



**DURATEX**

**Creation of Value. Our Commitment. » Annual Report 2005**

## Corporate Profile »

Leader in the domestic markets of wood products and sanitary metal fittings, Duratex also has a significant market share in the sanitary vitreous chinaware segment. The Company is controlled by Itaúsa – Investimentos Itaú S.A., the second-largest private group in the country, also operating in the financial, chemical, computer and real estate segments, as well as building and furniture industry materials.

Duratex is organized into two divisions – Wood and Deca. The Company owns seven industrial units in the State of São Paulo and one in the State of Rio Grande do Sul, as well as a sanitary metal fittings unit in Argentina. It also maintains commercial operations in the United States, Belgium and Argentina, through its subsidiaries Duratex North America, Duratex Europe and Deca Piazza, and has independent distributors and sales agents for other countries.

Its annual production capacity is of 1.5 million cubic meters of reconstituted wooden boards made from pinus and eucalyptus – hardboards, particle boards, medium, high and super-density fiberboards (MDF/HDF/SDF), as well as laminated floorboards, ceiling and wall panels – 14.4 million pieces of sanitary metal fittings and 4.2 million pieces of sanitary vitreous chinaware, marketed under prestigious brands such as Deca, Hydra, Durafloor, Duraplac and MaDeFibra.

Self-sufficient in wood supply for industrial use, Duratex is a vertically integrated reconstituted wooden board manufacturer. The pinus and eucalyptus plantations are developed in approximately 90 thousand hectares of land and forests, owned by the Company, which allow for the annual harvesting of 2.9 million cubic meters of wood. These areas are strategically located close to the industrial units, at an average distance of 55 kilometers.

Duratex has been certified by the Forest Stewardship Council (FSC) for the last ten years, and was the first company in South America to receive the Green Seal, which attests for sustainable forest management.

Established in March 1951, it is a publicly listed company, which in May 2005 joined the Level 1 of Corporate Governance of Bovespa (São Paulo Stock Exchange), as part of a process for improving the relationship with stockholders.



## Mission »

Offer high performance products and services, in a profitable and secure way, developing capabilities and partnerships with customers, suppliers, communities and employees, generating value throughout its productive chain.

## Vision »

Be a world-class leading company, operating with social and environmental responsibility, in the reconstituted wood products and civil construction sanitary equipment sectors, generating significant and permanent revenue for its shareholders and providing its employees, customers, consumers, suppliers and communities with the feeling of well-being, satisfaction and achievement.

## Values »

- » Integrity: to have an ethical, fair and transparent behavior, coherent with what we think, say and do.
- » Human valorization: to provide conditions for the development of individual and group competencies and the qualification of successors.
- » Participation: to share values, experiences and ideas, encouraging cooperation, team work and respect for diversity.
- » Commitment: to act with permanent enthusiasm, reflecting the feeling of pride for the brand and everything that is done.
- » Social and Environmental Responsibility: to interact with the community and the environment in a balanced way, supporting, stimulating and fostering social programs, the recycling of resources and sustainable development.

## Main Indicators »

Shipments	2001	2002	2003	2004	2005	CAGR
Wood (in thousand m <sup>3</sup> )	823.6	881.2	905.6	1,050.8	1,040.4	6.0%
Deca (in thousands of units)	13,584	14,523	13,318	13,747	12,825	-

Consolidated Performance (R\$ million)	2001	2002	2003	2004	2005	CAGR
Net revenues	785.3	866.9	989.6	1,188.2	1,270.6	12.8%
Domestic market	652.9	703.9	799.4	950.6	1,065.7	13.0%
Foreign market	132.4	163.0	190.2	237.6	204.9	11.5%
EBITDA <sup>(1)</sup>	190.8	213.3	232.2	320.6	362.6	17.4%
EBITDA margin (%)	24.3%	24.6%	23.5%	27.0%	28.5%	-
Net income	52.1	71.7	64.0	125.3	137.1	27.4%
Net margin (%)	6.6%	8.3%	6.5%	10.5%	10.8%	-
Earnings per share (R\$)	0.44	0.62	0.55	1.06	1.17	27.7%
Return on equity (ROE)	6.0%	8.1%	7.0%	13.0%	13.5%	-
Return on invested capital (ROIC)	7.7%	8.4%	9.0%	10.2%	12.3%	-

(1) EBITDA was recalculated due to the accounting reclassification occurred during the 2005 exercise.

Dividends (R\$ million)	2001	2002	2003	2004	2005	CAGR
Gross dividends (accrual)	23.6	24.6	25.7	58.1	46.3	18.3%
Gross dividends (cash)	24.4	23.5	24.4	44.5	52.7	21.2%
Dividends/net income (pay-out)	45.3%	34.2%	40.2%	46.4%	33.8%	-
Dividend yield (cash)	3.6%	4.2%	4.0%	4.6%	3.6%	-

Capital Markets	2001	2002	2003	2004	2005	CAGR
Outstanding shares (thousands) <sup>(2)</sup>	121,791.0	117,791.0	117,827.2	117,827.2	117,827.2	-
Number of trades	1,875	2,169	4,686	3,977	6,797	38.0%
Shares traded (in thousands of shares) <sup>(2)</sup>	17,763	22,742	43,139	42,525	28,137	12.2%
Financial volume traded (in R\$ million)	87.5	100.7	274	381.7	339.8	40.4%
Share price at the end of the period (R\$) <sup>(2)</sup>	4.74	5.2	8.30	12.40	14.85	33.0%
Market value (in R\$ million)	577.3	612.5	978.1	1,461.0	1,749.7	31.9%
Book value at the end of the period (R\$)	7.34	7.78	8.01	8.41	8.95	5.1%

(2) Values adjusted according to a stock split in reverse of 200 shares per 1 share that took place on June 2005 and a stock dividend of 1 new share per outstanding share on April 2006.



**Creation of Value. Our Commitment. »**



**DURATEX**

Duratex's managerial system was designed to attain a better-sustained performance in the sectors in which the Company operates. Therefore, the organizational model is committed to the Creation of Value, which aims at ensuring business growth, with financial solidity and discipline in the employment of capital. » In order to put this strategy into action, Duratex has adopted several directives to maintain leadership and take advantage of the opportunities of growth in the domestic market, expand businesses overseas, amplify the production and sales of higher value-added products, increase and optimize forest resources and increment efficiency of the productive processes.

» The Company invests in technology, innovation, quality and service, as a means of obtaining differentiated products, with cutting-edge design and superior quality, fundamental elements to attract and fidelize clients. Focusing on efficiency and quality, it aims at meeting clients' needs and expanding the offer of new products.

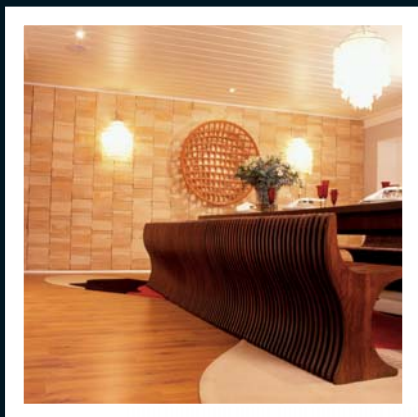




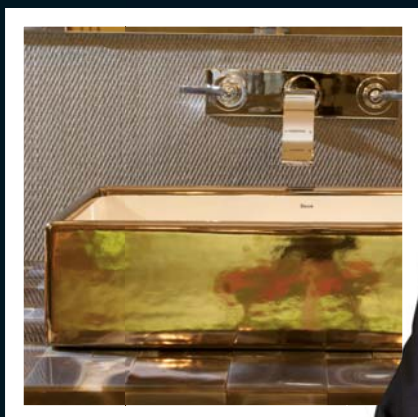
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## Message from the President »



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In 2005, we increased revenues, cash generation and net income, in a performance put forward by an updated product mix, as well as operating cost and expenses reduction measures. In order to improve the corporate governance and management processes, we created six committees in conjunction with the other industrial companies within the Itaúsa Group, and entered the Bovespa's Level 1 of Corporate Governance.

- 1 » Durafloor Pro Freijó Granada
- 2 » Metal fittings: Stick line;  
Vitreous chinaware: Trio L107 series  
Exclusive for Casa Cor

**Paulo Setúbal**  
President



The performance of Duratex in 2005 reflects our commitment with the creation of value and with the strategic purpose of displaying the best sustained performance in the sectors in which we operate. In spite of an unfavorable conjuncture – with the retraction of the sales volumes of civil construction and furniture industry materials –, we increased revenue, cash generation and net income.

Net revenue totaled R\$1,270 million, with a 7% increase in comparison to the previous year, while net income increased 9%, to R\$137.1 million, representing compound annual growth rate (CAGR) of 27% in the last five years.

This accomplishment was put forward by the update of the product mix and by operating cost and expenses reduction measures, since the volume shipped by the Deca and Wood divisions receded 7% and 1% respectively. The improved inventory management had a positive result in the working capital and the operating cash generation, which totaled R\$312.6 million, 63% above the previous year.

Brazil displayed a small economic growth in the period, with an estimated evolution of 2.3% in the GDP, as a consequence of the strict economic policy implemented by the Brazilian Central Bank. Increasing interest rates slowed the economic activity down; however, the situation was reverted by the end of the year due to interest rate reductions. The devaluation of the dollar against the real resulted in a diminished competitiveness of industrialized goods in the foreign market.

Yet we did not give up on the strategy to extend our products' share in the foreign market. The experience was very successful, and resulted in a 31% increase, in dollars, in sanitary vitreous chinaware sales overseas.

Besides the 35 products developed specifically for the foreign market, 139 sanitary vitreous chinaware and metal fittings products, and 84 standards and finishing accessories in wood products were launched throughout the year, reinforcing our commitment to innovation and meeting market demands.

Even after a cycle of strong investments made by the Company between 2000 and 2003, we further invested R\$108.4 million in 2005 in productive installed capacity expansion, industrial update and land and forests acquisitions, in order to adjust our wood supply to our newly-increased capacity. This Capital Expenditures Plan extends our competitiveness, by offering innovative products to the market and allowing for the use of state-of-the-art forestry and industrial technology.

We also updated our management processes. Along with the other industrial companies of Itaúsa Group (Itautec and Elekeiroz), six committees were created aiming at sharing the best practices adopted, capturing synergies, reducing costs and generating value for shareholders.

Further on, we advanced on our governance system, joining Bovespa's Level 1 of Corporate Governance. This initiative complements a series of measures adopted throughout the years, with the purpose of converging the interests of all shareholders, such as the 80% tag-along for preferred shares, extinction of the beneficiary parts and increase of minimum dividends to 30% of the adjusted net income.

Our commitment to sustained development was also expressed by the commemoration of ten years of the Forest Stewardship Council (FSC) certification, which attests the environmentally correct, socially just and economically viable

management of our forests and wood products custody chain. As the first company in Latin America to receive the green seal, we increased export competitiveness and gained an important market differential.

We also proceeded on social responsibility initiatives, notably the Get Onboard program, which stimulates voluntary work, and the Bem-Queror project, which through the Child and Adolescent Rights Councils helps building a better future for young people in Brazil.

We expect a more favorable behavior of the economy in 2006, especially in our sectors of performance. At the beginning of the year, the federal government announced a package of measures of incentive to facilitate the purchase, construction and renovations of homes. One of the contemplated points is the reduction of taxes on Industrialized Products (IPI), what should stimulate sales of construction and interior design materials, such as sanitary vitreous chinaware and metal fittings. Moreover, the amplification of credit destined to home financing is foreseen, which would extend the market for the products of our two divisions, should interest rates continue in a declining trajectory.

The 2005 results represent one more step towards the sustained growth and the creation of value. To reach this performance, we thank the fundamental support of our shareholders, the efforts and commitment of our employees, the partnership of our suppliers and the preference of customers and consumers for our brands.

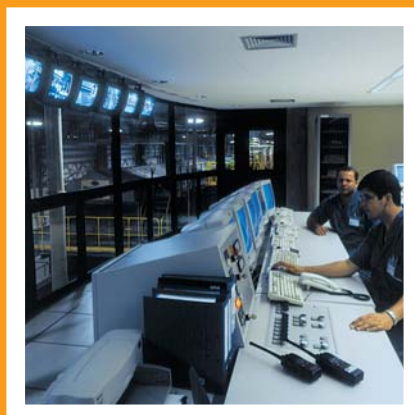
**« value in productivity »** Economies of scale, seldom replicated by the competition, and the possibility of in-house development of new products and patterns for enriching the product mix represent important competitive differentials. These factors, along with investments in technology and operating processes, stimulate the Company's productivity and ensure the creation of value in a sustained way.



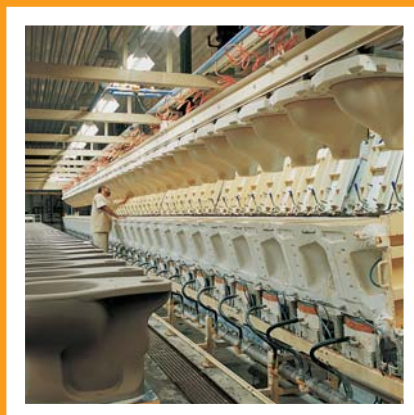
Deca

## Strategic Management and Investments »

In order to maintain the best sustained performance in the sectors in which it operates, Duratex bases its strategy in the creation of value. Therefore, it aims at maintaining market leadership in Brazil, expanding the offer of higher value-added products, increasing its presence in the foreign market, augmenting and optimizing forest resources and securing the efficiency of the productive processes.



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- 1 » Control room in the Agudos Unit
- 2 » TCI Plus foundry area, in the Ceramic II Unit – Jundiaí/SP
- 3 » Stick Line



Duratex is committed to the creation of value, based on offering products with greater value-added to the market and focusing on quality, diversification and the constant search for fidelization of its clients. The Company aims at maintaining the best sustained performance in the sectors in which it operates. Therefore, the following strategies are adopted:

**Maintaining leadership and taking opportunities to grow in the domestic market.**

Based on the expectation that the domestic construction market shall expand, the Company intends to take this opportunity to increase the market share of the Deca Division products among lower purchasing-power consumers. For that, it will further expand its distribution system, and continuously launch new products. The increased market share in the premium and super-premium segments will be obtained by launching new lines with contemporary design and differentiated finishings.

In the Wood Division, we aim at expanding market share, as well as updating the product mix, adding value to our products. Furthermore, a series of studies are being conducted in order to expand this division.

**Expand manufacture and sales of higher value-added goods.**

In the Wood Division, product differentials will result from the development of patterns that meet the demands of our customers, focusing on service and constant update efforts, taking advantage of synergies in the distribution area, better equipment and higher value-added goods.

Deca Division will expand its presence in the premium and super-premium segments, in which it already enjoys a position of reference in terms of design and quality.

**Expand presence in the foreign market.**

Deca Division will continue to expand distribution in the United States and Europe, aiming at diversifying its client base and reaching new potential markets. We aim at consolidating the Deca brand and gain scale in the foreign market, first from sanitary vitreous chinaware sales, which have modern design and quality to compete in these markets. Once the brand is consolidated and we reach the intended scale overseas, the sanitary metal fittings segment will be introduced.

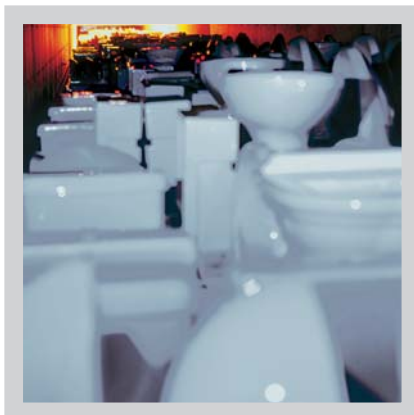
**Increase and optimize forest resources to ensure self-sufficiency and high productivity.**

In order to achieve self-sufficiency in all units of the Wood Division and supply enough wood for its expanded capacity, the Company acquired 10,705 hectares of forests in the last three years. These areas are strategically located close to the industrial units, so as to maintain low costs and preserve competitive advantages. In addition, a continuous investment has been made in the acquisition of permanent assets to increase the productivity of forest areas and the capacity to utilize wood by-products extracted during the productive process.

**Increase efficiency in the productive processes.**

Our policy of continuously investing in research and development aims at enhancing business profitability, generating value in the productive chain and reducing costs. We seek to improve our processes, focusing on efficiency and quality, working to meet our clients' needs and expand the offer of new products. Our research and development team designs and develops products to anticipate market tendencies. The industrial units are already highly automatized, and are constantly being updated. In the last three years, R\$418.1 million was invested in the acquisition of permanent assets.

