmetics SA president, started providing original video production for the Company, especially for the "Natura Meeting" and event services for the channel "Love Makeup "the estimated contract term is 24 months and the estimated value is R$797.

28.2. Key management personnel compensation

The total compensation of the Company's and its subsidiaries' Management is as follows:

| | 03/2014 | | | 12/2013 | | |
|---|---|---|---|---|---|---|
| | Compensation | | | Compensation | | |
| | Fixed | Variable (*) | Total | Fixed | Variable (*) | Total |
| Board of Directors | 1,562 | 648 | 2,210 | 1,498 | 621 | 2,119 |
| Officers (statutory) | 2,029 | 1,586 | 3,615 | 1,836 | 1,540 | 3,376 |
| Total | 3,591 | 2,234 | 5,825 | 3,334 | 2,161 | 5,495 |
| Executives (not statutory) | 9,225 | 20,716 | 29,941 | 7,713 | 21,356 | 29,069 |

(*) Refers to profit sharing recorded in the year. The amounts include any additions and/or reversals to the provision recorded in the previous year in view of the final assessment of the targets established for directors, officers and executives.

28.3. Share-based payments

Breakdown of Company officers and executives' compensation:

| | 03/2014 | | 12/2013 | |
|---|---|---|---|---|
| | Stock option grant | | Stock option grant | |
| | Stock option balance (number) (a) | Average exercise price R$ (b) | Stock option balance (number) (a) | Average exercise price R$ (b) |
| Officers | 1,557,737 | 36,87 | 1,275,468 | 40,85 |

| | | | | |
|---|---|---|---|---|
| Executives | 2,274,542 | 36,87 | 2,041507 | 40,85 |

(a) Refers to the balance of unexercised vested and unvested options at the end of the reporting period.

(b) Refers to the weighted-average exercise price of the option at the time of the stock option plans, adjusted for inflation based on the Extended Consumer Price Index (IPCA) through the end of the reporting period.

## 29. BUSSINESS COMBINATION (FINISHED IN 2013)

a) Emeis Holdings Pty Ltd

On February 28, 2013, the Company, through the holding company Natura Australia Pty Ltd ("Natura Australia"), completed the acquisition of 65% of the voting capital of Emeis Holdings Pty Ltd ("Emeis"), the final amount of AU $ 71,104.

The Emeis is primarily engaged in the development and marketing of cosmetics and premium beauty and operates under the brand name "Aesop" in Australia, Asia, Europe and North America. The Company acquired Emeis to start operations in the retail market and expand its presence in the international market.

Following the fair values of identifiable assets and liabilities at the date of acquisition Emeis translated at the exchange rate prevailing on February 28, 2013 are presented:

| | **Fair value at the recognition (R$)** |
|---|---|
| **Assets** | |
| availability | 10,896 |
| customers | 5,304 |
| stocks | 12,024 |
| other assets | 5,021 |
| Income Taxes and Contrib. social Deferred | 3,054 |
| immobilized | 15,607 |
| intangible | 3,931 |
| Intangible assets identified: | |
| brands | 79,691 |
| Relationships with retail customers | 1,286 |
| | **136,814** |
| **Liabilities** | |
| Providers | (4,414) |
| Tax Liabilities | (275) |
| Salaries and social security obligations | (1,163) |
| other Provisions | (1,389) |
| Income Taxes and Contrib. social Deferred | (24,457) |

| | |
|---|---|
| Other Payables | (5,727) |
| | **(37,425)** |
| **Total net identifiable assets** | **99,389** |
| Non-controlling interest measured at fair value | (34,786) |
| Restricted deposits | 23,775 |
| Contingent consideration | (16,178) |
| Goodwill on acquisition | 71,708 |
| **Total consideration** | **143,908** |

The measurement of intangible assets was completed in December 2013 and resulted in the award of just the brand (" Aesop ") and relationships with retail customers value and indicated that the fair value at the acquisition date, converted by the exchange rate prevailing at 31 December 2013, was R$83,856, which was reduced by goodwill.

Intangible assets acquired in a business combination have the following estimated useful lives:

| | Years |
|---|---|
| Brands | 25 |
| Relationships with retail customers | 9 |

Goodwill on acquisition date converted by the exchange rate in effect on March 31, 2014 is R$74,132 and understands the value of deriving synergies from the acquisition of future economic benefits.

The allocation of values to intangible assets identified on acquisition date promoted the realization of a liability for deferred taxes on the acquisition date and translated at the exchange rate prevailing on March 31, 2014, in the amount of R$16,353, to be recognized during the period of amortization of the intangible assets. The amount of goodwill allocated that will be deductible for tax purposes.

Was recognized at the acquisition date relating to contingent consideration related to additional payment value based on certain performance indices of R$16,753, the original value in local currency was converted by the exchange rate in effect on March 31, 2014.
The gross nominal value of receivables acquired on the acquisition date and converted into Reais, considered the fair value is $ 5,304 of short-term, and has no expectation of loss.
Costs related to the acquisition of R$4,200 were recognized in the income statement as administrative expenses.

The fair value of the consideration was R$143,908, paid fully in cash on hand. Since February 28, the date of its acquisition, Emeis contributed to the Company's net revenue of R$137,866 and net income of R$14.846, include minority interests.

If the acquisition had occurred at the beginning of the current Emeis have contributed to the Company's net revenue of R$155,156 and net income of R$3,055 (unaudited) reporting.

## 30. COMMITMENTS

### 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, in effect through 2015, which provides for the purchase of a minimum monthly volume of 3.6 Megawatts, equivalent to R$373. As of March 31, 2014, the subsidiary was compliant to the contract's commitment.

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:

| | 03/2014 | 12/2013 |
|---|---|---|
| Less than a year | 2,749 | 3,583 |
| More than one year and less than five years | 3,316 | 3,205 |
| | 6,605 | 6,788 |

### 30.2. Operating lease transactions

The Company and its subsidiaries have commitments arising from operating leases of properties where some of its foreign subsidiaries, the head office in Brazil and "Casas Natura" in Brazil and abroad are located.

Contracts have lease terms of one to ten years and no purchase option clause when terminated; however, renewal is permitted under the market conditions where they are entered into, for an average of two years.

As of March 31, 2014, the commitment made for future payments of these operating leases had the following maturities:

| | Company | Consolidated |
|---|---|---|
| Less than a year | 12,375 | 37,786 |
| More than one year and less than five years | 14,673 | 34,572 |

| | | |
|---|---|---|
| More than five years | - | 3,058 |
| | 27,048 | 75,416 |

## 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 March 31, 2014, insurance coverage is as follows:

| Item | Type of coverage | Insured amount |
|---|---|---|
| Industrial complex/ inventories | Any damages to buildings, facilities, and machinery and equipment | 1,147,604 |
| Vehicles | Fire, theft and collision for 1,358 vehicles | 66,518 |
| Loss of profits | Loss of profits due to material damages to facilities, buildings and production machinery and equipment | 1,841,722 |

## 32. APPROVAL OF FINANCIAL STATEMENTS

The individual and Consolidated financial statements were approved by the Board of Directors and authorized for issue at the meeting held on April 23, 2014.

São Paulo, April 23, 2014 – Natura Cosméticos S.A. (BM&FBovespa: NATU3) announces today its results for the first quarter of 2014 (1Q14). Except where stated otherwise, the financial and operating information in this release is presented on a consolidated basis, in accordance with International Financial Reporting Standards (IFRS).



# 1Q14 Results

## Consistent revenue growth and continued investment in structural projects

In the first quarter of 2014, Natura's consolidated net revenue grew by 15.2% compared to 1Q13 (9.1% in Brazil and 53% in International Operations), EBITDA amounted to R$283.6 million and net income came to R$117.2 million.