- 4 » Kiln in the Vitreous Chinaware Unit II – Jundiaí/SP
- 5 » Cut-to-Size Saw in the Hardboard Unit – Jundiaí/SP
- 6 » Harvester in the field/SP



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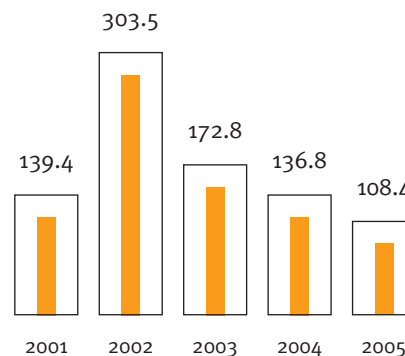
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One example is the kiln installed in the Jundiaí Unit in 2004, the operation of which can be monitored electronically step-by-step. In Botucatu, the refinement of processes allowed for a 80% speed increase in the board painting line. The software used for equipment maintenance and inventory management has been setting the course for reducing costs and expanding automation in all operations. Furthermore, the harvesting of wood from the timberlands is already automated. In addition, a computer system manages shipments and logistics.

**INVESTMENTS**

In 2005, the Capital Expenditures Plan (CAPEX) contemplated investments of R\$139.3 million, being R\$108.4 million in properties, plant and equipment. Since 2001, the Company has invested R\$860 million in permanent assets, for expanding capacity, updating industrial units and acquiring land, forests and equipment for guaranteeing the wood supply. The highlights of the expansions accomplished, especially between 2000 and 2003, were the increment of 400 thousand cubic meters in the annual capacity of the Botucatu Unit (SP) and the installation of the third ceramic kiln in Jundiaí (SP).

**CAPEX (in million R\$)**





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Investments during the year totaled R\$139.3 million. In permanent assets, there were invested R\$108.4 million for the capacity expansion, industrial update and the acquisition of land, timber and equipment.

The main investments in 2005 have contemplated:

- » Concluding the expansion of the Jundiaí Sanitary Vitreous Chinaware Unit (SP);
- » Acquiring complementary equipment for the MDF/HDF/SDF production lines, and improving the board painting line in the Botucatu Unit (SP);
- » Concluding the finished products shipping area in the Itapetininga Unit (SP);
- » Building the Deca Division Product Development Center, in Jundiaí (SP);
- » Acquiring equipment for forest management.

The investments in permanent assets budgeted for 2006 include:

- » R\$33.6 million for improving forest management operations, including the acquisition of land and equipment;
- » R\$36.8 million for improving Deca Division's operations in general, with focus on purchasing equipment for enhancing the productive capacity in vitreous chinaware, in order to further the strategy of expanding vitreous chinaware and metal fittings exports;
- » R\$33.8 million for improving Wood Division's operations in general, with focus on purchasing complementary equipment for production; and
- » R\$7 million for improving corporate infrastructure.

**« value in technology »** With state-of-the-art automatized industrial units, Duratex is considered reference in technology of wood, sanitary vitreous chinaware and metal fittings products. The Company invests continuously in equipment, products and processes update, in order to increase the agility of its operations, the capacity to develop differentiated products, and secure the position of one of the most competitive industries in the markets in which it operates.





## Wood Division »

The Wood Division's R\$860 million net revenues increased 7% against the previous year. The 1% decrease in shipped volumes was compensated by higher value-added products, productivity improvements and more favorable prices, despite the small growth of the Brazilian economy in the period. EBITDA increased 4% against the previous year, to R\$267.1 million.



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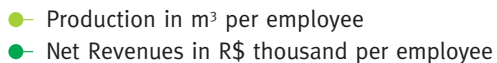
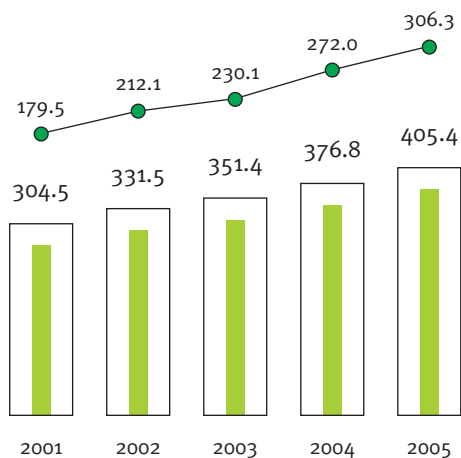
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- 1 » Eucalyptus seedlings in the Lençóis Paulista Seedling-Production Nursery/SP
- 2 » View of the Botucatu Unit/SP
- 3 » Durafloor Studio Carvalho Malta – Ana Maria Bogar

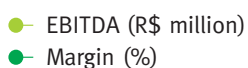
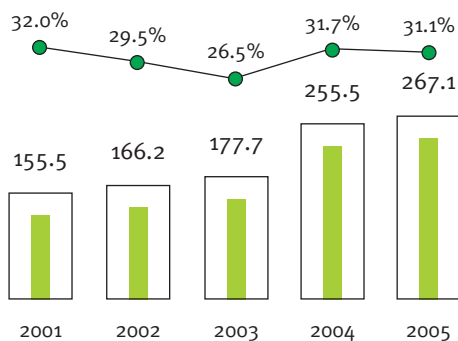
## Distribution Channels



## Productivity



## EBITDA x Margin



## Gross Revenues (in million R\$)



The products commercialized by the Wood Division are obtained through vertically integrated operations, with the in-house production of wood and the supply of it to our industrial units, for manufacturing particleboards, hardboards, medium-density and high-density fiberboards (MDF and HDF), and laminated floorboards. The products are sold mainly for the furniture and housing industries, under the MaDeFibra (MDF), Duraplac and Duratree (hardboards), Madeplan (particleboards) and Durafloor (floorboards) brands.

The housing industry, including the refurbishing segment, experienced difficulties in the last three years, the situation of which was aggravated by the small growth of the Brazilian economy. On the other hand, the furniture industry grew significantly in 2004, and remained stable in 2005.

With the largest installed capacity in the segment – in which other seven companies operate – Duratex has invested

heavily in expansion and technological update in the last few years. This process coincided with an increased demand in the domestic market, which drove the Company to prioritize the sale of higher value-added goods.

## PERFORMANCE

In 2005, the Wood Division experienced a 1% reduction in shipped volumes, compared to the previous year. The devaluation of the dollar against the real impaired the profitability of the area, since 15% of its revenue come from foreign sales, being the hardboard responsible for 73% of the exported mix. Stimulated by the improvements in the product mix, productivity gains and prices, the net revenue grew 7%, reaching R\$860 million. The operating performance measured by EBITDA increased 4%, to R\$267.1 million. The EBITDA/net revenues remained stable with regard to the previous year, at 31%.

Exports reached US\$56.2 million, being US\$41.3 million in hardboard sales, compared to US\$36.1 million, in 2004. In reais, revenues from foreign sales decreased 12.7%, from R\$197.9 million in 2004 to R\$172.7 million in 2005, due to the exchange rate effect.

Shippings (in m <sup>3</sup> )	2004	2005	Var. %
Standard	698,514	695,997	-0.3
Coated	352,239	344,366	-2.2
Total	1,050,753	1,040,363	-1.0

Net Revenues (in R\$ million)	2004	2005	Var. %
Domestic Market	609.3	687.3	12.8
Foreign Market	197.9	172.7	-12.7
Total	807.2	860.0	6.5

### COMPETITIVENESS

After concluding a strong cycle of investments, the capital expenditures were directed to the acquisition of complementary equipment for the wood boards' production lines, improvements in

the board painting lines in the Botucatu Unit (SP) and to the conclusion of the finished products shipping area in the Itapetininga Unit (SP).

Using state-of-the-art technology in the Brazilian market, the Wood Division has been improving its productive processes, focused on operational and environmental efficiency.

Competitiveness is also expressed by a new board painting method introduced in 2004 in Jundiaí and Botucatu, turning Duratex into the only company in the world capable of painting 100 meters of board per minute. This process was initiated along with a new low-pressure coating line (BP) in the Botucatu Unit (SP), which increased in 10% the expedition of coated products, of higher value-added.

Parallel to the conclusion of the shipping area, a new system for fulfilling clients' order was adopted in 2005, improving deliveries and reducing inventory.

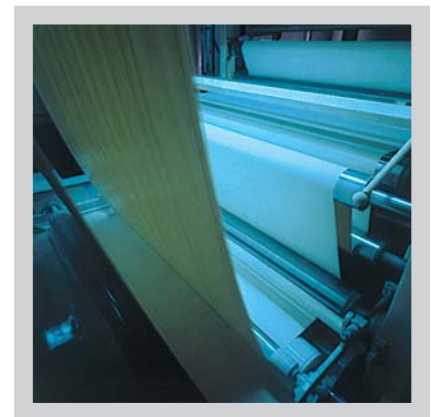
- 4 » MDF/HDF/SDF cooler – Botucatu/SP
- 5 » Cut-to-Size Saw in the Hardboard Unit – Jundiaí/SP
- 6 » Coating paper impregnator – Agudos/SP



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As an example of pioneering initiatives in the Brazilian market, Duratex introduced the exclusive antimicrobial protection Microban in all the Durafloor line. Another highlight was the Click ruler-setting system, by which no glue is needed for installing floors.

### NEW RELEASES

Throughout the year, 84 patterns and finishing accessories were launched, stressing the Company's commitment to innovation for meeting market demands. The new patterns broaden the color palette, introducing and following tendencies in the interior design market. The highlight of the year was a pioneering innovation in the Brazilian market: the Durafloor line incorporated the exclusive antimicrobial protection Microban, which represents an additional resistance against mildew, fungi and bacteria.

Other news was the Click ruler-setting system, by which no glue is needed for installing, since the rulers lock mechanically to each other. This system was introduced for the Durafloor Design line, of higher-resistance floors. Furthermore, the Company developed the DuraSilent pad, which alters the frequency of the sound produced by stepping on the floor, so as to make ambients more comfortable acoustically.

The Wood Division participated in the most important events related to the construction and furniture industry sectors, such as National and International Construction Fairs (Fenacon and Feicon) and the International Furniture Industry Machinery and Raw Materials Fair (Fimma).

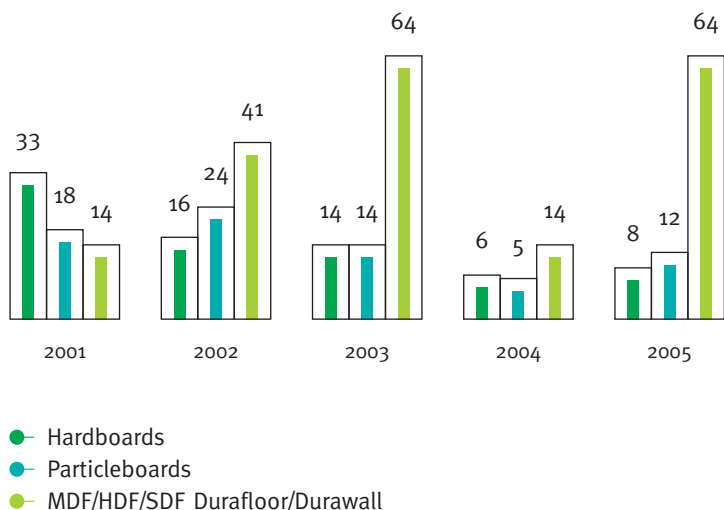
### EXPORTS

The main product exported by the Wood Division is the hardboard, which represented approximately 70% of foreign sales in 2005. The main destinations are the United States and Europe, where the Company is represented by Duratex North America and Duratex Europe.

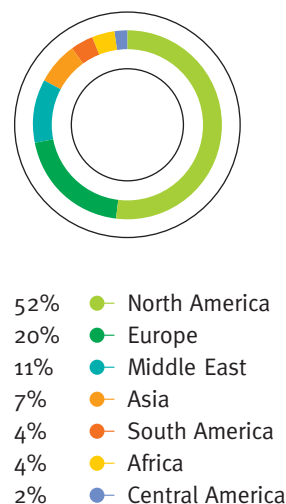
### AWARDS

The Wood Division received a number of awards, among which are the Export Quality award 2005, from the Paraná State Industry Federation – the most expressive distinction of incentive for sales in the foreign market in the segment of forest-based, furniture, wood, paper and cellulose industries – as well as the Pini and Top Brands awards received by Durafloor, as a differentiated product in the market.

Product Releases



Export Destinations



**« value in design »** Cutting-edge design turns Duratex's products into objects of desire for consumers who seek innovation and superior quality in interior design and finishing materials. Developed in-house by designers, engineers and architects, the product lines of the Deca and Wood divisions get ahead of market needs and are aligned with the latest world tendencies.



## Deca Division »



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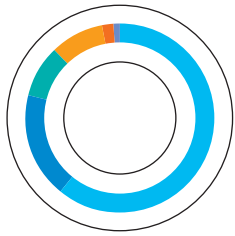


Product repositioning and cost-reduction and operating cost-control measures enabled the Deca Division to increase net revenues in 8%, which totaled R\$410.6 million, compensating for a 7% retraction in shipped volumes. The EBITDA increased 47% in the year, to R\$95.5 million, with a 23% margin.

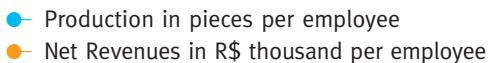
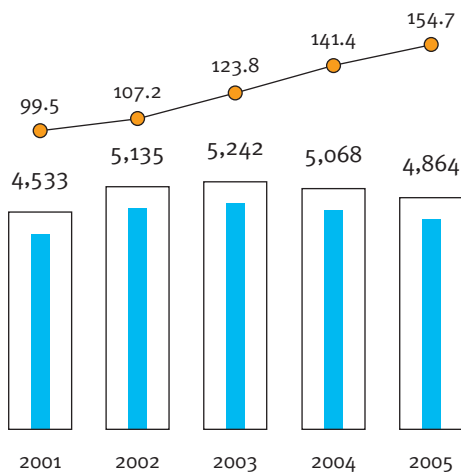
- 1 » Foundry area – Sanitary Metal Fittings Unit in São Paulo/SP
- 2 » Hydra flushing valve assembly line – Planidil Sanitary Metal Fittings Unit/SP
- 3 » Mixer: Stick line and vitreous chinaware: Link line



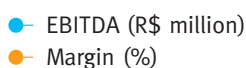
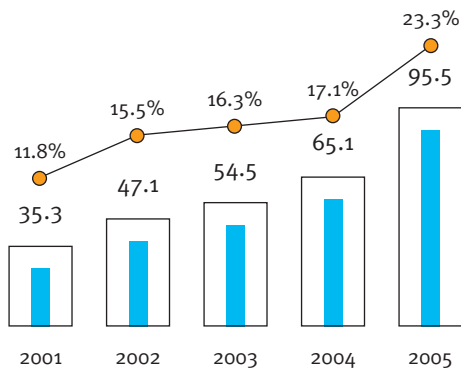
## Distribution Channels



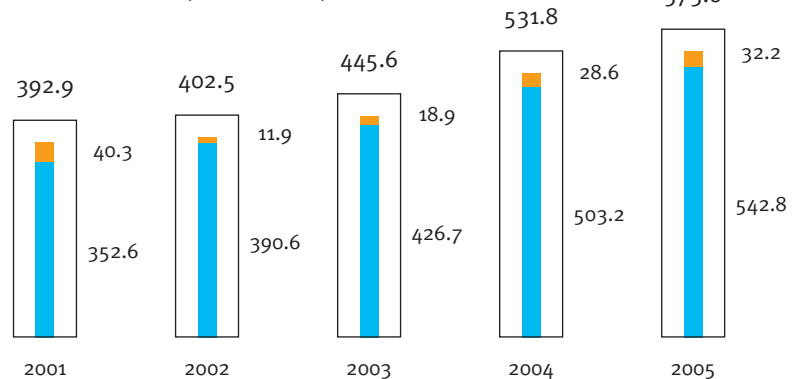
## Productivity



## EBITDA x Margin



## Gross Revenues (in R\$ million)



The Deca Division manufactures sanitary vitreous chinaware, metal fittings and accessories under the Deca brand, as well as flushing valves under the Hydra brand, in which segments it offers a complete line. The lines are diversified, including practically every hydraulic and metal finishing product for bathrooms, kitchens and working areas. Its main distribution channels are construction materials retailers and home centers.

It is Brazilian market leader in the segment of metal fittings, and has a significant market share in the vitreous chinaware segment, as premium and super-premium products best selling brand.

The competitors are pulverized in sanitary metal fittings and one large vitreous chinaware industry, which operate in lower value-added segments.

In 2005, the weak performance of the Brazilian economy affected the construction market, with a direct effect over the demand for finishing products.

## PERFORMANCE

In 2005, the Deca Division registered a 7% decrease in shipped volumes against the previous year.

However, product repositioning and internal measures, focusing on cost reductions and operating expenditures control, allowed for improved results. Net revenues increased 8%, to R\$410.6 million, representing 32.3% of Duratex's net sales revenues. The EBITDA of R\$95.5 million increased 47% and the EBITDA margin increased by 6%, to 23%, against the 17% registered in the previous year.

Efficiency measures included the qualification of processes and projects, with new planning and production programming policies. Moreover, the Division displayed the first results from the Advanced Planning System in the metal fittings area, which simulates and forecasts all the steps of the productive process, updating data dynamically. The system indicates the shortest possible production cycle, which provides a lower equipment cost and higher operation speed. Another initiative was the in-house manufacturing of a number of metal pieces, which were formerly acquired from other companies.

Product repositioning was accompanied by a portfolio reformulation, especially in metal fittings, in an action

associated with the market base-price. Besides having an outstanding performance in the premium and super-premium segments, Deca increased its medium-standard lines, as a means of extending its presence in segments more compatible with the strategy of occupying the capacity and diluting costs.

These measures were fundamental for facing the higher cost of raw materials, especially in metal alloys, like copper and zinc. The copper alloys, for example, had a price increase of approximately 50%, in dollars, in the London Metal Exchange.

#### COMPETITIVENESS

The main investments in 2005 were directed to the conclusion of the improvements implemented in the Jundiá Vitreous Chinaware Unit (SP) and the building of the Deca Division Product

Development Center, also in Jundiá. Another highlight of the year was the consolidation of a mini-industrial plant aimed at the production of premium metal fittings, in which both line products and special orders are manufactured.

The 30% capacity expansion in the Jundiá Unit was achieved under special productivity and efficiency conditions, providing the necessary capacity to support the exports growth project. The Unit was equipped with a state-of-the-art, gas-fired kiln, completely automatized, in which a single employee can follow the treatment process, piece by piece, along its 100-meter extension.

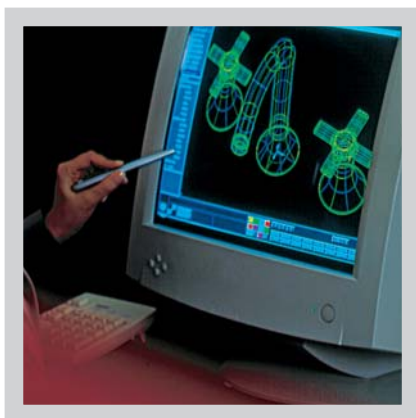
The Product Development Center is dedicated particularly to the development of vitreous chinaware, but also includes the metal fittings area. The location is also used for welcoming architects, specifying

Innovation, design and quality are the characteristics of the metal fittings and vitreous chinaware. Duratex released 139 products, such as chromium-plated and two-colored sinks, lever-action metal fittings, flushing valves with cutting-edge design and the new double-action system.

Shippings (in thousand units)	2004	2005	Var. %
Basics	6,649	6,484	-2.5
Finishing Products	7,098	6,341	-10.7
Total	13,747	12,825	-6.7

Net Revenues (in million R\$)	2004	2005	Var. %
Domestic Market	352.4	378.4	7.4
Foreign Market	28.6	32.2	12.6
Total	381.0	410.6	7.8

- 4 » Product development in CAD
- 5 » Faucet and Tap Machining Robot
- 6 » Operation of the Sanitary Metal Fittings production line – São Paulo/SP



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professionals and international visitors. There, work mainly project engineers, technicians and architects.

In 2005, a new and modern Shipping Center was installed in Jundiá, utilizing monitoring systems which allow the Company to comply with different market without losing agility.

### NEW RELEASES

Deca reaffirmed its characteristic of releasing a great number of new products, which stand out for their quality, design and innovation characteristics. During the year, 115 metal fittings and 24 vitreous chinaware products were launched. In vitreous chinaware, the highlights were the two-colored sinks, which give bathrooms a modern and futuristic look. In metal fittings, three new kitchen lines were launched. The Fast and Spin lines, which incorporate a contemporary, cutting-edge innovative design, aimed at the premium segments, and the Aspen line, aimed at the medium and medium-low market segments.

Other innovations were introduced in flushing valves, such as the cutting-edge design of Deca Slim, and the combination of modern lines and the rational water usage system of Hydra DuoFlux, with double action, releasing more or less water according to cleaning needs.

The new products were displayed in Deca's showroom, in São Paulo, and in the most important trade events of the sector, such as Casa Cor, National Construction Fair (Fenacon) and International Construction Fair (Feicon). Furthermore, the Company promoted the 9th edition of the Dream Bathroom contest, aimed at architects, and the 10th edition of the Bathroom Study contest, aimed at interior design students.

### EXPORTS

Exports increased by 36%, to US\$6.4 million, in particular with the foreign sales of vitreous chinaware, which totaled US\$4.7 million. In reais, due to the impact of the exchange rates, the increment was of 12.6%, going from R\$28.6 million in 2004 to R\$32.2 million in 2005. The Company developed 35 new products specifically for the foreign market, which meant the reduction of high-end models, with cutting-edge design world-class category – fundamental characteristics achieve visibility in other countries.

The number of commercial representatives also increased. Foreign sales are consolidated, reaching 30 countries and approximately 500 points-of-sale (50% above 2004). There are shipments to South America on a regular basis, and the Company has registered a strong sales increase in the United States, where a sales structure has been

organized, including a commercial office (in North Carolina) and a distribution warehouse (in Virginia).

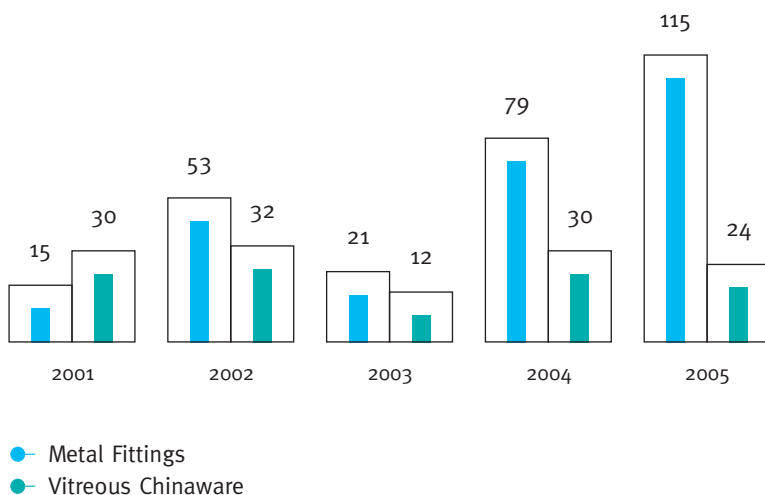
As part of the strategy to establish the brand overseas, Deca has participated in the most important trade fairs in the sector, such as Kitchen and Bath, in Las Vegas (USA). In the second half-year, the Company was contracted to supply vitreous chinaware to the north-American market. The agreement, in the OEM (Order for Engineering Manufacturing) system, is valid for two years, with the possibility of extension, and shall result in sales of approximately US\$3.6 million in 2006, and reach US\$6.8 million starting in 2007.

### AWARDS

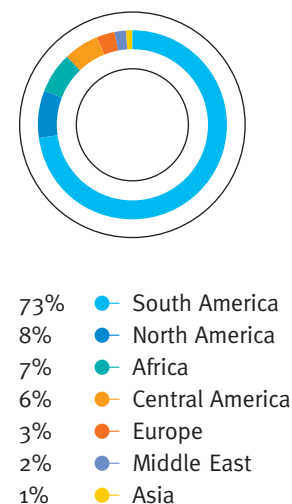
Deca received a variety of market recognition awards throughout the year, among which are the Pini and Anamaco awards, in the sanitary metal fittings and vitreous chinaware categories, Top Brands and Best Product of the Year awards, granted by Resale & Construction Magazine, for the Vogue line (vitreous chinaware) and Hydra flushing valve (metal fittings).

Deca also obtained an important international recognition, the iF Design award, one of the most respected industrial design distinctions in the world, with the Deca Slim flushing valve, winner of the metal fittings category.

### Product Releases



### Export Destinations



**« value in innovation »** Focusing on higher value-added items, Duratex maintains a diversified and differentiated product portfolio in relation to the competition, being known for the innovations introduced in the segments of wood, interior design and finishing products. It was the first company in the country to manufacture hardboards, MDF and laminate flooring from MDF, as well as sanitary vitreous chinaware with cutting-edge design, utilizing the fireclay technology.





## Competitive Advantages »

Among Duratex's main intangible assets, stand out about 160 brands, which shelter an innovative, high value-added portfolio. The competitive differentials include market leadership, client fidelization, production scale, technology, distribution and service network, low wood cost, financial health and experienced managers.



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- 1 » Detail of Deca Division's SAC (Customer Information System)
- 2 » Durafloor Training Center – Agudos Unit/SP
- 3 » Hydra flushing valve mobile training and service unit

Competitive differentials which boast the perception over the value of Duratex are not accounted for in financial statements. These intangible assets have allowed for a relevant differentiation between the Company and the competition, translated in terms of profitability.

#### **BRANDS AND PATENTS**

Duratex detains the register or register request of approximately 160 brands in the National Institute of Industrial Property (INPI), and its most important brands are also registered abroad – Duratex is registered in 23 countries besides Brazil. Also, the Deca brand and the figure of the rhino, which represents the Duratex brand, are registered abroad, in several countries. Other than these, the Duratree, Duraplac, MaDeFibra, Madepan, Madeplac and InterD+ brands, in the Wood Division, and Hydra, HydraFlux, Acrópole and Activa brands, in the Deca Division, are also registered abroad.

Approximately 100 patents and 140 patent requests are registered in the National Institute of Industrial Property (INPI).

#### **LEADERSHIP AND CLIENT FIDELIZATION**

The strength of the brands, the diversity and the discriminating design of the product lines, the marketing actions and the quality of services and products sold guarantee an elevated degree of client fidelization, as well as a leading position in the sectors in which the Company operates. In the Wood Division, the estimated market share in the domestic reconstituted wooden panels market is of 30%. In the Deca Division, the market share in the metal fittings segment is estimated at approximately 38%, which guarantees leadership. In vitreous chinaware, market share is of 16%, with sales leadership in the premium and super-premium segments.

The Company takes a series of actions to strengthen its brands, as a means of setting them apart from the competition. It maintains a pro-active attitude in the relationship with opinion-makers, such as architects, interior designers, plumbers, cabinetmakers and sales representatives, which includes fomenting training and sponsoring relevant events. It promotes satisfaction surveys on a regular basis, in order to identify possible improvements in products and services.

#### **INNOVATIVE AND HIGH VALUE-ADDED PORTFOLIO**

Duratex is distinguished for the innovation and quality of its products, and has been in the cutting-edge of the industry from the beginning:

- » Duratex was the first company in Brazil to manufacture hardboards (in 1954), MDF (in 1997), MDF-based laminate flooring (in 1998) and is the first manufacturer in Brazil to produce MDF from eucalyptus wood (since 2003);
- » Deca was the first brand in Brazil to utilize the fireclay technology, manufacturing high quality designer products for the premium and super-premium segments;
- » The Deca brand is distinguished for introducing design standards which will be followed by the market.

The product portfolio is diversified and differentiated from the competition, focusing on high value-added items. In the Wood Division, specific board-coating lines add value to the products, and increase margins as a result. There are 184 patterns and 214 colors, used in the finish foil, low pressure and painting processes. In the Deca Division, customization is the key to adding value – clients can adequate products to their specific needs. The vitreous chinaware and metal fittings lines are constantly being updated, encompassing state-of-the-art design, aligned to the latest world tendencies in the sector, which originates from the efforts of an in-house research and development team. By the end of 2005, the Company maintained 41 product lines, with 1,892 items.

4 » Vitreous chinaware development area – Jundiaí/SP

5 » Deca stand in the Kitchen and Bath Fair – Las Vegas/USA

6 » Durafloor mobile training and service unit



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#### **PRODUCTION SCALE**

The Company is market leader in the segments of wooden panels and sanitary metal fittings, and has significant share in the sanitary vitreous chinaware market. Therefore, the Company relies on economies of scale, seldom replicated, and on the possibility of the in-house development of new products and patterns aimed at enriching the product mix.

#### **TECHNOLOGY FOR COMPETITIVENESS**

Duratex possesses a highly automatized and modern productive structure. The Wood Division utilizes a never-before-seen technology for manufacturing super-dense fiberboards (SDF), protected by confidentiality contract with the supplier. In the Deca Division, there has been a technological update in the vitreous chinaware area due to the substitution of the oil-burning kilns for natural gas-burning equivalents, with a higher efficiency level. The Company also adopted the use of software for equipment maintenance, as well as inventory management and expedition, which also contributes to cutting

costs and increasing the agility of our operations. These measures make Duratex one of the most competitive industries in the segments in which it operates.

#### **DISTRIBUTION AND SERVICE NETWORK**

Another important differential pertains to the availability of the Company's products nationwide. Furthermore, the wide service network is an exclusive channel for communicating with the end consumer.

#### **LOW COST IN WOOD SUPPLY**

In December 31st 2005, the Company owned approximately 90 thousand hectares of land and forests, which guaranteed around 90% sustainability in wood supply. This condition allows for cost reductions in wood supply against the competition. Furthermore, the average distance of 55 kilometers (approximately 34 miles) between the forests and the industrial units reduces freight costs. These factors, combined with production verticalization and mechanization, ensure competitive costs in the manufacture of wood products.



Investments in innovation and technology allow Duratex to maintain an innovative portfolio, with cutting-edge design products which introduce tendencies to the Brazilian construction materials and furniture industry markets.

#### **CASH GENERATION AND FINANCIAL HEALTH**

A consistent cash generation and financial health offer the Company access to financing sources in favorable conditions, in order to fund its growth strategy. With a R\$362.6 million EBITDA in 2005, the EBITDA compound annual growth rate (CAGR) in the last three years was of 25%. In December 31st 2005, the consolidated net debt was of R\$357.1 million, equivalent to 0.98 times the EBITDA. This ratio may be considered low, which offers the capacity to increase leverage in favorable conditions.

#### **EXPERIENCE AND RESULT-ORIENTED PEOPLE MANAGEMENT**

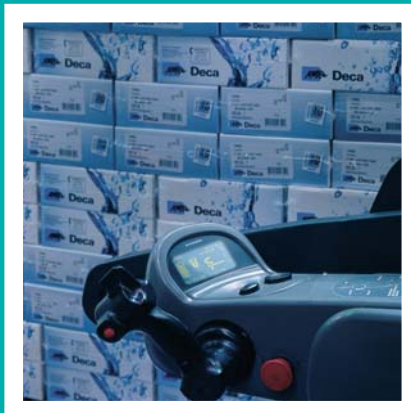
The administration possesses vast experience in the wood products, vitreous chinaware and metal fittings industries, working with the Company for many years. The professionals go through a constant training and development program, focusing on cost reduction and increasing revenue generation. People management tools aim at integrating and motivating teams, as part of a maximum quality, productive and managerial efficiency program.

**« value in growth »** In the last five years, Duratex has displayed a compound annual growth rate (CAGR) of 12.8% in net revenues and of 27.4% in net income. This behavior reflects the strategy of adding value to the production and obtaining the best performance in the markets in which it operates, in order to secure the permanent evolution of businesses.



Deca

# Economic-Financial Performance and Capital Markets »



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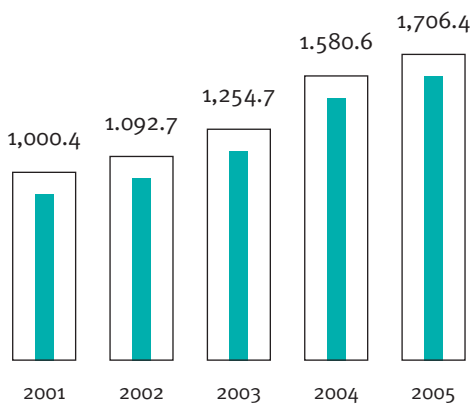


Record sales revenues grossed R\$1.7 billion, an 8% increase against the previous year. The net income evolution was of 9.4%, totaling R\$137.1 million, with a performance boosted by sales prices which reflect higher value-added products, compensating for a decrease in shipped volumes.

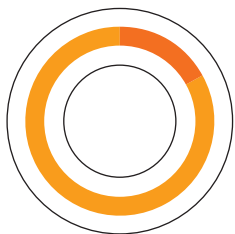
- 1 » Detail of the Deca Division's expedition
- 2 » Detail of the wooden panel storing and expedition area in the Botucatu Unit/SP
- 3 » Trading session opening at Bovespa, during the event officializing Duratex's entrance in the Level 1 of Corporate Governance



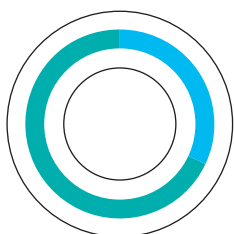
### Gross Revenues (R\$ million)



### Origin of Revenues (%)



83% Domestic Market  
17% Foreign Market



68% Wood  
32% Deca

### SALES REVENUES

Gross sales revenues totaled R\$1,706.4 million, 8% above the previous year. Net revenues reached R\$1,270.6 million, an R\$82.4 million (6.9%) increase compared to 2004. The performance derives mainly from higher sales prices associated with the increased market share of greater value-added products, compensating for the registered decrease in shipped volumes. Net sales revenues overseas decreased 9.5%, from R\$226.5 million in 2004 to R\$204.9 million, mainly due to the devaluation of the dollar against the real, since expeditions and prices in foreign currency remained stable.