In Brazil, the persistence of the more challenging competitive environment is aligned with the decision to increase investments in marketing and innovation aimed at boosting the productivity of our consultants, always committed to finance these initiatives through the capture of efficiency gains in our current operations.

Following the trend observed in the last two quarters of 2013, in 1Q14, the marketing investments, product launches (with the highlight the relaunch of the Tododia line) and expansion in payment options supported an increase in our consultant productivity of 8.2% from last year (or 4.2% in the last 12 months) and net revenue growth of 9.1%.

Meanwhile, in Latin America (excluding Brazil), where the operations grew by 37.4% in local currency, the highlight was Mexico, where the multi-level model (Sustainable Relations Network) has supported strong and consistent results since 2Q13. The entire International Operations (including Aesop), which accounted for 18.4% of consolidated net revenue in the period, grew by 53% compared to 1Q13. The Aesop brand, which was acquired in March 2013, now has 82 concept stores in 10 countries, compared to 58 stores in 1Q13.

Consolidated EBITDA grew 8.2% in the period, with EBITDA margin of 18.2% (19.4% margin in 1Q13). While the International Operations[1] improved from the EBITDA loss of R$7.5 million (EBITDA margin of -4%) to positive EBITDA of R$17.3 million[2] (EBITDA margin of 6%), in Brazil certain factors proved decisive in the 1.2% decrease in EBITDA from 1Q13: the intensification of marketing investments; the continued impacts on gross margin from local-currency depreciation (the price increases were implemented in March); and the nonrecurring costs of R$21 million related to the adjustments to the criteria for recognizing the recoverability of written-off receivables from Consultants and the optimization of the company's organizational structure.

The investments made are appropriate to boost our competitiveness in the local market, and we are also implementing initiatives to capture productivity and maintain profitability at levels similar to those of prior years. Some

| (R$ million) | 1Q14 | 1Q13 | Change (%) |
|---|---|---|---|
| Brazil Gross Revenue | 1,734.7 | 1,596.7 | *8.6* |
| International Gross Revenue | 350.5 | 235.7 | *48.7* |
| **Consolidated Gross Revenue** | **2,085.2** | **1,832.4** | ***13.8*** |
| Brazil Net Revenue | 1,270.5 | 1,164.5 | *9.1* |
| International Net Revenue* | 285.7 | 186.7 | *53.0* |
| **Consolidated Net Revenue** | **1,556.2** | **1,351.3** | ***15.2*** |
| *% Share International Net Revenue* | *18.4%* | *13.8%* | *4.5 pp* |
| Brazil pro-forma EBITDA | 266.4 | 269.5 | *(1.2)* |
| *% Brazil pro-forma EBITDA Margin* | *21.0%* | *23.1%* | *(2.2) pp* |
| International pro-forma EBITDA | 17.3 | (7.5) | *n/d* |
| *% International pro-forma EBITDA Margin* | *6.0%* | *(4.0)%* | *10.0 pp* |
| **EBITDA Consolidado** | **283.6** | **262.1** | ***8.2*** |
| *% Margem EBITDA Consolidada* | *18.2%* | *19.4%* | *(1.2) pp* |
| **Consolidated Net Income** | 117.2 | 124.6 | *(6.0)* |
| *% Consolidated Net Margin* | *7.5%* | *9.2%* | *(1.7) pp* |
| **Internal cash generation** | **138.6** | **184.1** | ***(24.7)*** |
| **Free cash flow** | **(223.8)** | **(118.8)** | ***88.3*** |
| **Net Debt / EBITDA** | **0.86** | **0.53** | |

*Local currency growth ex. Acquisition: 37.4% em 1Q14 vs. 1Q13

[1] International Operations includes Operations in Consolidation, Operations in Implementation and other International Investments (France, Aesop and corporate structure based in Buenos Aires).
[2] Includes a R$6.2 million gain from the adjustment to the acquisition price of AESOP distributors.

of the most relevant initiatives of these are:

_price increases to rebuild margins given the more challenging foreign exchange environment and higher inflationary pressures, with the most important price increases implemented already in March;

_the use of the newly built logistics capacity, with the highlight the new distribution center in São Paulo, which will support higher dilution of logistics fixed costs and operating efficiency gains;

_advances in the collections process, with the adoption of methods and tools better suited to the different stages of overdue receivables;

_more effective and efficient marketing investments;

_productivity gains in administrative expenses and efficiency gains in expenses with the sales team.

Despite the 8.2% growth in consolidated EBITDA, net income contracted by 6.0% from 1Q13, which is explained by the capital expenditure disbursed in prior years, which impacted depreciation expenses, and by the increase in the net financial expense caused by the growth in debt (in line with our planning) and higher interest rates.

The capital expenditure of R$134.5 million in the period (R$60.7 million in 1Q13) was allocated to concluding the Ecoparque complex located in Benevides, Pará, the final stage of the new plant in Cajamar and to information technology projects. For the year, we maintain our guidance of R$500 million, which is below the level of R$553.9 million disbursed last year, with expenditures distributed more evenly over the quarters than in previous years. Compared to 1Q13, this difference in the distribution of capital expenditure contributed to the reduction of R$104.9 million in free cash generation.

We are confident in our plans for 2014, with the highlight the accelerated growth accompanied by profitability in the International Operations and the initiatives to continue improving the productivity of our Consultants in Brazil. We also continue to implement initiatives that will be important for our medium-term strategy, such as the expansion of the Natura Network and the development of new brands and categories. Furthermore, a more efficient organization focused on executing the short- and medium-term strategy will help capture productivity gains to ensure our competitiveness and a better balance in our profitability.

# 1. cosmetics, fragrance and toiletries industry

According to data for last year from Euromonitor (data for 2014 are not yet available), Brazil remains the world's third-largest CFT market and for the ninth year in a row Natura maintained its leadership in this market.

In our combined International Operations in Latin America (ex-Brazil), we climbed from the eighth to seventh position in the ranking, with market share gains of 70 bps and 20 bps in the operations in Consolidation and in Implementation, respectively.

| | Market Size (US$ Million) | | | Natura Market Share (%) | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Brazilian Operations | 42,951 | 38,299 | *12.1%* | 12.4% | 13.0% | *(0.7) pp* |
| Consolidation Operations | 10,973 | 9,241 | *18.7%* | 5.1% | 4.4% | *0.7 pp* |
| Implementation Operations | 14,964 | 14,200 | *5.4%* | 1.5% | 1.3% | *0.2 pp* |
| **Total** | **68,888** | **61,740** | ***11.6%*** | **8.8%** | **9.0%** | ***(0.2) pp*** |

Source: Euromonitor 2013

i. Euromonitor believes the total market for cosmetics, perfumes and toiletries at retail prices.

ii. Values in constant dollars, 2013

iii. Market value and market share for 2012 were reviewed by the consulting firm

iv. Consolidation Operations: Argentina, Chile and Peru

v. Implementation Operations: Colombia and Mexico

Also in 2013, our target market grew by 10.6%, based on data published by SIPATESP/ABHIPEC[3]. Our market share decreased by 120 bps, with the loss concentrated in the Cosmetics and Fragrances categories. In the Toiletry categories, the highlight was the excellent results in the SOU line that was launched in the second half of 2013, which played an important role in keeping our market share stable in these categories.

| Brazil | Market Size (R$ Million) | | | Natura Market Share (%) | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Cosmetics and Fragrances | 13,085 | 11,902 | *9.9%* | 30.9% | 33.1% | *(2.2) pp* |
| Toiletries | 14,450 | 12,998 | *11.2%* | 11.4% | 11.6% | *(0.2) pp* |
| **Total** | **27,535** | **24,900** | ***10.6%*** | **20.7%** | **21.9%** | ***(1.2) pp*** |

Source: Sipatesp

[3] Sipatesp/Abihpec: São Paulo State Perfumery and Toiletry Association / Brazilian Cosmetics, Fragrance and Toiletry Industry Association.