### COST OF GOODS SOLD AND GROSS INCOME

Cost of goods sold totaled R\$743.8 million in 2005, representing a 2.7% increase in relation to 2004 (R\$724.2 million). This variation was due mainly to the 5% increase in the payroll, the impact of which was partially compensated by cost-reduction measures taken during the year, including reducing the number of employees, especially in the Deca Division. The cost of goods sold, expressed as a percentage of net revenues, decreased from 60.9% in 2004 to 58.5% in 2005. As a result, gross income increased 13.5%, from R\$464 million to R\$526.8 million in 2005. Gross income, as a percentage of net sales revenues, or gross income margin, was of 41.5% in 2005 (39.1% in the previous year).

### Production Costs – Wood Division



47% Raw Materials and Other Inputs  
18% Wood  
16% Labor  
8% Electricity  
7% Depreciation  
4% Fuel

### Production Costs – Deca Division



46% Raw Materials and Other Inputs  
38% Labor  
9% Depreciation  
4% Electricity  
3% Fuel

## EXPENSES

The sales, general, administrative and other expenses increased 12.4%, from R\$217.6 million in 2004 to R\$244.6 million in 2005. This variation derived mainly from:

- » R\$14.3 million increase in freight costs, which totaled R\$82.3 million in 2005, reflecting the inflation, higher fuel prices and general transportation costs;
- » R\$4.9 million increase in employee expenses – from R\$29 million in 2004 to R\$33.9 million in 2005 – as a result of union collective agreements and mandatory salary revisions. This impact was partially compensated by the extraordinary reduction in payroll overhead in 2004, amounting to R\$2 million, and by the revision of the risk level upon the payroll overhead in the head office; and
- » R\$1.3 million increase in management remunerations, from R\$9 million in 2004 to R\$10.3 million in 2005.

Furthermore, two climate-related occurrences resulted in losses of R\$4 million and contributed to the increase in operating expenses: the destruction of a Wood Division warehouse located in Gulfport, Mississippi (USA), due to hurricane Katrina, causing losses of R\$3 million, and partial flooding of a sanitary metal fittings unit of the Deca Division in São Paulo, with R\$1 million in losses.

## NET FINANCIAL EXPENSES

Net financial expenses totaled R\$74.6 million, against R\$55.1 million in 2004. This 35.4% variation resulted mainly from increased financial expenses and interest related to the emission of debentures (R\$200 million) and from a bank loan contracted in August 2005, which totaled R\$143.5 million in December 31st, both with interest rates linked to the CDI.



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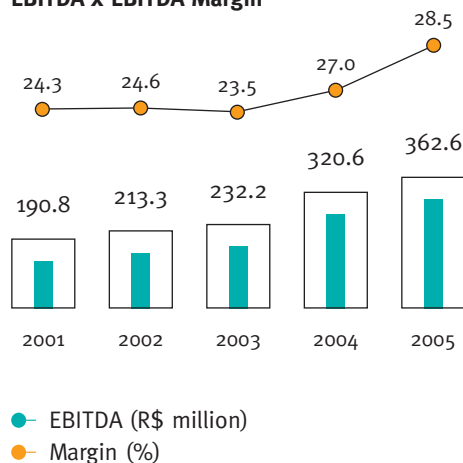
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The increase in the cost of goods sold was contained in 2.7%, as a result of expense-reduction measures taken by the Company throughout the year. As a percentage of net sales revenues, the cost decreased from 60.9% in 2004 to 58.5% in 2005.

#### EBITDA

The EBITDA totaled R\$362.6 million in 2005 (R\$320.6 million in the previous year). The EBITDA margin went from 27% in 2004 to 28.5%.

#### EBITDA x EBITDA Margin



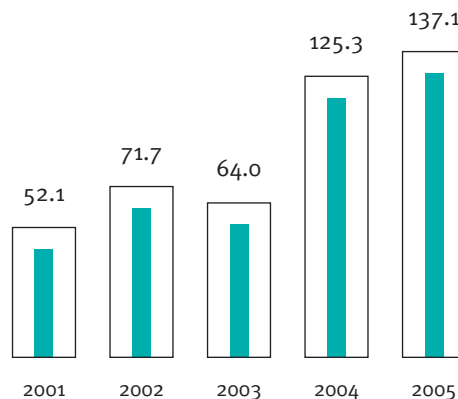
#### NON-OPERATING INCOME

Non-operating income increased 25.5%, from R\$9.4 million in 2004 to R\$11.8 million in 2005, mainly due to income from the sale of forestlands in Jundiaí, in 2005.

#### NET INCOME

As a result of the aforementioned facts, net income increased 9.4%, going from R\$125.3 million in 2004 to R\$137.1 million in 2005.

#### Net Income (R\$ million)

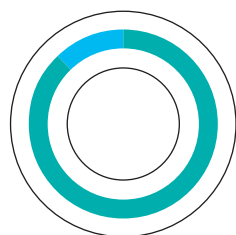


- 4 » Operation in the sanitary metal fittings production line – São Paulo/SP
- 5 » Detail of the automatized sanitary metal fittings expedition – Jundiaí/SP
- 6 » Performance of Duratex's shares

## DEBT

In December 31st 2005, consolidated total debt was of R\$591.1 million, from which R\$151.5 million represented short-term debts, and R\$439.6 million represented long-term debts (74.4% of the total). Foreign currency debt was equivalent to 10.1%, and debt in reais was equivalent to 89.9%. The net debt totaled R\$357.1 million, equivalent to 0.98 times the EBITDA (1.32 in 2004).

Debt Composition (R\$ million)



90% ● National Currency – R\$531.40  
10% ● Foreign Currency – R\$59.60

Debt Chronogram (R\$ million)	Maturity per period				
	2006	2007 to 2009	2010 and 2011	2012 and beyond	Total
Loans and Financings	148.4	84.3	141.3	14.0	388.0
Debentures	3.1	200.0	—	—	203.1
Total Contractual Obligations	151.5	284.3	141.3	14.0	591.1

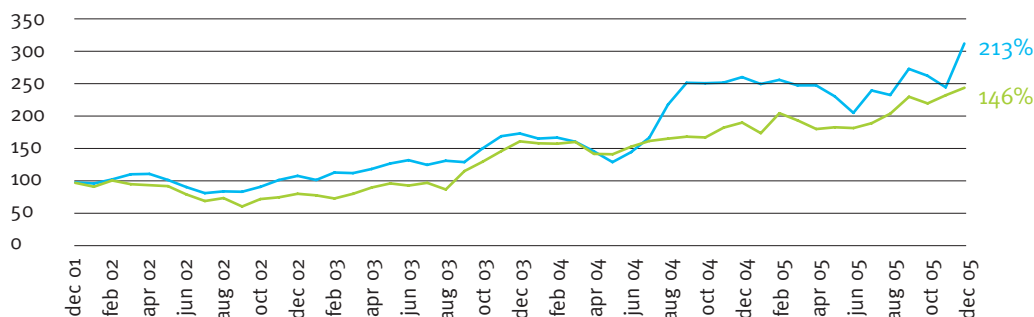
## CAPITAL MARKETS

Duratex's preferred shares were traded on all the days the São Paulo Stock Exchange (Bovespa) was open for business over the year, reporting an appreciation of 20% against an increase in the Bovespa Index (Ibovespa) of 28%. Since 2000, shares appreciated 163%, against 96% of Ibovespa. Market value totaled R\$1.75 billion, against R\$1.46 billion in the previous year.

The Company registered 6,797 trades in the cash market, with a turnover of approximately 14.1 million shares, amounting to R\$339.8 million, and representing a daily average of R\$1.4 million. Share appreciation was more expressive in the second half-year, when the evolution was of 52%, against 34% of Ibovespa, with accentuated increase of daily liquidity: R\$2.2 million on the fourth quarter, against R\$0.8 million in the previous quarter.

Since December 2001, Duratex shares appreciated 213%, against the 146% raise in the Ibovespa. By the end of 2005, the market value of the Company totaled R\$1.75 billion.

Duratex x Ibovespa



● Duratex  
● Ibovespa

In 2005, a stock split-in-reverse program was accomplished, in the proportion of 200 to 1, aiming at improving share liquidity through standardized lots for negotiation, more accessible for non-institutional investors.

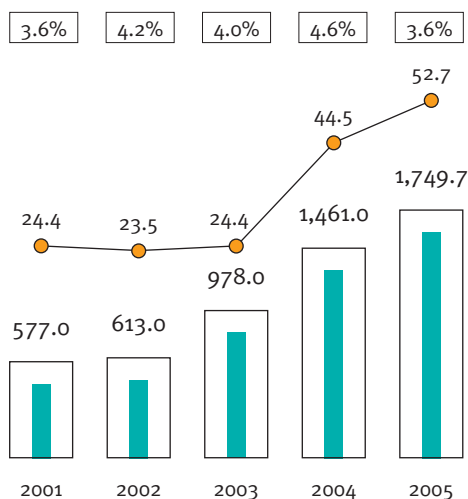
Preferred Shares Trades	2004	2005	Var. (%)
Last Quotation (R\$) <sup>(i)</sup>	12.40	14.85	20
Volume Traded (Monthly Average in R\$ thousand)	31,808	28,317	-11
Average Quotation (R\$) <sup>(i)</sup>	9.21	11.79	28
Number of Trades (Average/Month)	331.0	566.4	71

<sup>(i)</sup> Quotation adjusted accordingly to a stock split in reverse and a stock dividend as of 2005 and 2006, respectively

### STOCKHOLDER REMUNERATION

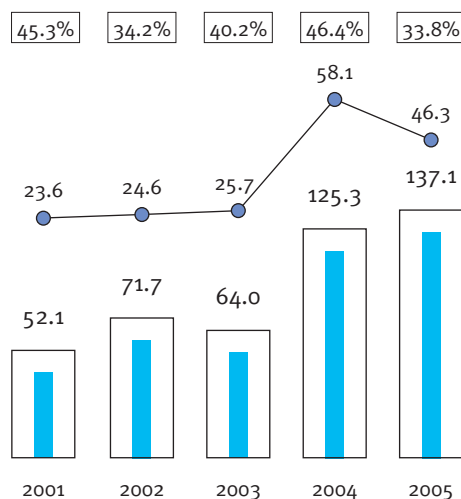
The Board of Directors proposed the distribution of R\$21.4 million to shareholders, in the form of Interest on Own Capital, corresponding to R\$0.36 per share. This amount adds to what was distributed in August 2005, totaling a gross value for the year of R\$46.3 million, or 35% of the net income for the period and approximately R\$0.79 per share.

#### Dividend Yield



(R\$ millions)  
■ Market Value  
● Dividends Paid

#### Dividends/Net Income (pay-out)



(R\$ millions)  
■ Net Income  
● Provisioned Dividends



**« value in leadership »** Duratex is leader in the markets in which it operates, being the largest local manufacturer of reconstituted wooden panels and sanitary metal fittings, and having significant market share in the sanitary vitreous chinaware segment, especially in the premium and super-premium categories. This leadership reflects the development of innovative products, the strong recognition of brands such as Deca, Hydra, Duratex and Durafloor, among others, and the high level of client fidelization.



Taking one more step towards improving its corporate governance model, Duratex entered Bovespa's Level 1. Thus, the Company reaffirmed its commitment to investors and market agents, of disclosing information with transparency and fairness.



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3 +

- 1 » Event officializing Duratex's entrance in the Level 1 of Corporate Governance
- 2 » Detail of the remodeled institutional website
- 3 » Level 1 of Corporate Governance adherence certificate

In the permanent process of improving the relationship with shareholders, Duratex entered Bovespa's Level 1 of Corporate Governance in May 2005. In doing so, the Company reaffirmed its commitment to investors and capital markets agents, of disclosing information with transparency and fairness.

During the year, the Company also accomplished the stock split-in-reverse, in the proportion of 200 shares per 1 share, according to the deliberation of the Ordinary and Extraordinary General Meeting, in order to reduce the value of the standard lot for negotiating shares.

These initiatives complement other measures adopted in the last few years, such as:

- » Preferred shares tag-along rights, allowing shareholders to receive 80% of the value paid to controllers, in the event of alienation of the Company;
- » Gradual extinguishment of the Beneficiary Parts – titles issued in 1964 which guaranteed a 10% participation in the Company's annual net income. This participation will be reduced by 2.5% every year, until its complete extinction at the end of 2006;
- » Increase in the minimum dividend distribution, going from 25% to 30% of adjusted net income;
- » Quarterly financial information disclosing through teleconference and web conference;

- » Annual financial information disclosing meetings – held for the last 19 years – with the participation of capital markets investment analysts and professionals;
- » Acts and/or relevant facts disclosing policy;
- » Restructuring of the corporate and Investor Relations website, including updated navigation tools and content.

Duratex's corporate governance is structured as follows:

#### **BOARD OF DIRECTORS**

Responsible for establishing the general bylaws, including long-term strategy, as well as supervising executive management. The members are elected by shareholders, in an Ordinary General Meeting, for one-year terms, successively renewable. In 2005, the Board was comprised by eight members, among which one president and three vice-presidents. The shareholders who detain, individually or in group, at least 15% of the common shares have the right to indicate one member and his/her alternate.

Meetings take place quarterly, or whenever necessary, by means of a summons by the president, or by presence of all the members. The decisions are taken by absolute majority of votes, and the deciding vote is up

to the chairman in case of a draw. The remuneration of managers is decided in the General Meetings. In 2005, the amount designated was of R\$8.8 million.

#### **FISCAL COUNCIL**

The Council is installed on a non-permanent basis and is responsible for supervising management and analyzing information provided to the Company's General Meeting. It can be composed of a minimum of three and a maximum of five members and an equal number of alternates. At the end of 2004, the Council had three members, one of which representing the minority shareholders.

#### **EXECUTIVE BOARD**

Responsible for implementing decisions taken by the Board of Directors and for the management of the business, the Executive Board was comprised in 2005 by one president, three executive vice-presidents, four executive officers and four managing directors. The Executive Board meets weekly and extraordinarily whenever necessary. Executive officers are subject to an age limit of 65, in order to encourage renewal in the Company's management.

## COMMITTEES

In 2005, the Company created six Internal Committees, comprised by executives from the industrial companies under the Itaúsa Group (Duratex, Itaotec and Elekeiroz). These committees – Corporate Intelligence, Risks and Ethics, Corporate Governance, Talent Management, Operating Excellence and Commercial Excellence – aim at diffusing the best practices adopted, capturing synergies, reducing costs and generating value for shareholders.

Duratex also maintains a Stock Options Committee, elected by the Board of Directors, with the purpose of evaluating and defining the variable remuneration of executives. The process is based on the Stock Option Plan, of which purpose is to reconcile the interests of the shareholders and executives in the search for sustainable earnings over the medium and long-terms.

## INVESTOR RELATIONS

In 2005, Duratex organized roadshows and took part in several events – both domestic and international –, which brought together 670 analysts and investors. Furthermore, the investor relations website was remodeled, including more information and new navigation tools, which enable for a faster, more efficient search for information on the Company's performance. During the year, the website had about 205 thousand hits, representing an increase of 39% against the previous year.

## EXTERNAL AUDITORS

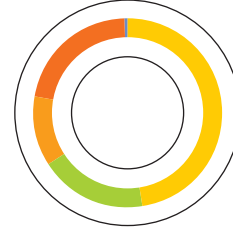
The relationship of Duratex with external auditors is based on the principles of independence. The policy establishes that the auditors should not audit their own work, exercise managerial duties nor advocate for the client. The external auditors are chosen by the Board of Directors. PricewaterhouseCoopers has been the Company's independent auditor since 2004, having produced financial evaluation reports in 2005. For this activity, PricewaterhouseCoopers received R\$82 thousand, corresponding to approximately 25% of total annual auditing fees.

## SHAREHOLDER STRUCTURE

By the end of the fiscal year, the subscribed capital amounted to R\$325 million, represented by 58,913,584 outstanding shares, being 22,060,294 common and 36,853,290 preferred.

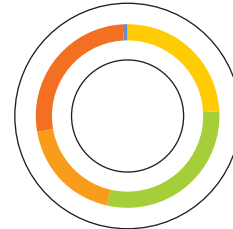
### Shareholder Structure – Dec/05

Consolidated



47.6%	Itaúsa
18.4%	Foreign Investors
11.8%	Pension Funds
21.8%	Other Investors
0.4%	Treasury Stock

Preferred



24.4%	Itaúsa
29.3%	Foreign Investors
18.8%	Pension Funds
26.9%	Other Investors
0.6%	Treasury Stock



Six management committees were created in conjunction with other industrial companies of the Itaúsa Group, in order to diffuse the best practices adopted, promote the capture of synergies, reduce costs and generate value for shareholders.

## BOARD OF DIRECTORS

### **Olavo Egydio Setúbal**

Chairman of the Board. Engineer, graduated in 1945 from the Escola Politécnica of the University of São Paulo (USP). Has held the positions of mayor of the city of São Paulo, between 1975 and 1979, foreign minister in the José Sarney government and council member on the National Monetary Council, in 1974, and of the National Private Insurance, from 1966 to 1971. Currently sits on the boards of Banco Itaú, Itaúsa, Elekeiroz and Itaotec.

### **Laerte Setubal Filho**

Civil engineer, graduated from the Escola Politécnica of the University of São Paulo (USP) in 1949 and has been vice-chairman of the Board since 1959. Has managed companies such as Caterpillar do Brasil S.A., between 1979 and 1989, and Eternit S.A., until 1991. Currently sits on the boards of Scânia do Brasil S.A., Vidraria Santa Marina, Siemens S.A., Lion Empreendimentos S.A. and Samba S.A.

### **Maria de Lourdes Egydio Villela**

Psychologist, graduated from the Catholic University of São Paulo (PUC SP), and is vice-chairman of the Board. Currently sits on the boards of Banco Itaú, Itaúsa Portugal, Itaubanco Foundation, Itaú Cultural Institute, São Paulo Museum of Modern Art (MAM) and Associação Comunitária Despertar.

### **Paulo Setúbal**

Industrial engineer, graduated from the Industrial Engineering Faculty (FEI) in 1971 with postgraduate degree in Finance from the Getúlio Vargas Foundation (FGV) in 1974. Currently, accumulates the functions of vice-chairman of the Board and president of Duratex. Also sits on the boards of the Itaúsa companies. He is also the president of Itaotec and Elekeiroz and executive director of Itaúsa.

### **Alfredo Egydio Arruda Villela Filho**

Mechanical engineer, graduated in 1992 from the Mauá Institute of Technology, with a postgraduate degree in Business Administration from the Getúlio Vargas Foundation. Currently, sits on the boards of Itaúsa and Itaotec.

### **Jairo Cupertino**

Mechanical engineer, graduated from the Escola Politécnica of the University of São Paulo (USP) in 1948. Currently sits on the board of Banco Itaú, Itaúsa, Itaotec and Elekeiroz. Managed Credicard S.A. – Credit Card Administration and Companhia Ferro Brasileiro.

### **José Carlos Moraes Abreu**

Lawyer, graduated in 1944 from the University of São Paulo (USP). Managed the São Paulo Modern Art Museum (MAM), between 1963 and 1986, the National Investment Bank Association (Anbid), between 1980 and 1983, and the Brazilian Federation of Bank Associations, between 1983 and 1990. Was also member of the National Monetary Council, between 1975 and 1984. Currently sits on the boards of Banco Itaú, Itaúsa, Itaotec and Elekeiroz.

### **Olavo Egydio Setubal Junior**

Business administrator, graduated from the Armando Álvares Penteado Foundation (FAAP). Currently, sits on the Board and manages Itaú Seguros S.A.

## EXECUTIVE BOARD

### **Paulo Setúbal**

Industrial engineer, graduated from the Industrial Engineering Faculty (FEI) in 1971 with postgraduate degree in Finance from the Getúlio Vargas Foundation (FGV) in 1974. Currently, accumulates the functions of vice-chairman of the Board and president of Duratex. Also sits on the boards of the Itaúsa companies. He is also the president of Itaotec and Elekeiroz and executive director of Itaúsa.

### **Guilherme Archer de Castilho**

Business administrator, graduated from Mackenzie University in 1983, and has been integrating Duratex's administration for the last twenty years. Is executive officer since 1992, and has been promoted to vice-president in 2004. Currently, also takes part in the management of Itaotec and Itaúsa Empreendimentos.

### **Plínio do Amaral Pinheiro**

Business administrator, graduated in 1975 from Getúlio Vargas Foundation (FGV). Has been integrating Duratex's administration for the last 26 years. Is executive officer since 1991 and, since November 2004, is Financial and Corporate vice-president, and Investor Relations director.

### **Raul Penteadado de Oliveira Neto**

Lawyer, graduated from Mackenzie University in 1983, and has been integrating Duratex's administration since 1985. Occupied the position of managing director since 1995, and was promoted to vice-president in November 2004. Currently, also takes part in the management of Itaotec.

### **Carlos Alberto Tenório Nobre**

Metallurgical engineer, graduated in 1969 from the Escola Politécnica of the University of São Paulo (USP), with a postgraduate degree in Business Administration from the Mackenzie University, in 1978. Has been integrating Duratex's administration for the last 32 years. Occupies the position of executive officer since 1989, and is responsible for the Industrial Area of the Deca Division.

### **Enrique Judas Manubens**

Mechanical production engineer, graduated in 1972 from the Industrial Engineering Faculty (FEI) and has a Business Administration degree from Mackenzie University. Has been integrating Duratex's administration for the last 22 years. Occupies the position of executive officer since 1991, and is responsible for the Commercial Area of the Deca Division.

### **José Roberto Refinetti Guidi**

Engineer, graduated from the Mauá School of Engineering in 1970, with a postgraduate degree in Business Administration from Mackenzie University in 1973. Has been integrating Duratex's administration for the last 31 years. Occupies the position of executive officer since 1995, and is responsible for the Marketing and Development Area of the Deca Division.

### **Mário Colombelli Filho**

Agronomist, graduated in 1972 from the Escola Superior de Agricultura Luiz de Queiroz (Esalq/USP). Has been integrating Duratex's administration for the last 22

years. Occupies the position of executive officer since 1987, and is responsible for the Industrial Area of the Wood Division.

### **Alexandre Coelho Neto do Nascimento**

Accountant, graduated from Faculdade Machado Sobrinho, in 1987. Commercial director of the Wood Division since 2005. Also takes part on the executive board of the Brazilian Wooden Panels Industry Association, since 2004.

### **Antonio Joaquim de Oliveira**

Forestry engineer, graduated in 1984 from Viçosa University, with a master's degree in Economy and Forestry Planning from the same institution in 1986. Specialized in Strategic Business Management from the Getúlio Vargas Foundation in 1994. Currently occupies the position of managing director of the Forestry Area.

### **Antonio Massinelli**

Lawyer, graduated in 1982 in Law from the Catholic University of São Paulo (PUC SP) with specialization in Civil Process from the Centro de Extensão Universitária – CEU in 1994. He is currently executive officer of the Private Pension Funds Association (Apep).

### **Flávio Dias Soares**

Business administrator, graduated from the Armando Álvares Penteadado Foundation (FAAP) in 1985. Has been in the Company since 1985, and is executive officer since 1998. Currently occupies the position of managing director, being responsible for the activities of Deca Piazza.

The decisions of the Board of Directors – which is comprised by eight members – are reached by absolute majority of votes, and the deciding vote is up to the chairman in case of a draw.

#### **FISCAL COUNCIL**

##### **Paulo Ricardo Moraes Amaral**

Engineer, graduated from the Industrial Engineering Faculty (FEI) in 1965 with postgraduate degree in Business Administration from the Getúlio Vargas Foundation (FGV) in 1970. Chairman of the Fiscal Council, is business administrator at Duratex S.A. and PMV Participações Ltda., having previously administered Itaúsa, since 1995, and Monark Bicycles, since 2002.

##### **Iran Siqueira Lima**

Economist, graduated from the Rio de Janeiro State University in 1969. Effective member of the Fiscal Council. Currently, is administrator of Duratex S.A. and Itaú S.A. Teaches accounting and finance-related disciplines in the AEUDF, UNB and USP universities and in the Fipecafi MBA courses. Has previously integrated the administration of the Brazilian Central Bank, from 1984 to 1985, the City of São Paulo Bank, in 1986, was Secretary of Budget and State Companies Control (SEST), from 1987 to 1990, worked at Telebrás, from 1991 to 1992, and at the Banco Nacional de Desenvolvimento (BNDES), in 1991.

##### **Wilton de Medeiros Daher**

Economist, graduated from the Rio de Janeiro State University in 1975. Effective member of the Fiscal Council. Currently, is administrator of Duratex S.A. and has previously integrated the administration of Banco do Brasil, from 1986 to 1988.

##### **Antonio Geraldo Toledo Moraes**

Business Administrator, graduated from the Getúlio Vargas Foundation, in 1961. Alternate member of the Fiscal Council. Currently, is administrator of Duratex and Itaúsa, having previously worked at Itaú S.A., from 1960 to 1993, and Cia. Industrial de Eletricidade, between 1967 and 1969.

##### **José Marcos Konder Comparato**

Engineer, graduated from the University of São Paulo (USP), in 1955. Alternate member of the Fiscal Council. Currently, is administrator of Duratex, Itaúsa and Sign Supply, having previously administered Itaú S.A., from 1977 to 1986, Associação das Empresas de Crédito Imobiliário do Estado de São Paulo (Acresp), from 1980 to 1982, and Banco Nacional de Habitação (BNH), between 1980 and 1985.

##### **Paulina de Menezes Berwanger**

Economist, graduated from the Rio de Janeiro Economy University, in 1977. Alternate member of the Fiscal Council. Currently, is administrator of Duratex, having previously administered Banco do Brasil, between 1973 and 2003.

**« value in efficiency »** The permanent search for more efficiency stimulates investments in technology, innovation and the development of human resources, besides determining discipline criteria for the use of capital. The aim is to improve processes, focusing on efficiency and quality, meeting clients' needs, favoring profitability of businesses and creating value in the productive chain, as well as reducing costs.

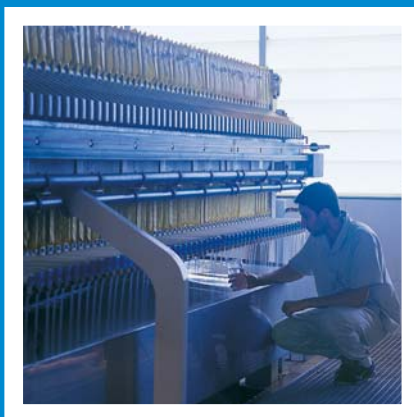




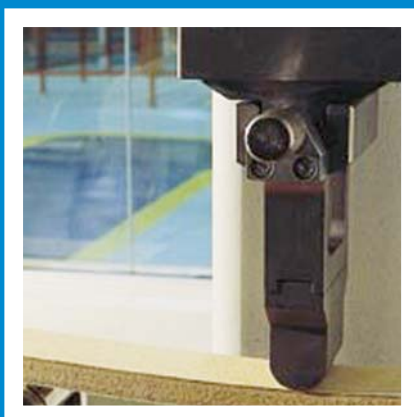
## Risk Management »



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Duratex's risk management process was improved in 2005 with the creation of the Risks and Ethics Committee, which is comprised by executives from all the industrial companies of the Itaúsa Group. With this model, we expanded the conditions for analyzing and adopting actions to reduce the impact of factors that may affect the development.

- 1 » Paper impregnator operator in Agudos/SP
- 2 » Material recovery area in the Ceramic II Unit – Jundiaí/SP
- 3 » MDF endurance and traction test machine

Duratex's actions rely on analysis and procedures to identify the probability and impact of factors capable of affecting business performance, aiming at reducing the vulnerability of its operations and results. In 2005, this process was improved by the creation of the Risks and Ethics Committee, comprised of executives from the industrial companies of the Itaúsa Group (Duratex, Itaotec and Elekeiroz).

#### **MARKET AND PRICE**

The sanitary metal fittings and vitreous chinaware markets are directly influenced by the performance of the construction and furniture industry sectors, which are directly affected by the country's economic development. In addition, the competition has evolved in the last few years, mainly due to investments in productive capacity. However, the market has expanded, which provided more opportunities to a larger number of manufacturers. Duratex maintains a leading position in the segments in which it operates and has a larger productive capacity compared to the competition in Brazil, except in vitreous chinaware.

To secure results, even in different scenarios, the Company intensifies its presence in greater value-added segments, less exposed to the effects of the economic retraction. And stands out in the market due to continuous innovations and an ample distribution and services network, as well as maintaining training programs for retailers and users. Furthermore, it aims at expanding exports in order to reduce its dependency on the domestic market.

#### **OPERATIONAL**

To mitigate operating costs, the Company adopts a preventive maintenance program for machinery and equipments, supported by software which increases the efficiency of the process, and reduces costs and eventual stalls in the production line. The same concept was applied to inventory and shipment management, now completely electronic.

As a means of protecting its assets, the Company contracts different kinds of insurances such as all risks coverage, that protects against operating risks, auto insurance, that covers semi-haulages, tractors and vehicles in general and other policies that include international freight insurance (export and import) and theft insurance in the Jundiaí industrial unit.

## RAW MATERIALS

About 20% and 30% of raw materials costs in the Wood and Deca divisions, respectively, derive from commodities – such as resins, papers, paints and metals – products which are subject to price fluctuations in the international markets. Currently, the Company doesn't have any defense mechanism against these variations. However, most of the industry would probably be affected in a similar way, which wouldn't harm the Company's position against the competition.

The market for wood acquisition is restricted, since most manufacturers produce their own wood feedstock. Duratex produces in its own forests close to 90% of the wood utilized in its industrial processes. The Company also maintains a forest fomentation program, which includes rural producers of areas close to the wood units. It has permanently invested in land acquisitions, forest expansion, equipment and forestry research, in order to minimize the risk of lacking raw material to supply the increasing production, and extend the productivity of its forest areas. Also maintains a watch system, which quickly identifies and controls fires in the Company's forests.

## CREDIT

The client base is diversified and pulverized, which helps reducing dependency or exposure to particular clients or market segments. In the Deca Division, the ten biggest clients were responsible for 19.7% of gross revenues in 2005, and the biggest client, in the same period, was responsible for little over 7.1%. In the Wood Division, the ten biggest clients corresponded to 16.5% of gross revenues, and the biggest client, to little over 2.5%. The default situations are analyzed individually, to determine bank collection actions, followed by protest and judicial collection or extrajudicial credit recovery. In case of bankruptcy or judicial recovery of the debtor, provision in the integral value of the debit is made. In December 31st 2005, the insolvency index was of 0.64%, as total of receivables in relation to gross revenues.



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The investments on acquiring land, expanding forests, equipment and research aim at minimizing the risks of lack of raw material to expand the production and increase the productivity of the forest reserves.

#### **EXCHANGE RATE**

Although the long-term depreciation of the Brazilian currency is related to the inflation, the depreciation which occurs in shorter periods results in significant exchange rate fluctuations, between the real, the American dollar, and other currencies. With the conclusion of the Capital Expenditures Plan and the reduced need for financing lines, the Company reduced the foreign-currency-denominated share of its debt from 23% to 10%, as a means of managing the exchange rate risk on the financial indebtedness. The hedge is secured by receivables from foreign sales operations, and by Duratex's assets overseas.

#### **INTEREST RATES**

The Company's leverage is low (0.98 ratio between net debt and EBITDA) and the cash generation is consistent, which offer access to financing sources in favorable conditions. The Company's conservative cash management and investments in financial assets policy reduces the risk of the impact of the interest rates variations over financial results, thus dispensing the need for other protective instruments.