# 2. social and environmental highlights

We concluded Natura's new Sustainability Vision, which outlines the company's aspiration to go beyond simply reducing or offsetting the effects of its activities to become a generator of positive impacts on society and the environment. The vision was drafted based on international analyses and global trends in sustainability and was inspired by a series of dialogues conducted with Natura's stakeholders. Structured on three pillars (Our Brands and Products, Our Network and Our Management and Organization), the vision establishes guidelines and public ambitions for 2020.

Another highlight this quarter was the inauguration of Ecoparque, which is an industrial complex that will operate under a symbiotic model based on connecting various companies with complementary needs. The goal is to form a cooperative network that can share resources and coordinate joint alternatives to encourage the development of sustainable businesses in the Amazon region. Natura's new soap plant installed in the Ecoparque will be responsible for the entire manufacturing process and aims to triple the production of this product by 2015, expand the use of raw materials and reduce costs by concentrating industrial processes close to the supply chain.

Ecoparque brings important innovations in sustainability, such as: filtering gardens to treat effluents, natural ventilation and lighting in buildings and the use of rainwater for building maintenance. It will also create 240 direct jobs, employ 98% local labor and source 70% of its services locally.

On April 11, during our Shareholders' Meeting, we launched the 2013 Annual Report, with the Internet used as the main publication vehicle due to its reach and accessibility as well as its lower environmental impact. We adopted the new G4 guidelines of the Global Reporting Initiative (GRI) and the Integrated Reporting guidelines proposed by the International Integrated Reporting Council (IIRC), which increases the correlation between financial and non-financial results and adopts a long-term vision.

The table below presents the cumulative social and environmental results of the first quarter of 2014. In order to align the targets for 2014 with our new sustainability vision, they will be made available only in 2Q14.

| Indicator | 2013 Results | 1Q14 Results |
|---|---|---|
| Greenhouse gas (GHG) emissions | Reduction of 33.2% over 2006 | Not available* |
| Water consumption | 0.40 liter/ unit produced | 0.36 liter / unit produced |
| Solid Waste | 21.7 grams / unit produced | 22.1 grams/unit produced |
| Collections Crer para Ver* | R$ 17.1 million | R$ 4.3 million |
| Funding to Supplier Communities ** | R$ 11.2 million | R$ 1.3 million |
| Business volume in the Amazon region*** | R$ 201.5 million | R$ 46.3 million |

** Result to be made available next quarter.*
*** Indicator formed primarily by the sharing of benefits and the amounts paid for the acquisition of raw materials.*
**** Includes Natura and other partners.*

# 3. economic performance

*In the pro-forma results, the profit margin obtained on exports from Brazil to the International Operations was subtracted from the COGS of the respective operations in order to show the actual impact of these subsidiaries on the company's consolidated results. Accordingly, the pro-forma income statement for the Brazilian operations considers only the sales made in the domestic market.*

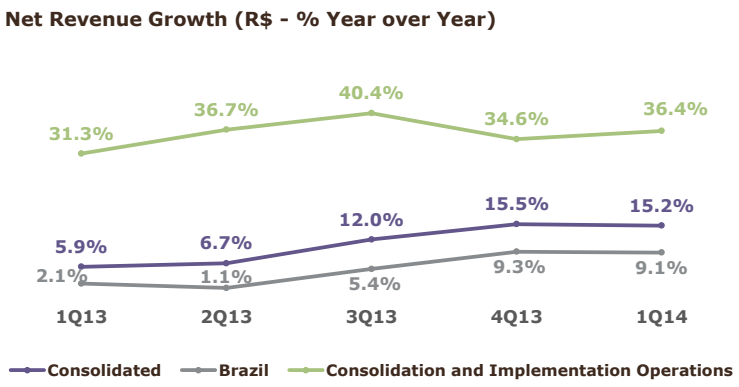
| Quarter | | | | Pro-Forma | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (R$ million) | Consolidated[4] | | | Brazil | | | Consolidation | | | Implementation | | |
| | 1Q14 | 1Q13 | Change% | 1Q14 | 1Q13 | Change% | 1Q14 | 1Q13 | Change% | 1Q14 | 1Q13 | Change% |
| Total Consultants - end of period ('000)[5] | 1,650.5 | 1,556.8 | 6.0 | 1,276.4 | 1,257.6 | 1.5 | 230.4 | 188.8 | 22.1 | 142.2 | 108.2 | 31.4 |
| Total Consultants - average of period ('000) | 1,636.6 | 1,557.2 | 5.1 | 1,261.1 | 1,256.2 | 0.4 | 228.7 | 189.7 | 20.6 | 145.3 | 108.8 | 33.4 |
| Units sold – items for resale | 128.4 | 111.6 | 15.1 | 110.2 | 98.2 | 12.2 | 11.6 | 9.1 | 27.6 | 5.9 | 4.2 | 42.0 |
| **Gross Revenue** | **2,085.2** | **1,832.4** | **13.8** | **1,734.7** | **1,596.7** | **8.6** | **195.1** | **155.1** | **25.8** | **103.6** | **65.2** | **58.9** |
| **Net Revenue** | **1,556.2** | **1,351.3** | **15.2** | **1,270.5** | **1,164.5** | **9.1** | **145.1** | **115.8** | **25.3** | **89.3** | **56.0** | **59.5** |
| **Gross Profit** | **1,089.7** | **947.3** | **15.0** | **877.4** | **816.5** | **7.5** | **103.6** | **81.2** | **27.6** | **64.2** | **38.4** | **66.9** |
| Selling, Marketing and Logistics Expenses | (602.7) | (503.5) | 19.7 | (471.2) | (414.6) | 13.7 | (70.4) | (55.9) | 25.9 | (50.4) | (28.6) | 75.9 |
| General and Administrative Expenses | (271.1) | (223.8) | 21.1 | (196.5) | (171.4) | 14.6 | (10.4) | (10.4) | (0.4) | (10.4) | (7.2) | 44.8 |
| Other Operating Income / (Expenses), net | 11.3 | (0.3) | n/a | 5.6 | (0.3) | n/a | (0.5) | 0.2 | n/a | (0.1) | 0.5 | n/a |
| Financial Income / (Expenses), net | (51.9) | (37.8) | n/a | (51.9) | (37.3) | n/a | 0.8 | (0.4) | n/a | (0.7) | (0.0) | n/a |
| Income Tax and Social Contribution | (57.1) | (57.4) | (0.5) | (52.2) | (55.8) | (6.5) | (4.4) | (1.4) | n/a | (0.3) | (0.1) | 474.3 |
| Noncontrolling | (0.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net Income** | **117.2** | **124.6** | **(6.0)** | **111.2** | **137.0** | **(18.8)** | **18.8** | **13.2** | **43.0** | **2.3** | **3.0** | **(24.5)** |
| **EBITDA*** | **283.6** | **262.1** | **8.2** | **266.4** | **269.5** | **(1.2)** | **23.5** | **16.2** | **45.5** | **4.4** | **3.8** | **15.2** |
| Gross Margin | *70.0%* | *70.1%* | *(0.1) pp* | *69.1%* | *70.1%* | *(1.1) pp* | *71.4%* | *70.1%* | *1.3 pp* | *71.8%* | *68.6%* | *3.2 pp* |
| Sales Expenses/Net Revenue | *38.7%* | *37.3%* | *1.5 pp* | *37.1%* | *35.6%* | *1.5 pp* | *48.5%* | *48.3%* | *0.2 pp* | *56.4%* | *51.1%* | *5.2 pp* |
| General and Admin. Expenses/Net Revenue | *17.4%* | *16.6%* | *0.9 pp* | *15.5%* | *14.7%* | *0.7 pp* | *7.2%* | *9.0%* | *(1.8) pp* | *11.7%* | *12.9%* | *(1.2) pp* |
| Net Margin | *7.5%* | *9.2%* | *(1.7) pp* | *8.8%* | *11.8%* | *(3.0) pp* | *13.0%* | *11.4%* | *1.6 pp* | *2.5%* | *5.4%* | *(2.8) pp* |
| EBITDA Margin | *18.2%* | *19.4%* | *(1.2) pp* | *21.0%* | *23.1%* | *(2.2) pp* | *16.2%* | *14.0%* | *2.3 pp* | *4.9%* | *6.8%* | *(1.9) pp* |

(*) EBITDA = Income from operations before financial effects + depreciation & amortization.