#### **ENVIRONMENTAL**

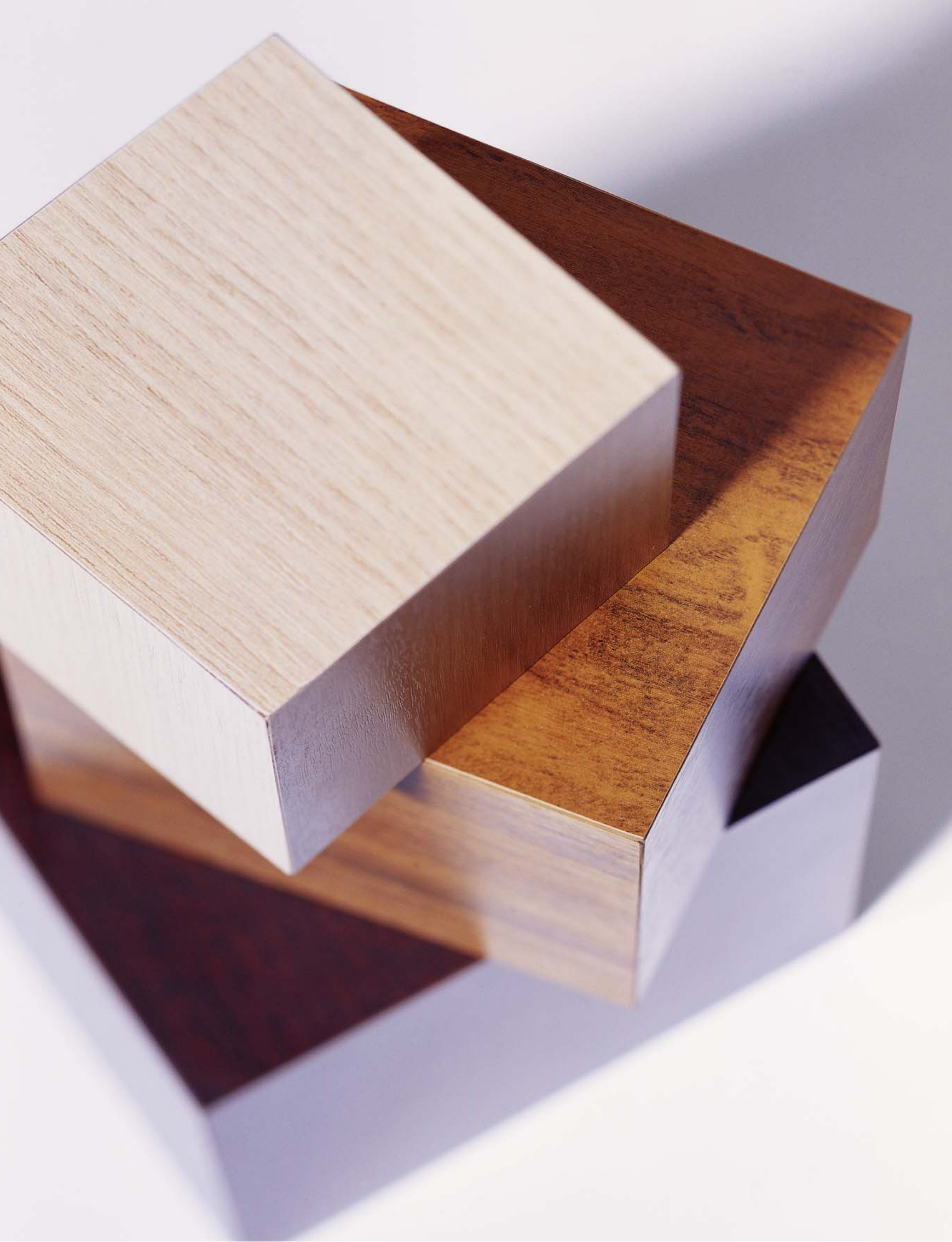
Environmental conservation is one of the pillars of the Company's industrial policy, focusing on forest management. The Company follows and surpasses standards determined by federal, state and municipal laws, as well as regulations and authorizations. The operations are certified by several organizations, like the Forest Stewardship Council (FSC), which granted the green seal, guaranteeing the sustainable forest management and the wood products custody chain, and the Scientific Certification Systems (ISO 14001 certification) for the environmental management system in the Botucatu Unit, and for the Lençóis Paulista Seedling-Production Nursery.

#### **TECHNOLOGY**

The investment in research and development reduces the risk of product obsolescence and ensures the improvement of systems and processes. The industrial units operate with cutting-edge technology and partially automatized production lines.

**« value in sustainability »** The commitment to sustainability is verified by the Forest Stewardship Council (FSC) seal, being the first company in Latin America to receive – for the tenth consecutive year in 2005 – the certification which attests that its production is environmentally adequate, socially fair and economically viable. Duratex understands that the rational use and preservation of natural resources are fundamental for ensuring productivity, competitiveness and the continuation of the production process in a sustainable way.

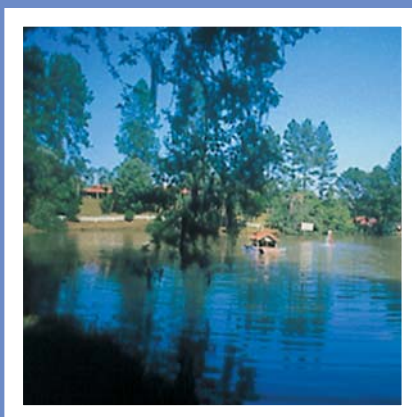




# Social and Environmental Responsibility »



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The commitment to the sustained development encompasses human resources management practices, actions and programs aimed at the communities in which the Company is present, the forest activities and the environmental control practices in the industrial operations. For this work, it was the first company in Latin America to receive the FSC seal.

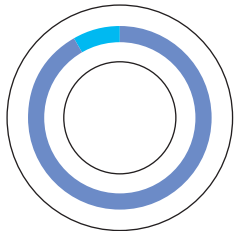
- 1 » Get Onboard Program
- 2 » Country Club – Botucatu/SP
- 3 » Planet Water, Atlantic Forest and Landscapes Project

## HUMAN RESOURCES

In December 31st 2005, Duratex payroll stood at 5,890 employees in Brazil and 66 abroad. By the end of the year, the Company employed 239 special needs people, offering equal opportunities and development conditions.

Number of Employees	2003	2004	2005
Deca	2,674	2,674	2,654
Wood	1,866	1,930	1,903
Forestry	873	916	905
Head Office	416	431	428
<b>Total Brazil</b>	<b>5,829</b>	<b>5,951</b>	<b>5,890</b>
Overseas	57	61	66
<b>Total</b>	<b>5,886</b>	<b>6,012</b>	<b>5,956</b>

### Gender



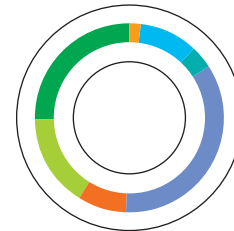
91.9% ● Male  
8.1% ● Female

### Time of Service with the Company (Years)



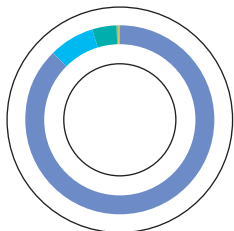
47.3% ● Up to 5  
21.6% ● From 6 to 10  
23.0% ● From 11 to 20  
8.1% ● More than 20

### Education



2.0% ● Masters / Postgrad  
10.0% ● Complete College Education  
4.0% ● Incomplete College Education  
34.6% ● Complete High School Education  
8.4% ● Incomplete High School Education  
15.9% ● Complete Primary Education  
25.1% ● Incomplete Primary Education

### Ethnic



82.5% ● White  
12.7% ● Mulatto  
4.3% ● Black  
0.3% ● Yellow  
0.2% ● Indian

### Age Groups (Years)



2.3% ● Up to 19  
35.3% ● 20 to 29  
32.9% ● 30 to 39  
22.3% ● 40 to 49  
7.2% ● More than 50



## Training and Development

In 2005, the Company invested R\$917.1 thousand in employee training programs, in a continuous education, improvement and recycling process, often with the support of external collaborators (consultants and lecturers notorious in their areas of expertise). The Company also offers incentives for continuing education, with language and post-graduation courses.

As example of the importance given to professional qualification, the Company maintains, since 2003, a Manpower Training Center in São Leopoldo, in order to stimulate the career evolution of its employees and the formation of apprentices. In another initiative, since 1986 groups of collaborators are sent to Japan for a series of technical visits. This program is structured by the Imam Institute of São Paulo and aims at displaying modern administration and management techniques. Until the moment, 74 professionals had participated in the program.

In 2005, the project Sinergia Deca was resumed, offering training for the technical and supervision levels. It includes several modules, which approach from operational and technical subjects, such as costs and planning, to behavioral aspects. The lessons are often administered by employees specialized in particular subjects.

For optimum employment of time and resources, the programs that offer greater managerial and technical capacity to meet the challenges of a competitive market – such as specific for the areas of quality and consumer care – are priority.

The training programs include the recruitment of high school and college level trainees, who go through a gradual integration process in the Company's concepts and the actions, in a planned and guided way.

Training and Development	2003	2004	2005
Amount invested (in R\$ thousand)	1,004.9	913.8	917.1
Number of participations in courses and seminars	38,808	42,945	33,894
Investments in education and training against net revenue	0.10%	0.08%	0.07%
Investments in education and training against total operating expenses	0.54%	0.42%	0.37%
Investments in education and training against total personnel expenses	0.88%	0.68%	0.65%
Scholarships granted	48	67	44



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## Remuneration and Benefits

The payroll, adding remuneration, social charges and benefits, totaled R\$242.1 million, in 2005. Beyond the mandatory benefits, the Company offers medical, pharmaceutical and dental plans, complementation of sick pay, group life insurance, casualties insurance, complementary private pension plan and profit sharing, among others.

The variable remuneration policy also contemplates performance prizes for the professionals in the areas of sales and consumer care. In the commercial area, the professionals who stand out in the fulfillment of goals receive the trophy *Rino de Ouro* (Golden Rhino). The executives also make use of a profitability and performance-related bonus program to the reached performance and the yield during the exercise.

In 2005, R\$917.1 thousand were directed to training employees. The activities include internal and external courses, incentives to continued education and a Manpower Training Center.

### Distribution of Benefits



37%	● Food
35%	● Health
20%	● Transportation
6%	● Pension
2%	● Other

Remuneration (R\$ million)	2003	2004	2005
Payroll	116.4	133.7	140.2
Pension Charges	67.6	69.3	77.8
Private Pension	0.4	0.4	1.4
Benefits	20.0	20.4	22.7
Profit Sharing	7.6	9.3	11.7
<b>Total</b>	<b>212.0</b>	<b>233.1</b>	<b>253.8</b>

### PPR

The employee's Profit Sharing Program (PPR) encloses all employees and distributed, in 2005, R\$11.7 million, equivalent to 8.4% of the gross payroll. The plan aims at stimulating team work and the participation of employees in the Company's businesses.

For the composition of the plan the following indexes are evaluated: (a) the Company's share – profitability; (b) The unit's share – productivity, quality and costs; and (c) the employee's share: absenteeism, improvements and employment-related accidents.



## Complementary Private Pension

Through the Itaúsa Industrial Foundation, two private pension plans are maintained. The Defined Benefit Plan (BD-DX) is only offered to the employees contracted up to September 30th 2002 and the contributions are made exclusively by the Company. The Definite Contribution Plan – Individual Retirement Plan (PAI-CD) is directed to the employees admitted after October 1st 2002, who contribute with a percentage of their wages, and the Company participates with 50% of the value contributed by the collaborator. In the second half-year of 2005, the participants of BD-DX plan were able to move to the PAI-DC, and the migration degree was of 97%.

Complementary Private Pension Plan	December/2005
Number of beneficiaries	5,013
Total expended with the program (R\$ thousand)	1,452.4
Number of retired beneficiaries enjoying the benefit	582
Total expended with retired beneficiaries enjoying the benefit (R\$ thousand)	4,611.5

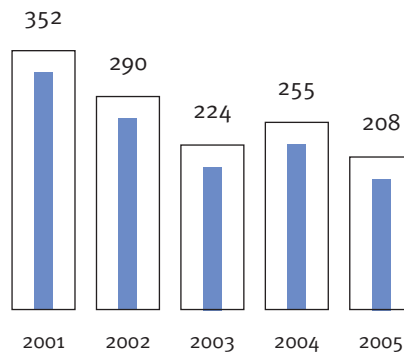
## Health and Safety

In 2005, 208 industrial accidents were registered, 18.4% less than in the previous year – index that surpassed the goal to reduce in 10% the number of occurrences. For 2006, the reduction goal was fixed in 5%, as continuity to the plan of permanent attention to the matter of occupational safety.

The concern is strengthened in the activities of the Internal Week of Prevention of Accidents and of the 5 Minutes of Security program, carried out in all the units. Fire brigades, Internal Commissions for the Prevention of Accidents (Cipas) and periodic inspections for the areas of Work occupational safety, Maintenance and Production are also maintained.

To ensure a better quality of life, lectures on health and flu vaccination campaigns are promoted, and physical activities are stimulated. In the Head Office, the collaborators count on a health

## Occupational Accidents



club and a running track. Another concern involves aspects of ergonomics, in order to prevent practices and situations that might compromise comfort and posture during working hours.

The goal of reducing the number of occupational accidents by 10% was overcome throughout the year, reaching an 18.4% retraction. The result reflects the importance of the measures and prevention and awareness activities disseminated among employees.

### Relations with Unions

The Company maintains relations with the unions that represent the employees, not having any strikes or stalls in the last five years. As a general rule, the collective norms of work are negotiated directly with the professional unions, with the annual celebration of collective work agreements. The employees are tied to a number of different unions, determined by the geographic localization and the activity developed in each unit.

### Communication and Participation

Different communication channels and mechanisms of participation aim at ensuring a motivating working environment. The Company maintains 36 newsletters, which totaled 57,806 pieces of information sent in the year, beyond the Duratex Magazine, distributed to all the collaborators. In 2005, 42.4% had access to information channels in electronic format (37.2% in 2004).

The service *RH Escuta* (HR Listens) receives critics, compliments and information requests, assuring identity preservation. All the answers are affixed on walls and panels, as a means of sharing information.

In the Deca Division, the *Decaçaõ* program stimulates the collaborators to present ideas that translate innovation, managerial improvements, productivity and cost reductions. The best proposals are rewarded with points, that later can be exchanged for prizes. In the metal fittings area, approximately 400 suggestions are received each month.

Another mechanism is the application of the 5S concept (Seiri – organization; Seiton – tidiness; Seiso – cleanliness; Seiketsu – standardization and Shitshuke – discipline), which served as base for the development for TPM (Total Productivity Management), of continuous improvements in the production and management process. Moreover, Small Group Activities (APG) are developed, when up to eight people congregate to exchange experiences, knowledge and abilities.

- 7 » Duratex Magazine
- 8 » *Rino de Ouro* (Gold Rhino) trophy
- 9 » Vitreous china piece handling in the Ceramic II Unit – Jundiaí/SP



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## COMMUNITY RELATIONS

The actions aimed at social responsibility are centered on programs directed to the communities adjacent to the Company's units, focusing adolescent professionalizing, education and environmental conscience development.

### Tide Setúbal Cabinetmaking School

The Tide Setúbal Cabinetmaking School – dedicated in 2000, in Agudos (SP) – offers a two-year cabinetmaking training course for adolescents from low-income families. The program intends to offer quality technical training in order to prepare students for the working environment. The school provides specialized manpower for the local industry, boosting the furniture manufacturing sector for which the region is well-known. The program offers 45 openings on a yearly basis.

### Education for a Better Future

Developed by Duratex's Environmental Area, the Education for a Better Future project aims at giving adults, especially rural workers, the opportunity to go back to school. The program includes lectures, distribution of explanatory materials and school kits. As an incentive, the Company enables rescheduling of working hours and redefinition of bus routes for participating workers.

### In Search of the Future

In Search of the Future is a social inclusion program which prepares young people for the job market. It provides high school students from local public schools orientation and awareness about the competitiveness on the working environment. The program includes guided tours of Duratex's industrial units, in order to give participants access to information about how companies work, business culture, recruiting and selection processes, among other themes. 150 students from municipal schools in Jundiaí/SP have already been oriented by this program.

### Piatan Environmental Experience Area

The Piatan Environmental Experience Area (AVAP), created in 1996, in Agudos (SP), is mainly concerned with developing an environmental awareness within the community and reinforcing the importance of preserving the fauna and flora, in addition to developing the concept of sustainable forest management. The project includes guided visits to Duratex's forest reserve, plantations and industrial facilities in the area.

In 2005, the AVAP was visited by 6,600 people, being 77% of students and teachers. The remaining visitors were from third-sector organizations (9%), clients (9%), and people interested in the technical aspects of forest management (5%). Schools from more than 40 towns in the State of São Paulo have already visited the AVAP.



The initiatives aimed at the communities in which Duratex is present are focused on professionalization of young people, as well as education and development of environmental awareness.

#### **Environmental Education**

In a partnership with Instituto Floravida, Duratex contributed to the development of the selective waste collection project in the schools of the town of Botucatu/SP. For the NGO Tribo Cuesta, the Company provides means for an environmental monitor trainee program. It supports the NGO Vidágua, which produces t-shirts and sells them to gather funds for its environmental projects. The Company sponsored the 1st Environmental Education Meeting of Botucatu, organized by Unesp (São Paulo State University), which gathered teachers and environmental studies specialists.

#### **Planet Water, Atlantic Rainforest and Landscapes**

Planet Water, Atlantic Rainforest and Landscapes is an awareness program aimed at children from 8 to 12 years old, focusing on the importance of environmental preservation, emphasizing the rational use of water and forests. The program relies on theatrical presentations and workshops as a means of conveying the environmental awareness content to the public.

Initiated in 2003, it is an itinerant project, covering the towns where Duratex's units are located. In 2005, the project reached more than 11,000 people in the towns of Botucatu, Jundiá, Itapetininga, Agudos and Lençóis Paulista, in the State of São Paulo, as well as São Leopoldo, in the State of Rio Grande do Sul.

#### **Bem-Querer**

Six communitarian projects of Jundiá (SP) were benefited by the *Bem-Querer* project. Duratex made resources of tax incentives – 1% of the Income tax due – available for institutions previously selected by the City Council of Child

and Adolescent Rights. Representatives of the Company visited the projects to learn the scope and the attendance of the projects and promoted a meeting of all the institutions for the exchange of experiences and ideas. The following projects were benefited: Casa de Nazaré, Centro de Atendimento à Síndrome de Down Bem-te-Vi, Casa da Criança Nossa Senhora do Desterro, Congregação das Missionárias de Cristo – Aprendizado Dom José Gaspar, Lar Anália Franco and Lar Creche Wilson de Oliveira.

#### **Embarque Nessa (Get Onboard)**

In its third edition, the *Embarque Nessa* program extended the activities which aim at stimulating voluntary work among the employees, as well as promoting integration within the Company, by means of visits to the industrial and forest units.

In 2005, the program redirected its focus to education, with actions to reduce the illiteracy index in Brazil. In partnership with the not-governmental organization Alfabetização Solidária, the city of Messias was adopted, in the State of Alagoas, chosen for presenting a low Human Development Index (IDH, of 0.598), reduced per capita income (R\$74.34) and one of the biggest taxes of illiteracy in Brazil (38.72% of the population). The action benefited 536 students and included the whole alphabetizing process, from the qualification of educators to didactic material, feeding and evaluation of the process.

Duratex employees embarked on a social gymkhana to collect resources for the campaign *Adote um Aluno* (Adopt a Pupil), also inside the *Alfabetização Solidária* project. Several teams participated, and the winning group was the one which collected the largest volume of resources.

## CUSTOMER AND CONSUMER RELATIONS

The search for satisfaction with the quality of services and products is in the base of the relationship of Duratex with customers and consumers. The objective is to conquer high levels of reliability and preference for the Company's brands, along with periodic surveys to measure the quality of the contact with the consumer and points of improvement.

Beyond specific programs of relationship with the customers, different channels facilitate the contact with the Company, as the Customer Information Service (SAC), corporate and brands websites, and the service network located all over the country.

### SAC

In 2005, the Customer Information Service (SAC) carried through 25,840 consumers' calls in the Wood Division and 110,601 in the Deca Division. The majority of the contacts is from consumers who request information on products and service points.

The two SACs are also responsible for satisfaction surveys on the quality of products and, especially, on the quality of service. In 2005, they corresponded to 52% of calls in the Wood Division and 33%, in the Deca Division. The research is systematically carried through by means of letter-reply directed with the service points. In the year, the index of satisfied or very satisfied customers reached 90% and 92%, respectively, a favorable indicative of the performance of the two divisions.

In the Wood Division, the 2005 highlight was the reduction of 61% in the complaints on Durafloor, which corresponded to 0.46% of the volume sold. The floor, the main product of final consumption commercialized by the Division, corresponds to 96% of the contacts with the SAC.

<b>Customer Information Service – Wood Division</b>	<b>2004</b>	<b>2005</b>
Total calls answered by SAC	31,535	25,840
Percentage of claims in relation to total calls received by SAC	11.28%	11.02%
Percentage of claims not answered by SAC	0%	0%
Average hold time on the SAC phone before operator answers	5s	5s

<b>Customer Information Service – Deca Division</b>	<b>2004</b>	<b>2005</b>
Total calls answered by SAC	139,212	110,601
Percentage of claims in relation to total calls received by SAC	1.03%	0.24%
Percentage of claims not answered by SAC	0.17%	0.03%
Average hold time on the SAC phone before operator answers	0.37 min	1.10 min



To ensure the preference and trust of customers and consumers, Duratex invests in the constant improvement of products and services, and maintains relationship programs and communication channels which make the contact with the Company easier.

#### Training

Training for customers, salesmen, installers and products specifiers is a differentiated tool of relationship at Duratex. This training program provides information on correct installation, application, calculations, use and maintenance of the products of the two divisions. The courses take place in the Duratex Training Center, in São Paulo, in mobile units and, in particular in the Wood Division, also in the Agudos Unit (SP).

In the Wood Division, the different programs totaled 97 thousand hours of training in 2005, with 8 thousand participants, between furniture manufacturers, cabinetmakers, installers, architects and interior designers. In the Deca Division there were 2 thousand hours of training, with 17 thousand participants – hydraulic engineers, architects, interior designers, students and installers. Beyond the training courses, the two divisions promote visits of customers to the units, as chance to present the differentials of the productive process. During the year, 157 people visited the Wood units, and 762 visited Deca.

#### Events

In addition to being present at the main trade fairs of the civil construction and the furniture industry sectors, Duratex promotes two large events: the Cabinetmaker Festival and the Plumber Festival. The meetings combine shows, cultural leisure and sport activities with training programs, being an important initiative for strengthening the relations with customers.

The Cabinetmaker Festival of 2005 took place in two locations – São Paulo and Ribeirão Preto – and congregated 2 thousand people. Plumber Festival, which is a biannual event, will take place in 2006. The last edition, in 2004, congregated 2.6 thousand professionals in Jundiaí.

<b>Training (Number of Participants)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Deca	14,173	27,751	28,204	27,807	17,327
Wood	5,493	5,968	9,228	13,167	7,598

## ENVIRONMENT

Environmental management is a strategic differential for Duratex. In 2005 we commemorated ten years of the Forest Stewardship Council (FSC) certification, which attests that the production is environmentally adequate, socially fair and economically viable.

Duratex was the first company in Latin America to receive the green seal from the most respected certifier of forest management, and went through a recertification in 2005, which encloses all the forest areas and the chain of custody until the sales of wooden products. During the year, the forest area of Botucatu was also certified with ISO 14001, with auditing promoted by BVQI (Bureau Veritas Qualitas International).

In the commemoration of ten years of the FSC certification, the employees' children participated in the *Meu Amigo Meio Ambiente* (My Friend the Environment) contest. Over 900 works in which the children portrayed the concern with nature and environmental preservation were evaluated. The first places of each industrial and forest unit were awarded and the works were included in the Company's year calendar and a book that will be published on the subject.

In 2005, Duratex began integrating the committee responsible for developing the Itaúsa Environmental Policy. The aim is the exchange of the best practices between the industrial companies of the Group (Duratex, Itaútec and Elekeiroz) and the creation of an Environmental Development Plan for each company. Duratex's current policies will be perfected in this process.

## Forest

In the Forest area, the investments in 2005 totaled R\$32.5 million, destined mainly to the acquisition of forest management equipment. The resources for environmental initiatives totaled R\$380 thousand. By the end of 2005, the Company owned approximately 90 thousand hectares of forests, which provided the production of 2.1 million cubic meters of wood with bark.

In 2005, 33 partners of the promotion program planted 1,967 hectares of forests. Duratex is prepared to extend the number of producers interested in integrating the program, which is considered a way of strengthening the regional integration and sharing responsibilities with the local population.



In 2005, Duratex commemorated ten years of achieving the Forest Stewardship Council (FSC) seal, as the first company in Latin America to receive one of the most recognized forest management certifications in the world.

#### Forest Management

Duratex adopts the best management practices to reach high productivity levels with minimum environmental impact. The main actions include:

- » **Minimum Tillage** – new plantations are developed over previously harvested areas, with a minimum soil revolving, thus keeping the surface protected by the organic remains of the preceding forest. The technique also helps optimizing the hydrous management in the forests.
- » **Fertilization** – specific analyses permit adjusting the correct fertilization for each ground area, in the amounts, formulations and times necessary for optimum development of the trees.
- » **Silvicultural Monitoring** – each area is monitored by multidisciplinary teams of specialists on a regular basis, aiming at the early detection of plagues and illnesses, as well as necessary adjustments to the recommended fertilization.
- » **Integrated Pest Control** – the occurrence, frequency and severity of forest pests are evaluated on a regular basis and combined with the selection of more resistant genetic material and to the adequate fertilization. The biological control is made by means of the conservation of native forests, which shelter natural enemies of the plagues. The pesticide use is reduced and limited to lower-toxicity products.
- » **Fire Prevention and Control** – Permanent monitoring systems reduce the risk of fire occurrence and, when they happen, trigger combat actions.

- » **Control of Toxic Materials** – products of lower toxicity are used – as the glifosate-based herbicides and the sulfluramid-based pesticides for the control of leaf-cutting ants.

#### Genetic Improvement

The participation of cloned seedlings in the forest areas went from 25% to 53% of the plantation, aiming at reaching 90% in the next few years. Cloning extends productivity, for the seedlings are adapted to specific ground and climate situations and have greater resistance to illnesses. Moreover, it provides greater industrial yield, through the selection of species with larger wooden density by cubic meter.

In 2005, the Company strengthened the Genetic Improvement Nuclei, for the development of projects, own or in partnership, of seedlings more resistant to climate changes, plagues, etc. The concept was extended for the three large ground and climate regions in which its area of performance is divided. The projects include fertilizer formulations and biological control practices that combine greater productivity to soil and environment conservation conditions.

Since 2002, along with three other companies of the cellulose and paper sector and the State of São Paulo Foundation for the Support of Research (Fapesp), Duratex participates in the Eucalyptus Genome Project – FORESTs, which intends to speed up the processes of genetic improvement and to obtain varieties more resistant to illnesses, more productive and with characteristics of better quality and wooden density, as well as reducing the time for obtaining new clones.

13 » *Meu Amigo Meio Ambiente (My Friend the Environment)* contest – Winning drawing

14 » 10 years of FSC certification commemorative seal

15 » ISO 14001 certification

The adoption of the best practices in planting, tillage and harvesting of the forest areas ensure high productivity levels, along with caring for the environment and the biodiversity.

### Mechanization

With a completely mechanized operation, The Company anticipated the substitution of four forwarders (used in the wooden removal) for three equipments with superior capacity and operating yield in 2005. The new machines possess engines with gas emission levels within the European standards and use special tires that diminish the pressure on the ground.

To assure the adoption of the best techniques, an internal process of standardization of mechanic maintenance procedures was initiated, which results in less equipment stall time and lower maintenance costs.

### Biodiversity

In 2005, a report by the Júlio de Mesquita Filho State University of São Paulo (Unesp) referred to the first survey of birds of the Itapetininga Unit (SP) forest farms. Also, experiments were developed to establish operations of fauna monitoring, in partnership with Unesp and Universidade Sagrado Coração, both of Bauru.

Another initiative involved the Project of Study of the Cougar (*Puma concolor*) in partnership with the University of Campinas (Unicamp), which aims at learning this animal's behavior in the areas of the Monte Alegre farms, in Agudos (SP), and Rio Claro, in Lençóis Paulista (SP).

Two new pilot areas have been studied with the objective of developing operational methods to monitor the conservation of the native vegetation. The work is carried through in partnership with the Unesp of Botucatu and one of the highlights in 2005 was the identification of rare tree species in the State of São Paulo, the *Zanthoxylum tingoassuiba* (Rutaceae).

### Residues

The empty pesticide packages are adequately stored and sent to the collection centers that respect the current law. Used oils, residues contaminated with oils and greases and clothes used in the application of herbicides are transported to companies specialized in the treatment of these materials.

The Company instated the application in the farms of industrial residues with biological origin, so that residues from the wooden boards units, the effluent treatment station and the sewer treatment station are used as source of nutrients and other elements that improve the conditions of the forest plantations grounds. The process is monitored by rigorous tests both of the residues used and of its effects on the forest plantations and on the ground.

### Training

The training and awareness of employees are prerequisite to adopt the best solutions of environmental management and preservation. Today, all forest area employees are prepared to identify and to act on the environmental and occupational safety aspects in their activities.

In 2005, 22,654 hours were dedicated to training, being 2,359 specific hours for ambient courses, with the participation of 1,029 people, between Company employees and outsourced. The employees also receive information through information boards and printed materials. An audio system installed in the buses that transport teams to the field gives information on environmental and security issues.

## Industrial

The industrial operations are guided by the Environmental Management System, which focuses on reducing the production of waste and emissions, aiming at a better cost efficiency and environmental improvements. Environmental teams work on each unit to perfect the stages of the process, analyzing the levels of atmospheric emissions, effluents and waste, in order to ensure and surpass legal determinations.

## Solid Waste

As a general rule, solid waste is reprocessed and reused in the productive process, with operating and environmental profits deriving from the reduction of raw materials consumption. Among the materials 100% reused in the productive processes are scrap metal and rejected wooden panels. The metallic residues are recast and return to the industrial process, and the wood scrap is used as biomass for energy generation in the wood units.

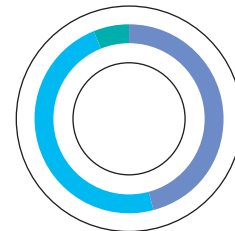
Other materials are recycled in specialized companies, providing non-operating profits through sales of these residues. Examples of commercialized solid residues are the nickel hydroxide, which is used by the chemical industry, the galvanic mud, used by the fertilizer industry, and the plaster used for molding vitreous chinaware parts, which is sold to the cement industry. In 2005, byproducts sales of the metal fittings segment meant revenues of R\$1.3 million, 40% above 2004, as a reflection of the lower level of waste sent to the industrial landfill.

In the Wood Division, residues which cannot be reused in the plants are sold as organic fertilizer, especially for grape and wine producers, or as fuel for energy generation. This is the case of thick pulp and tree bark, for example.

The concept of selective collection is spread, with the support of staff training programs for identification and correct disposal of residues without harming the environment.

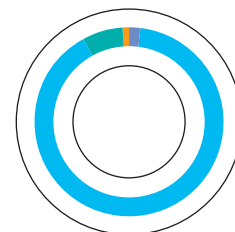
The dangerous residues of the common area are collected, stored and transported to the final destination, in accordance with legal requirements. In the metal fittings area, acids and heavy metals pass through a filtering system which send the residues to authorized industrial landfills. Moreover, the independent contractors who remove and refer industrial residues are homologated by a committee integrated by representatives of the environmental area.

## Waste Destination – Deca Division



46% Landfill  
48% Reuse/Recycling  
6% Co-processing/Incineration

## Waste Destination – Wood Division



2% Landfill  
90% Reuse/Recycling  
7% Agriculture  
1% Other



## Effluent Treatment

Effluent treatment follows the concept of Material Recovery Area (ARM). After going through the treatment station, effluents are reused in the productive process, as well as cleaning and maintenance of the plants, while previously they returned to the public system. In all the vitreous chinaware units, the internal treatment of effluent allows for the reuse of water, as well as the discarding of the excess with far better quality than what is determined by law. In the Jundiaí Unit, the water is reused in the ambient refrigeration, cleaning floors, sanitary use, as well as returning to the process.

In the Wood Division, liquid effluent treatment ensures a 95% removal of pollutants in the Agudos Unit (SP), superior to the index of 80% established by the legislation of the State of São Paulo. In Botucatu, the organic load of the industrial process is used in the irrigation of an area adjacent to the unit. Beyond the environmental profit, the grass is transformed and sold in the region.

## Water Consumption

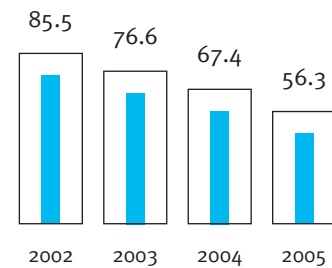
The dry processing line in the Botucatu Unit (SP) allowed the Wood Division to reach a new standard of water consumption, which remained steady in 2005 in comparison with the previous year, in 3.6 cubic meters of water for cubic meter of product.

In the Deca Division, investments in the creation of a parallel net and more efficiency in reusing effluents allowed for a substantial reduction in the water consumption in the vitreous chinaware units of Jundiaí (SP) and São Leopoldo (RS). In Jundiaí, the index of water reuse went from an average of 40% in 2004 to 60% in 2005. In metals, in the unit of São Paulo, reuse is equivalent to an average of 30% to 35%.

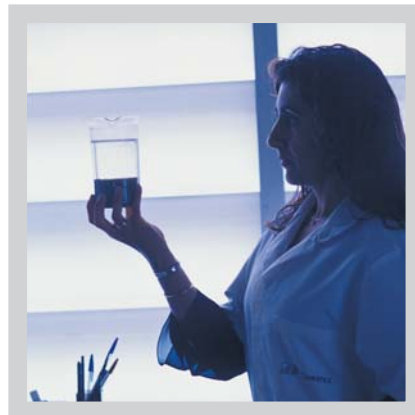
## Water Consumption – Wood (m<sup>3</sup>/m<sup>3</sup>)



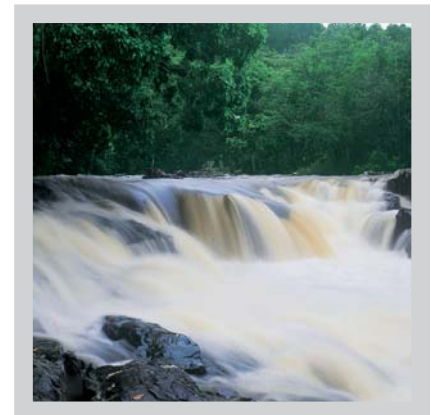
## Water Consumption – Deca (liters/unit)



16



17



18

Focusing on reducing the production of residues, atmospheric and effluent emissions, the industrial operations seek higher cost efficiency and environmental improvements, with permanent investments in management systems.