*The pro-forma Income Statement for 1Q13 above includes three reclassifications in Brazil and consequently in the Consolidated figures in order to improve comparisons with 1Q14. These adjustments do not impact the figures for EBITDA and Net Income previously reported. These reclassifications between lines are as follows: (1) the reclassification to "Cost of Goods Sold" of the expenses with the provision for employee profit sharing, which were allocated to "Administrative, R&D, IT and Project Expenses;" (2) the reclassification of a portion of "Selling, Marketing and Logistics Expenses" to "Administrative, R&D, IT and Project Expenses;" and (3) the consolidation by "Administrative R&D, IT and Project Expenses" of the former line "Management compensation," the details of which are available in Note 28.2 to the Financial Statements. These same adjustments will be made in subsequent quarters for amounts referring to 2013.*

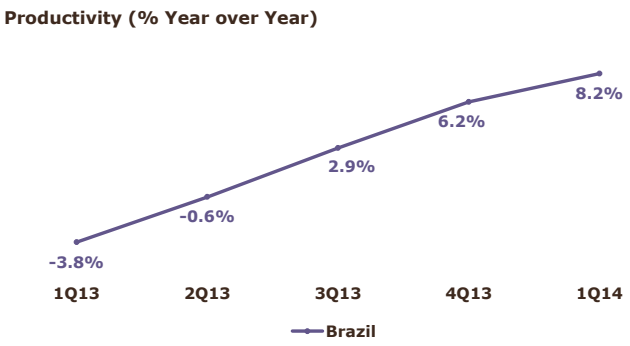
[4] Consolidated figures include the Brazil Operations, the Operations in Consolidation, the Operations in Implementation and other International Investments and consider the impact from acquisitions.
[5] Position at the end of Cycle 5 in Brazil, Argentina, Mexico and France; and Cycle 3 in Chile, Peru and Colombia.

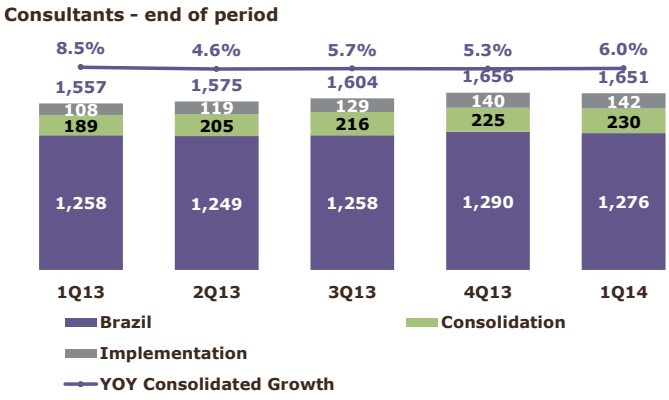
## 3.1. net revenue




In **Brazil**, the 8.2% increase in consultant productivity (R$1,965 in 1Q14 versus R$1,816 in 1Q13) was the main driver of the net revenue growth of 9.1% in the quarter. This productivity gain was made possible by the higher investments in marketing and important innovations, such as the SOU line (launched between July and October 2013) and the relaunch of the Tododia line (February 2014), and by the offering of new payment options to consultants.

Since mid-2012, when we began to focus our strategy on expanding the shopping basket of our consumers and consequently on the productivity of our consultants, we have worked to obtain revenue growth that is better balanced between the number of consultants and their productivity. However, the 0.4% growth in the average base of available consultants[6] in 1Q14 still reflects the channel's lower activation. For 2014, in addition to intensifying our marketing investments, we remain confident that the new technology tools, the optimization of sales team practices and the channel segmentation plans will make important contributions to increasing the buying frequency and productivity of our consultants.




In 1Q13, the **International Operations**[7] grew by 53.0% in Brazilian Real to account for 18.4% of consolidated net revenue. The Operations in Consolidation posted net revenue growth of 35.1% in local currency (25.3% in Brazilian real), with growth in Brazilian Real lagging that in local currency, which is explained by the depreciation in the Argentine peso. Furthermore, in Argentina, we faced supply problems in the first quarter caused by import restrictions, with this situation normalized in April. Meanwhile, the Operations in Implementation grew by 44.4% in local currency (59.5% in Brazilian real). Although all operations posted results consistent with our strategy, the highlight was Mexico, where, after a period of adaptation to the multi-level model (i.e., Sustainable Relations Network) that was implemented in July 2011, we are already capturing its benefits, especially in terms of the channel's accelerated growth. The operations under the brand Aesop, which began to be

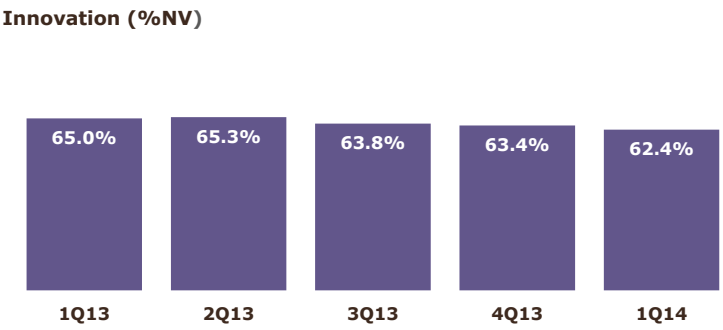
[6] We consider as available all consultants who have placed at least one order in a period of four consecutive sales cycles.
[7] The International Operations include the Operations in Consolidation, the Operations in Implementation, France and Aesop.

consolidated into Natura's results in March 2013, continued to grow at an accelerated pace and in line with the expansion plan, closing the quarter with 82 concept stores in 10 countries[8].

## 3.2. innovation & products

In the 12 months ended March 2014, the innovation index[9] stood at 62.4% (65.0% in the prior-year period), which is within the expected range.

Recent launches, such as the SOU line (July to October 2013) and the relaunch of the Todia line (February 2014), as well as the innovation plan for the coming months, will help to improve consultant productivity and consequently to keep the innovation index within the expected range of 60% to 70%.



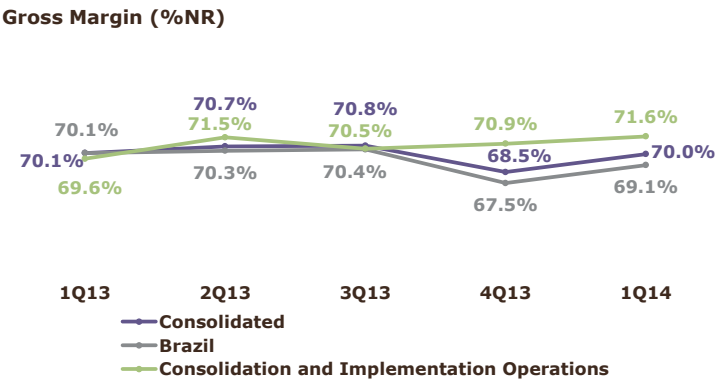

## 3.3. gross margin

In 1Q14, consolidated gross margin remained stable compared to the previous year, which is explained by the margin expansion in the International Operations and the margin compression in Brazil. In the International Operations, we maintained the trend of gross margin expansion observed in prior quarters, due to the still-favorable foreign exchange scenario in certain countries and the incorporation of the high gross margin of AESOP. In Brazil, as planned and already observed since 3Q13, the margin compression reflected the increased promotional efforts to reactivate our consultant base and the impact from the more adverse currency exchange scenario that had not yet been fully offset by price increases, which were implemented in March 2014.

The following table presents the main components of COGS:

| | 1Q14 | 1Q13 |
|---|---|---|
| RM / PM / FP* | 78.4 | 79.5 |
| Labor | 10.4 | 11.7 |
| Depreciation | 3.7 | 2.9 |
| Other | 7.6 | 5.9 |
| **Total** | **100.0** | **100.0** |

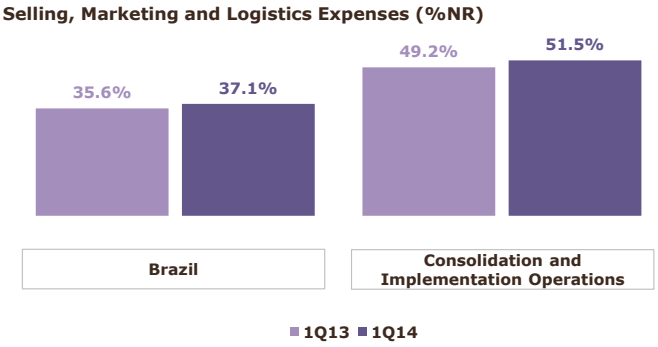
*Raw materials, packaging materials and finished products.

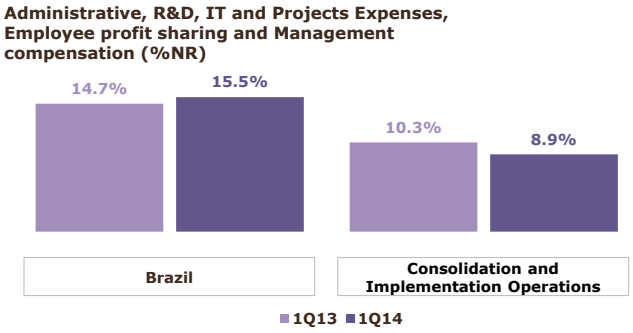



[8] Australia, Hong Kong, Japan, Malaysia, Singapore, France, Germany, Switzerland, United Kingdom and United States.
[9] Innovation Index: share in the last 12 months of the sale of products launched in the last 24 months.

## 3.4. operating expenses

In Brazil, the increase in **selling, marketing and logistics expenses** is mainly explained by the higher marketing investments to activate the channel and relaunch one of our main sub-brands (Tododia), and by the recognition of a nonrecurring losses related to negotiations in the collections process, which reflects the lower likelihood of receiving funds from agreements for written-off receivables from consultants. In the International Operations, we also intensified our marketing investments to leverage the good growth momentum in the channel resulting from the Sustainable Relations Network model in Mexico.




**Administrative, R&D, IT and Project** expenses in Brazil increased as a ratio of net revenue driven by the higher depreciation expenses, the continued investments in strategic and information technology projects and nonrecurring severance costs related to the structure streamlining. These ongoing initiatives that were described above seek efficiency gains in this group of expenses, which should be captured over the coming quarters. In the International Operations, these expenses were diluted in the Operations in Consolidation, while in the Operations in Implementation this expense was augmented by the filling of positions that had been vacant in the first quarter of 2013.

## 3.5. other operating income and expenses

In 1Q14, on a consolidated basis, this line registered income of R$11.3 million, compared to the expense of R$0.3 million in 1Q13. The income recorded in 2014 is explained primarily by the R$6.2 million in ICMS tax credits from prior periods related to returns and by the R$6.2 million generated by the adjustment in the sales price for the acquisition of the distributors of Aesop, as per Note 26 to our financial statements.

## 3.6. other international investments

The other international investments, namely the operation in France, the international corporate structure based in Buenos Aires and the AESOP operation, recorded an EBITDA loss of R$10.7 million in 1Q14, compared to the loss of R$27.5 million in 1Q13. The lower loss is explained by positive result posted by AESOP[10] and by the recognition of the adjustment in the acquisition price mentioned in

[10] In 1Q13, we recorded only the result for March 2013, since the acquisition was concluded only on February 28, 2013. In addition, in the same quarter, we incurred acquisition costs that had an adverse impact on the result of "other international investments."

item 3.5. Furthermore, the depreciation in the Argentine peso against the Brazilian Real had a positive impact on keeping the level of corporate expenses stable in nominal terms.

## 3.7. EBITDA

In 1Q14, consolidated EBITDA amounted to R$283.6 million, growing 8.2% from the same period of 2013, with EBITDA margin of 18.2%, compared to 19.4% in 1Q13. In Brazil, the contraction in EBITDA from the year-ago period was due to the contraction in gross margin, which was caused by the currency translation impacts that occurred before the price increases were implemented and by the promotions targeting consultants, to the higher investments in marketing and in strategic and IT projects, as well as to the nonrecurring effects from the adjustment to the criteria used for recognizing the recoverability of receivables and the adjustments to the company structure. In the Operations in Consolidation, EBITDA margin expanded by 230 basis points from 1Q13, which is mainly explained by the gross margin expansion and by the leveraging of operating expenses. Meanwhile, in the Operations in Implementation, in line with our planning, EBITDA margin contracted by 190 basis points due to the higher marketing investments, especially in our Mexico operation.

**EBITDA (R$ million)**
*Figures include the operating result and transaction costs associated with Aesop*

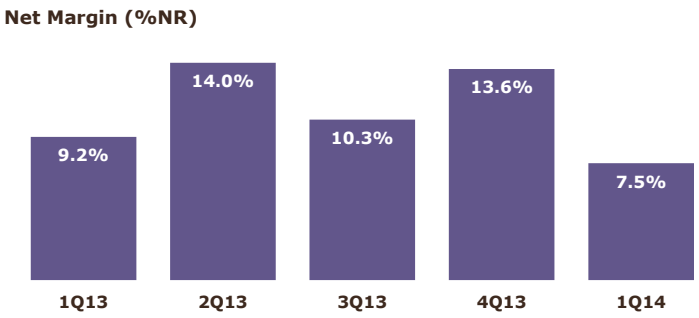
| | 1Q14 | 1Q13 | Change % |
|---|---|---|---|
| Net Revenue | 1,556.2 | 1,351.3 | *15.2* |
| (-) Cost of Sales and Expenses | 1,329.1 | 1,131.4 | *17.5* |
| **EBIT** | **227.1** | **219.8** | ***3.3*** |
| Adjust Non-controlling interest | 0.0 | 0.2 | *n/a* |
| (+) Depreciation/Amortization | 56.5 | 42.1 | *34.3* |
| **EBITDA** | **283.6** | **262.1** | ***8.2*** |

The higher expenses with depreciation and amortization (34.3% in the quarter) reflect the investments in infrastructure (logistics and manufacturing) and in information technology.