### Atmospheric Emissions

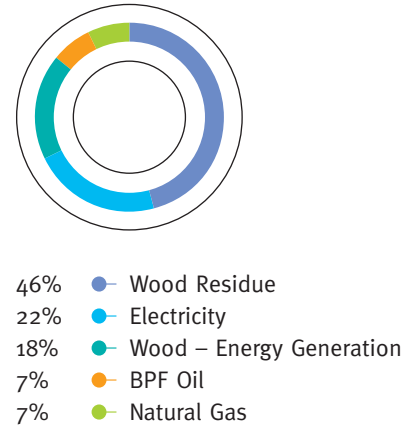
Gas washing systems, sleeve filters and cyclones installed in the industrial units operate in the control and reduction of atmospheric emissions. With the installation, in the end of 2004, of the third natural gas-burning kiln in the ceramics unit in Jundiaí, the Company concluded the substitution of combustible oil-fired equipments. By using natural gas, the process is carried through with lower levels of gas emissions to the atmosphere.

### Energy

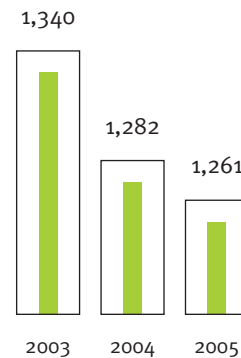
Wooden residues which cannot be used in the industrial process (biomass) are the main source of energy for the production in the wood units, representing 46% of the consumption. Added to the wood harvested specifically for energy generation, they total 64% of the energy matrix, as renewable sources which ensure lower production costs and better standards of atmospheric emissions.

In the boilers of the Deca units and in the Wood unit in Jundiaí, the oil use was substituted by natural gas, resulting in lower emissions of particle material and sulphur gases. In 2005, in the Wood Division, combustible oil use was limited to 6.8% of the total consumption, against 8.7% in the previous year.

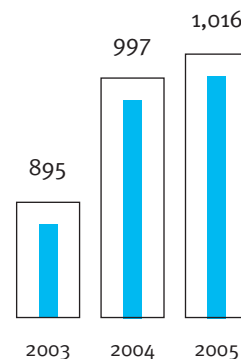
Energy Matrix – Wood Division



Energy Consumption – Wood (Gcal/m³)



Energy Consumption – Deca (kW/unit)



16 » Effluent treatment station in Agudos/SP


17 » Chemical products testing bench in the Material Recovery Area

18 » Waterfall in the Santa Amália farm, in the Forest Unit of Itapetininga/SP

**SOCIAL INDICATORS – IBASE MODEL**

<b>1 – Calculation Base</b>	<b>2005 Amount (R\$ millions)</b>			<b>2004 Amount (R\$ millions)</b>		
Net revenues (NR)	1,270.6			1,188.2		
Operating result (OR)	282.2			237.2		
Gross payroll (GP)	140.2			134.0		
<b>2 – Internal Social Indicators</b>		<b>% over GP</b>	<b>% over NR</b>		<b>% over GP</b>	<b>% over NR</b>
Food	8.2	5.85%	0.65%	7.9	5.90%	0.65%
Mandatory social charges	77.8	55.49%	6.12%	69.3	51.72%	5.83%
Private pension	1.4	1.00%	0.11%	0.4	0.30%	0.03%
Health	8.1	5.78%	0.64%	7.3	5.45%	0.61%
Occupational safety and health	4.7	3.35%	0.37%	4.8	3.58%	0.40%
Education	0.1	0.07%	0.01%	0.2	0.15%	0.02%
Culture	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Professional training and development	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Day care or day care compensation	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Profit sharing	11.7	8.35%	0.92%	9.2	6.87%	0.77%
Other	6.5	84.52%	0.51%	4.6	3.43%	0.39%
Total – Internal Social Indicators	118.5		9.33%	103.7	77.39%	8.73%
<b>3 – External Social Indicators</b>		<b>% over OR</b>	<b>% over NR</b>		<b>% over OR</b>	<b>% over NR</b>
Education	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Culture	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Health and sanitation	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Sports	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Hunger combat and food security	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Other	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Total contributions to society	0.0	0.00%	0.00%	0.0	0.00%	0.00%
Taxes (excluding social charges)	358.0	126.86%	28.18%	326.1	137.48%	27.44%
Total – External Social Indicators	358.0	126.86%	28.18%	326.1	137.48%	27.44%
<b>4 – Environmental Indicators</b>		<b>% over OR</b>	<b>% over NR</b>		<b>% over OR</b>	<b>% over NR</b>
Investments related to the company's production/operation	9.4	3.33%	0.74%	6.1	2.57%	0.51%
Investments in external programs/projects	1.8	0.64%	0.14%	1.4	0.59%	0.12%
Total environmental investments	11.2	3.97%	0.88%	7.5	3.16%	0.63%
Pertaining to “annual goals” for minimizing residues, general consumption in the production/operation and increase effective use of natural resources, the company:	<input type="checkbox"/> doesn't have goals <input type="checkbox"/> fulfils 0 to 50% <input type="checkbox"/> fulfils 51 to 75% <input checked="" type="checkbox"/> fulfils 76 to 100%			<input type="checkbox"/> doesn't have goals <input type="checkbox"/> fulfils 0 to 50% <input type="checkbox"/> fulfils 51 to 75% <input checked="" type="checkbox"/> fulfils 76 to 100%		
<b>5 – Personnel Indicators</b>	<b>2005</b>			<b>2004</b>		
Number of employees at the end of the period	5,890			5,951		
Number of admissions in the period	680			717		
Number of outsourced employees	149			132		
Number of trainees	69			96		
Number of employees over 45 years of age	864			798		
Number of women working in the company	475			498		
% of management positions occupied by women	7.10%			7.60%		
Number of black people working in the company	1,004			986		
% of management positions occupied by black people	5.10%			5.00%		
Number of employees with disabilities or special needs	239			230		

6 – Relevant information on exercising citizenship	2005	Goals 2006
Higher/lower remuneration ratio in the company	78.03	78.03
Total number of occupational accidents	208	198
The company's social and environmental projects were defined by:	<input type="checkbox"/> executives <input type="checkbox"/> executives and managers <input checked="" type="checkbox"/> all employees	<input type="checkbox"/> executives <input checked="" type="checkbox"/> executives and managers <input checked="" type="checkbox"/> all employees
The safety and working environment healthfulness standards were defined by:	<input type="checkbox"/> executives and managers <input type="checkbox"/> all employees <input checked="" type="checkbox"/> all + Cipa	<input type="checkbox"/> executives and managers <input type="checkbox"/> all employees <input checked="" type="checkbox"/> all + Cipa
Pertaining to union freedom, right of collective negotiations and internal representation of employees, the company:	<input type="checkbox"/> doesn't get involved <input checked="" type="checkbox"/> follows OIT regulations <input type="checkbox"/> encourages and follows OIT	<input type="checkbox"/> won't get involved <input checked="" type="checkbox"/> will follow OIT regulations <input type="checkbox"/> will encourage and follow OIT
Private pension contemplates:	<input type="checkbox"/> executives <input type="checkbox"/> executives and managers <input checked="" type="checkbox"/> all employees	<input type="checkbox"/> executives <input type="checkbox"/> executives and managers <input checked="" type="checkbox"/> all employees
Profit sharing contemplates:	<input type="checkbox"/> executives <input type="checkbox"/> executives and managers <input checked="" type="checkbox"/> all employees	<input type="checkbox"/> executives <input type="checkbox"/> executives and managers <input checked="" type="checkbox"/> all employees
When selecting suppliers, the same ethical and social/ environmental responsibility standards adopted:	<input type="checkbox"/> are not considered <input type="checkbox"/> are suggested <input checked="" type="checkbox"/> are demanded	<input type="checkbox"/> won't be considered <input type="checkbox"/> will be suggested <input checked="" type="checkbox"/> will be demanded
Pertaining to the participation of employees in voluntary work programs, the company:	<input type="checkbox"/> doesn't get involved <input type="checkbox"/> supports <input checked="" type="checkbox"/> organizes and encourages	<input type="checkbox"/> won't get involved <input type="checkbox"/> will support <input checked="" type="checkbox"/> will organize and encourage
Total number of complaints and consumers' comments:	in the company: 1,150 at Procon: 18 Justice: 20	in the company: 1,150 at Procon: 18 Justice: 20
% of complaints and comments cared for and resolved:	in the company: 99% at Procon: 75% Justice: 60%	in the company: 99% at Procon: 75% Justice: 60%
Total added value for distribution (in R\$ thousand):	<b>In 2005:</b> 865,345	<b>In 2004:</b> 761,079
Distribution of Added Value (DAV):	41% government; 28% employees; 5% shareholders; 15% third-parties; 11% withheld	43% government; 28% employees; 8% shareholders; 12% third-parties; 9% withheld
<b>7 – Other Information</b>		

Distribution of Added Value	
<p>The Added Value in 2005 totaled R\$865.3 million, 13.7% above the previous year. The value is represented by the difference between revenues, of R\$1,706.4 million, and costs related to raw material acquisition, services, depreciation, amortization, and other operating and non-operating results, of R\$841 million. Of this amount, R\$361.8 million, equivalent to 21% of revenues and to 41.8% of total added value, were destined to the federal, state and municipal governments in the form of taxes and contributions.</p>	 <ul style="list-style-type: none"> <li>41% ● Government Remuneration</li> <li>28% ● Work Remuneration</li> <li>15% ● Financing Remuneration</li> <li>11% ● Transference for Reserve</li> <li>5% ● Shareholder Remuneration</li> </ul>

## BOARD OF DIRECTORS

### Chairman

Olavo Egydio Setúbal

### Vice-Chairmen

Laerte Setúbal Filho

María de Lourdes Egydio Villela

Paulo Setúbal

### Members of the Board

Alfredo Egydio Arruda Villela Filho

Jairo Cupertino

José Carlos Moraes Abreu

Olavo Egydio Setúbal Jr.

## EXECUTIVE BOARD

### President

Paulo Setúbal

### Executive Vice-Presidents

Guilherme Archer de Castilho

Plínio do Amaral Pinheiro \*

Raul Penteadó

*\*Investor Relations Director*

### Executive Officers

Carlos Alberto Tenório Nobre

Enrique Judas Manubens

José Roberto Refinetti Guidi

Mário Colombelli Filho

### Officers

Alexandre Coelho Neto do Nascimento

Antonio Joaquim de Oliveira

Antonio Massinelli

Flávio Dias Soares

## FISCAL COUNCIL

### President

Paulo Ricardo Moraes Amaral

### Members

Iran Siqueira Lima

Wilton de Medeiros Daher

### EXTERNAL AUDITORS

PricewaterhouseCoopers Auditores

Independentes Ltda.



### **SUBSIDIARIES IN BRAZIL**

#### **Duraflora S.A.**

Duratex Comercial Exportadora S.A.  
Duratex Empreendimentos S.A.  
Av. Paulista, 1.938 – Bela Vista  
01310 942 – São Paulo – SP – Brazil  
Caixa Postal 7611

### **OVERSEAS SUBSIDIARIES**

#### **Deca Piazza S.A.**

Zavaleta, 190 – 1437  
Buenos Aires – Argentina  
Tel.: 005411-4909-0900  
Fax: 005411-4909-0992

#### **Duratex North America, Inc.**

1208 – Eastchester Drive – Suite 202  
High Point – N.C.  
27265 3165 – USA  
Tel.: 001-336-885-1500  
Fax: 001-336-885-1501

#### **Duratex Europe n.v.**

Battelsesteenweg 455D  
Business Park 2800  
Mechelen – België  
Tel.: 0032-15-28-60-70  
Fax: 0032-15-28-60-79

### **INVESTOR RELATIONS MANAGEMENT**

Tel.: (55 11) 3179-7279  
Fax: (55 11) 3179-7300  
vpfinanceira.corporativa@duratex.com.br

### **INVESTOR RELATIONS DEPARTMENT**

Tel.: (55 11) 3179-7259  
Fax: (55 11) 3179-7500  
investidores@duratex.com.br

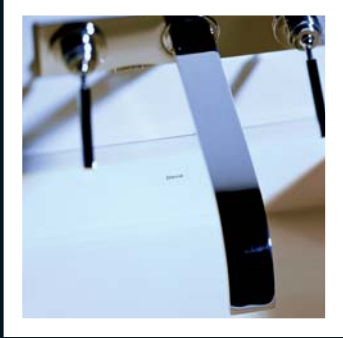
### **SHAREHOLDER SERVICES**

Av. Paulista, 1.938 – 9º andar – Bela Vista  
01310 942 – São Paulo – SP – Brazil  
Caixa Postal 7611  
Tel.: (55 11) 3179-7534  
Fax: (55 11) 3179-7315  
acionistas@duratex.com.br

### **DURATEX S.A.**

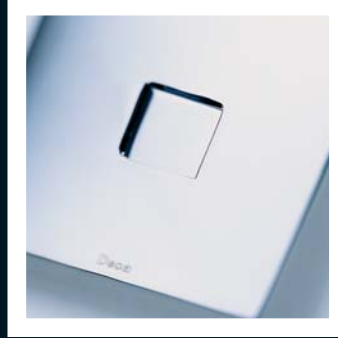
Av. Paulista, 1.938 – 5º andar – Bela Vista  
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PABX: (55 11) 3179-7733  
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# Conceptual Photos »



Page 7 »  
Metal: Stick Mixer:  
Vitreous China: L70

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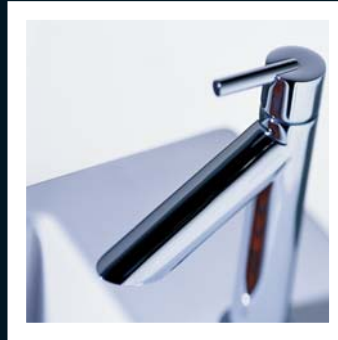
Page 31 »  
Deca Slim Valve

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Page 19 »  
Cromo shower

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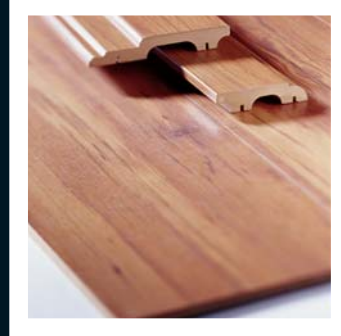
Page 47 »  
Metal: Axis Tap

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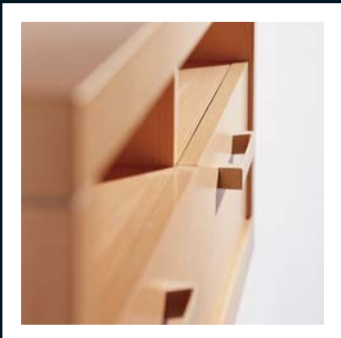
Page 13 »  
Durafloor Studio Carvalho Malta

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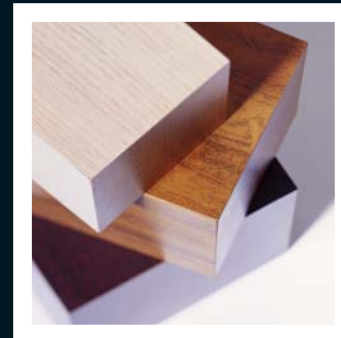
Page 39 »  
Durafloor Pro Freijó Granada,  
Classic skirting board, Clean skirting board

+



Page 25 »  
Carvalho Prata piece of furniture

+



Page 53 »  
Pattern cubes: Carvalho Prata,  
Imbuia Jade and Wenge

+

# Credits »

## **Coordination**

Investor Relations Management

## **Content**

Editora Contadino

## **Revision**

CorpGroup | Comunicação Corporativa

Editora Contadino

## **Photos**

Picture Message from the President – Daniel Rosa

Picture 1 Message from the President – room  
created by Olegário de Sá and Gilberto Cioni

Picture 3 Wood Division – room created by  
Ana Maria Bogar

Concept Pages – Edu Simões

Remaining pages – Duratex collection



## **Graphic Design**

CorpGroup | Comunicação Corporativa

## **Graphic Production**

Excellence

The people who illustrate the pictures found in the pages of this report are Duratex employees or attendees in programs developed by the Company. We thank all for participating.







**DURATEX**

Av. Paulista, 1.938 — 5º andar  
Bela Vista — 01310 942  
São Paulo — SP — Brazil

[www.duratex.com.br](http://www.duratex.com.br)