**Pro-forma EBITDA by operational bloc (R$ million)**
*Figures include the operating result and transaction costs associated with Aesop*

| | 1Q14 | 1Q13 | Change % |
|---|---|---|---|
| Brazil | 266.4 | 269.5 | *(1.2)* |
| Argentina, Chile and Peru | 23.5 | 16.2 | *45.5* |
| Mexico and Colombia | 4.4 | 3.8 | *15.2* |
| Other Investments | (10.7) | (27.5) | *n/a* |
| **EBITDA** | **283.6** | **262.1** | ***8.2*** |

## 3.8. net income




In 1Q14, consolidated net income contracted by 6% from the same period last year. This reduction is explained by three factors: a) the 34.3% increase in expenses with depreciation and amortization due to the investments in logistics, production capacity and information technology made over the last few years; b) the 37.3% increase in the financial expense due to the growth in debt, as planned, and the higher interest rates in the Brazilian market; and c) the effect from adopting the straight-line method[11] for income tax in 2013, since the first quarters of the previous year the rate remained at around 31.5% and only in the fourth quarter was this rate adjusted to reflect the rate in the year of 32.5%, which is in line with the rate in 1Q14.

Because they involve the straight lining of income tax and of expenses not related to the short-term growth of the business, these three impacts will be better balanced over the course of the year and in turn increase the correlation between the growth of the business and the growth in net income.

Excluding the impact from the marking to market of derivatives pegged to foreign-denominated debt, the net financial expense increased by 55.9% from 1Q13, which contributed to the 9.2% decrease in adjusted net income.

| *(R$ million)* | 1Q14 | 1Q13 | Change |
|---|---|---|---|
| **Financial Income/ (Expenses), net** | **(51.9)** | **(37.8)** | ***(14.1)*** |
| Mark-to-Market adjustment | (0.3) | (4.7) | 4.4 |
| **Financial Income/ (Expenses) ex. Mark-to-Market, net** | **(51.6)** | **(33.1)** | ***(18.5)*** |

## 3.9. cash flow[12]

In 1Q14, internal cash generation amounted to R$138.6 million, down 24.7% from 1Q13, reflecting mainly the reduction in net income and the negative impact from deferred income tax on non-cash items.

The capital expenditure of R$134.5 million in the period (R$60.7 million in 1Q13) was allocated to concluding the Ecoparque complex located in Benevides, Pará, the final stage of the new plant in Cajamar and to information technology projects. For the year, we maintain our guidance of R$500 million, which is below the level of R$553.9 million disbursed last year, with expenditures distributed more evenly over the quarters than in previous years. Compared to 1Q13, this difference in the

[11] We straight line of the effective rate of our income tax and social contribution based on a projection of our taxable income in the year. The quarterly periods are adjusted for this projection through the recognition of deferred income tax, as described in Note 10 to the interim financial statements.

[12] In pro-forma cash flow, certain amounts in 2013 were reclassified to noncash items in order to improve comparability with 1Q14. Furthermore, with the reclassification of certain lines on the balance sheet for 2012 (see Note 4.3 to the 4Q13 Financial Statements), the variation in working capital in March 2013 was recalculated and restated.

distribution of capital expenditure contributed to the reduction of R$104.9 million in free cash generation.

Average working capital as a ratio of net revenue improved by 30 basis points in the period, reflecting on the one hand the stability in inventory coverage and the expected increase in the average payables term, and on the other hand the increase in the receivables term of our consultants in Brazil, which reflects the offering of new payment options. Recoverable taxes and reducing inventory coverage continue to represent opportunities to be captured over the coming quarters.

| R$ million | 1Q14 | 1Q13 | Change R$ | Change % |
|---|---|---|---|---|
| **Net Income** | **117.2** | **124.6** | **(7.5)** | ***(6.0)*** |
| Depreciation and amortization | 56.5 | 42.1 | 14.4 | *34.3* |
| Non-cash / Other* | (35.1) | 17.4 | (52.5) | *n/a* |
| **Internal cash generation** | **138.6** | **184.1** | **(45.5)** | ***(24.7)*** |
| Working Capital (Increase)/Decrease | (227.8) | (242.2) | 14.4 | *n/a* |
| **Operating cash generation** | **(89.3)** | **(58.1)** | **(31.1)** | ***53.6*** |
| CAPEX | (134.5) | (60.7) | (73.8) | *121.6* |
| **Free cash flow**** | **(223.8)** | **(118.8)** | **(104.9)** | ***88.3*** |

Favorable/ (unfavorable)

(*) Some 2012 figures were adjusted for proper disclosure

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

## 3.10. indebtedness

The increases in total debt and net debt mainly reflect the capital expenditure disbursed in the period and the higher working capital needs, which remained within the levels expected for the end of the first quarter of 2014.

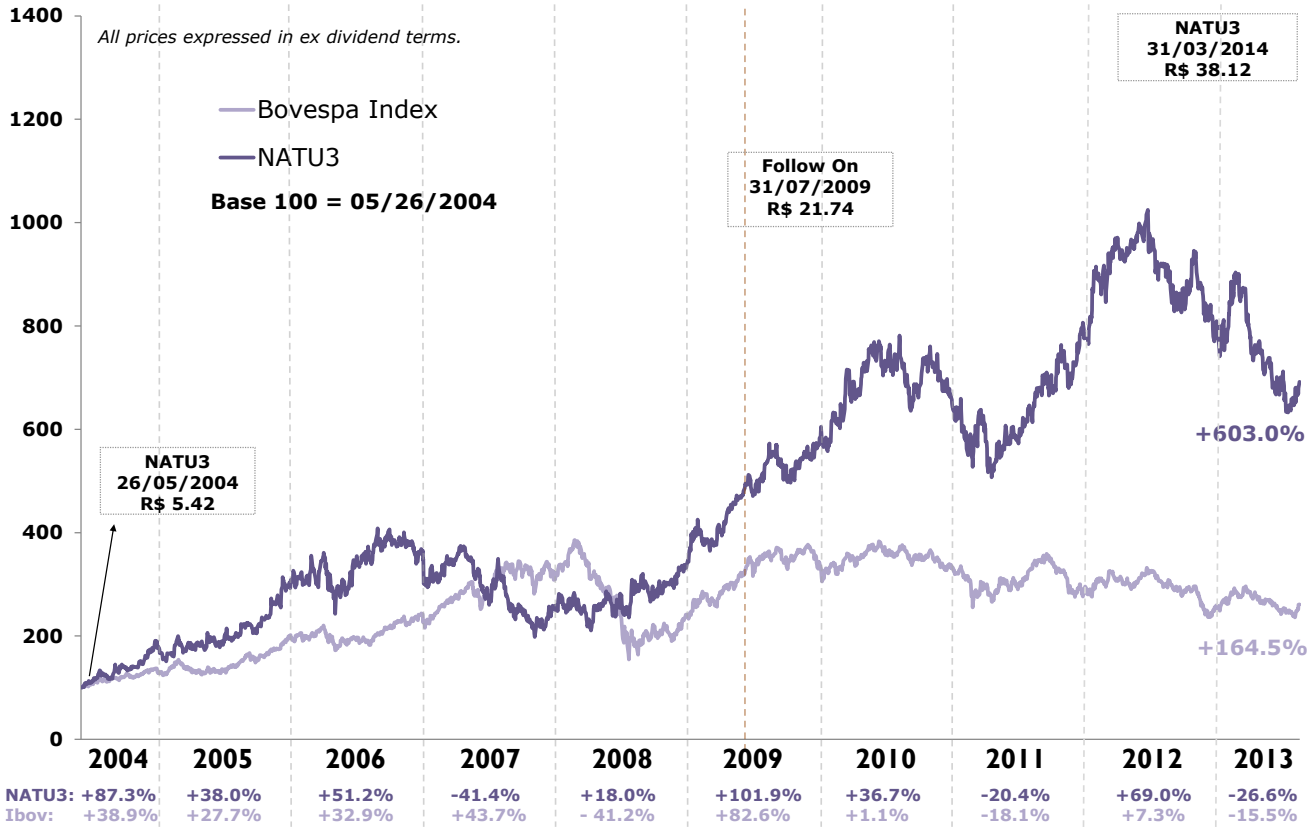
| Debt (R$ million) | Mar/14 | Share (%) | Mar/13 | Share (%) | Change (%) |
|---|---|---|---|---|---|
| Short-Term | 759.7 | *23.9* | 968.3 | *41.6* | *(21.5)* |
| Long-Term | 2,821.9 | *88.8* | 1,648.3 | *70.9* | *71.2* |
| Derivatives | (85.8) | *(2.7)* | (54.3) | *(2.3)* | *58.0* |
| Finance Leases | (319.2) | *(10.1)* | (236.6) | *(10.2)* | *34.9* |
| **Total Debt** | **3,176.5** | ***100.0*** | **2,325.6** | ***100.0*** | ***36.6*** |
| (-) Cash, cash equivalents and short-term investment | 1,781.4 | | 1,536.0 | | *16.0* |
| **(=) Net Debt - Net Cash** | **1,395.1** | | **789.6** | | ***76.7*** |
| Net Debt / Ebitda | 0.86 | | 0.53 | | |
| Total Debt / Ebitda | 1.95 | | 1.55 | | |

# 4. stock performance

In 1Q14, the price of Natura stock declined by 6.3% from December 31, 2013, while the Bovespa Index fell by 2.9%. Average daily trading volume in 1Q14 was R$57.6 million, compared to R$78.6 million in the prior-year period.

Our average ranking in the Bovespa Liquidity Index in the period was 38th.

The following chart shows the performance of Natura stock since its IPO:



# conference call & webcast

**PORTUGUESE:** Friday, April 25, 2014

10:00 a.m. (Brasília time)

**ENGLISH:** Friday, April 25, 2014

12:00 p.m. (Brasília time)

From Brazil: **+55 11 3193 1001 /+55 11 2820 4001**

From the USA: Toll free **+1 888 700 0802**

From other countries: **+1 786 924 6977**

Code: **Natura**

Live webcast:

**www.natura.net/investidor**

# investor relations

**Tel: +55 (11) 4196-1421**

Fabio Cefaly, fabiocefaly@natura.net

Tatiana Bravin, tatianabravin@natura.net

Francisco Petroni, franciscopetroni@natura.net

Julia Villas Bôas, juliaboas@natura.net

# balance sheets

## at March 2014 and December 2013

**(in millions of Brazilian real - R$)**

| ASSETS | Mar/14 | Dec/13 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 1,379.6 | 1,016.3 |
| Short-term investments | 401.8 | 293.0 |
| Trade receivables | 753.0 | 807.0 |
| Inventories | 912.8 | 799.5 |
| Recoverable taxes | 183.0 | 181.1 |
| Derivatives | 85.8 | 153.6 |
| Other receivables | 261.0 | 262.4 |
| **Total current assets** | **3,977.1** | **3,512.9** |
| **NONCURRENT ASSETS** | | |
| Long-term assets: | | |
| Recoverable taxes | 187.1 | 175.1 |
| Deferred income tax and social contribution | 220.5 | 193.8 |
| Escrow deposits | 426.5 | 412.4 |
| Other noncurrent assets | 29.1 | 37.2 |
| Property, plant and equipment | 1,539.2 | 1,439.7 |
| Intangible assets | 514.7 | 477.3 |
| **Total noncurrent assets** | **2,917.1** | **2,735.4** |
| **TOTAL ASSETS** | **6,894.2** | **6,248.3** |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Mar/14 | Dec/13 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Borrowings and financing | 759.7 | 693.1 |
| Trade and other payables | 666.8 | 706.6 |
| Payroll, profit sharing and related taxes | 151.6 | 177.6 |
| Taxes payable | 596.1 | 659.3 |
| Other payables | 62.4 | 90.2 |
| **Total current liabilities** | **2,236.6** | **2,326.8** |
| **NONCURRENT LIABILITIES** | | |
| Borrowings and financing | 2,821.9 | 2,200.8 |
| Taxes payable | 225.6 | 215.6 |
| Provision for tax, civil and labor risks | 77.1 | 73.8 |
| Others provisions | 258.9 | 263.0 |
| **Total noncurrent liabilities** | **3,383.5** | **2,753.2** |
| **SHAREHOLDERS' EQUITY** | | |
| Capital | 427.1 | 427.1 |
| Capital reserves | 148.3 | 150.4 |
| Earnings reserves | 280.4 | 162.6 |
| Treasury shares | (71.0) | (84.0) |
| Proposed additional dividend | 496.4 | 496.4 |
| Other comprehensive losses | (31.6) | (6.9) |
| **Total equity attributable to owners of the Company** | **1,249.5** | **1,145.6** |
| **Non- controlling interests** | **24.5** | **22.6** |
| **Total equity** | **1,274.0** | **1,168.3** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **6,894.2** | **6,248.3** |

# statements of income

for the periods ended March 31, 2014 and 2013

| (R$ million) | 1Q14 | 1Q13 |
|---|---|---|
| **NET REVENUE** | **1,556.2** | **1,351.3** |
| Cost of sales | (466.5) | (403.9) |
| **GROSS PROFIT** | **1,089.7** | **947.3** |
| **OPERATING (EXPENSES) INCOME** | | |
| Selling expenses | (602.7) | (503.5) |
| General and administrative expenses | (271.1) | (223.8) |
| Other operating (expenses) income, net | 11.3 | (0.3) |
| **INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)** | **227.1** | **219.8** |
| Financial income | 124.0 | 66.2 |
| Financial expenses | (175.9) | (104.0) |
| **INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION** | **175.2** | **182.0** |
| Income tax and social contribution | (57.1) | (57.4) |
| **INCOME BEFORE NON-CONTROLLING INTEREST** | **118.1** | **124.6** |
| ATTRIBUTABLE TO | | |
| Owners of the Company | 117.2 | 124.8 |
| Noncontrolling | 0.9 | (0.2) |
| | **118.1** | **124.6** |

# statements of cash flow

for the periods ended March 31, 2014 and 2013

| (R$ million) | 1T14 | 1T13 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Net income** | **117.2** | **124.6** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 56.5 | 42.1 |
| Provision for losses on swap and forward transactions | 40.0 | 50.6 |
| Provision (reversal) for tax, civil and labor contingencies | 3.3 | (2.0) |
| Interest and inflation adjustment of escrow deposits | (8.2) | (3.8) |
| Income tax and social contribution | 57.1 | 57.0 |
| (Gain) loss on sale on property, plant and equipment and intangible assets | 19.4 | 7.1 |
| Interest and exchange rate changes on borrowings and financing and other liabilities | (41.3) | (5.3) |
| Exchange rate changes on other assets and other liabilities | (25.0) | 1.2 |
| Expenses with stock options plans | 2.5 | 3.4 |
| Allowance for doubtful accounts | 6.1 | (7.8) |
| Allowance for inventory losses | (7.5) | 3.4 |
| Net income attributable to non-controlling shareholders | 1.9 | 0.0 |
| Provision for healthcare plan and carbon credits | 0.8 | (1.0) |
| Recognition of untimely used tax credits | (6.2) | 0.0 |
| Provision for acquisition of non-controlling interest | 3.2 | 0.0 |
| | **219.6** | **269.4** |
| **(INCREASE) DECREASE IN ASSETS** | | |
| Trade receivables | 48.0 | 55.0 |
| Inventories | (105.8) | (107.8) |
| Recoverable taxes | (7.7) | (32.4) |
| Other receivables | 9.5 | (72.1) |
| **Subtotal** | **(56.0)** | **(157.3)** |
| **INCREASE (DECREASE) IN LIABILITIES** | | |
| Domestic and foreign suppliers | (41.0) | (25.9) |
| Payroll, profit sharing and related taxes, net | (26.0) | (60.7) |
| Taxes payable | (19.5) | (11.5) |
| Other payables | (28.5) | 40.6 |
| Provision for tax, civil and labor contingencies | 0.0 | (1.0) |
| **Subtotal** | **(115.0)** | **(58.5)** |
| **CASH GENERATED BY OPERATING ACTIVITIES** | **48.6** | **53.7** |

| | | |
|---|---|---|
| **OTHER CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Payments of income tax and social contribution | (117.7) | (89.0) |
| Withdrawal (payment) of escrow deposits | (5.9) | (14.2) |
| Payments of derivatives | 27.8 | (24.0) |
| Payment of interest on borrowings and financing | (26.5) | (14.1) |
| **NET CASH GENERATED BY OPERATING ACTIVITIES** | **(73.7)** | **(87.6)** |
| | | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Acquisition of property, plant and equipment and intangible assets | (134.6) | (60.7) |
| Property, plant and equipment incorporated by acquisition AESOP | 0.0 | (129.1) |
| Proceeds from sale of property, plant and equipment and intangible assets | 0.0 | 1.1 |
| Short-term investments | (1,524.7) | 962.3 |
| Redemption of short-term investments | 1,415.9 | (770.1) |
| Noncontrolling interest | 0.0 | 18.7 |
| | | |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(243.3)** | **22.2** |
| | | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Repayments of borrowings and financing - principal | (59.8) | (56.4) |
| Proceeds from borrowings and financing | 729.6 | 196.1 |
| Sale of treasury shares due to exercise of stock options | 8.9 | 10.9 |
| | | |
| **NET CASH GENERATED (USED) IN FINANCING ACTIVITIES** | **678.7** | **150.6** |
| Gains (losses) arising on translating foreign currency cash and cash equivalents | 1.6 | 0.0 |
| | | |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **363.2** | **85.1** |
| Cash and cash equivalents at the beginning of the year/period | 1,016.3 | 1,144.4 |
| Cash and cash equivalents at the end of the year/period | 1,379.6 | 1,229.6 |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | **363.3** | **85.2** |
| **Additional Statements of Cash Flows Information:** | | |
| Bank overdrafts - unused | 117.9 | 117.9 |
| | | |
| Non-cash items | | |
| Reserve for acquisition of non-controlling shareholders | 83.2 | 0.0 |
| Capitalization of financial leasing | 78.2 | 171.8 |

# glossary

**_CDI:** the overnight rate for interbank deposits.

**_Natura Consultants (CN):** self-employed resellers who do not have a formal labor relationship with Natura.

**_Natura Super Consultants (CNO):** self-employed resellers who do not have a formal labor relationship with Natura and support the Relationship Managers in their activities, also called Super Consultants.

**_Supplier Communities:** the communities of people involved in small–scale farming and extraction activities in a variety of locations in Brazil, especially in the Amazon Region, who extract the inputs used in our products from the social and biodiversity. We form production chains with these communities that are based on fair prices, the sharing of benefits gained from access to the genetic heritage and associated traditional knowledge and support for local sustainable development projects. This business model has proven effective in generating social, economic and environmental value for Natura and for the communities.

**_GHG:** Greenhouse gases.

**_Innovation Index:** Share in the last 12 months of the sale of products launched in the last 24 months.

**_Natura Institute:** is a non-profit organization created in 2010 to strengthen and expand our Private Social Investment initiatives. The institute has enabled us to leverage our efforts and investments in actions that contribute to the quality of public education.

**_Target Market:** refers to the market share data published by SIPATESP/Abihpec. Considers only the segments in which Natura operates. Excludes diapers, oral hygiene products, hair dyes, nail polish, feminine hygiene products as well as other products.

**_Operations in Consolidation:** Grouping of operations: Argentina, Chile and Peru

**_Operations in Implementation:** Grouping of operations: Colombia and Mexico

**_Profit Sharing:** the share of profit allocated to employees under the profit-sharing program.

**_Natura Believing is Seeing Program:** special line of non-cosmetic products whose profits are transferred to the Natura Institute, in Brazil, and invested by Natura in social initiatives in the other countries where we operate. Our consultants promote these sales to benefit society and do not obtain any gains.

**_Sustainable Relations Network:** sales model adopted in Mexico that features eight stages in a consultant's development: Natura Consultant, Entrepreneurial Natura Consultant, Natura Developer 1 and 2, Natura Transformer 1 and 2, Natura Inspirer and Natura Associate. To rise up through the various stages, consultants must fulfill certain criteria based on sales volume, attracting new consultants and (unlike the models adopted in other countries) personal development and social and environmental relationships in the community.

**_Benefit Sharing:** in accordance with Natura's Policy for the Sustainable Use of Biodiversity and Associated Traditional Knowledge, benefits are shared whenever we perceive various forms of value in the access gained. Therefore, one of the practices that define the way in which these resources are divided is to associate payments with the number of raw materials produced from each plant as well as the commercial success of the products in which these raw materials are used.

**_Sipatesp/Abihpec:** São Paulo State Perfumery and Toiletries Association / Brazilian Cosmetics, Fragrances and Toiletries Industry Association (Abihpec).

# restated figures

**_Pro-forma Income Statement for 1Q13:** includes three reclassifications in Brazil and consequently in the Consolidated figures in order to improve comparisons with 1Q14. These adjustments do not impact the figures for EBITDA and Net Income previously reported. These reclassifications between lines are as follows: (1) the reclassification to "Cost of Goods Sold" of the expenses with the provision for employee profit sharing, which were allocated to "Administrative, R&D, IT and Project Expenses;" (2) the reclassification of a portion of "Selling, Marketing and Logistics Expenses" to "Administrative, R&D, IT and Project Expenses;" and (3) the consolidation by "Administrative R&D, IT and Project Expenses" of the former line "Management compensation," the details of which are available in Note 28.2 to the Financial Statements. These same adjustments will be made in subsequent quarters for amounts referring to 2013.

**_Cost Breakdown 1Q13:** Restated figures in the chart between the lines to reflect the adjustment (1) described above.

**_Non-cash items:** restated figures for 1Q13 for comparison purposes.

**_Working Capital 1Q13:** With the reclassification of certain lines on the balance sheet for 2012 (see Note 4.3 to the 4Q13 Financial Statements), the variation in working capital in 1Q13 was recalculated and restated.

EBITDA is not a measure under BR GAAP and does not represent cash flow for the periods presented. EBITDA should not be considered an alternative to net income as an indicator of operating performance or an alternative to cash flow as an indicator of liquidity. EBITDA does not have a standardized meaning and the definition of EBITDA used by Natura may not be comparable with that used by other companies. Although EBITDA does not provide under BR GAAP a measure of cash flow, Management has adopted its use to measure the Company's operating performance. Natura also believes that certain investors and financial analysts use EBITDA as an indicator of performance of its operations and/or its cash flow.

This report contains forward-looking statements. These forward-looking statements are not historical fact, but rather reflect the wishes and expectations of Natura's management. Words such as "anticipate", "wish", "expect", "foresee", "intend", "plan", "predict", "project", "desire" and similar terms identify statements that necessarily involve known and unknown risks. Known risks include uncertainties that are not limited to the impact of price and product competitiveness, the acceptance of products by the market, the transitions of the Company's products and those of its competitors, regulatory approval, currency fluctuations, supply and production difficulties and changes in product sales, among other risks. This report also contains certain pro forma data, which are prepared by the Company exclusively for informational and reference purposes and as such are unaudited. This report is updated up to the present date and Natura does not undertake to update it in the event of new information and/or future events.

