



**DURATEX**

**Environmental and Social  
Responsibility Annual Report**

2004



The creation of value is central to Duratex's strategy and also involves the commitment to economic, social and environmental sustainability, in socially responsible initiatives for the benefit of employees, clients, consumers, suppliers and the environment.

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# 1

## Message from the **PRESIDENT**

**Social actions and environmental preservation are key topics enshrined in Duratex's strategy, which are based on the conviction that the Company's sustainability and longevity depend on an integrated approach which takes into account the three dimensions of the businesses: economic, social and environmental, thus ensuring the creation of value for all our stakeholders.**

Duratex has grown in the conviction that modern companies should contribute effectively to the economic, social and cultural development of the country. The principles of social responsibility are an integral part of our business strategy and permeate all the Company's relationships, on the basis of respect for diversity and a constant quest for surpassing the quality and transparency criteria we have set ourselves.

The commitment to creating value extends to all our stakeholders: shareholders, employees, clients, consumers, suppliers and service providers, communities and government. More than seeking for public recognition, we believe we must respect all stakeholders, and for this reason, our priority is to focus on transparency and ethics in the way we conduct our business.

As part of our personnel management policy, we stimulate a working environment that provides opportunities for technical and personal advancement, quality of life and volunteer work. We develop products and services for clients and consumers confronting the permanent challenge of maximizing satisfaction and reliability.



## Paulo Setúbal

President

In our relationship with the community, we support programs with a focus on the education of children and adolescents due to the potential this has for social transformation and for the exercising of citizenship. Among other initiatives, we contribute to the Tide Setúbal Cabinetmaking School in Agudos (SP), which offers professionalizing courses for youngsters from low-income families. We also run the Piatan Environmental Experience Area in the same municipality, using it as a venue for environmental education projects. Furthermore, we encourage our employees to become involved in volunteer work through the Get Onboard (Embarque Nessa) project – structured to support Third Sector entities.

We believe that the relationship with the community and the preservation of the environment are essential for companies whose objective is the sustainability and longevity of the businesses. Actions directed towards economic, social and cultural improvement thus become vital components in this process.

In this context, our environmental policy is guided by the principles of sustainability and is one of the leading pillars of the Company's quality programs. We believe that the rational use of resources and environment non-aggressive technologies, is fundamental in ensuring efficiency, the continuity of production, the competitiveness of our products and the wellbeing of our employees and the surrounding population living by our plants.

## **SOCIAL** Responsibility

Activities based on ethical standards, quality, transparency and **RESPECT** for diversity permeate the relationship with our employees, clients, suppliers and the community, with the focus on social and economic **GROWTH**.

**DURATEX TRANSFORMS COMMITMENT  
INTO DEVELOPMENT.**



# 2 Relationship with the EMPLOYEES

The development and the professional and personal training of the employees are priorities in the management of human resources. This is based on the principle that people are the most important assets of a company and must be continually prepared to meet the challenges of a competitive market from both the technical and managerial point of view.

Duratex is conscious that its results in large part are dependent on the performance, motivation, and employee identification with the Company's principles. It therefore dedicates special attention to the relationship with its workforce. In addition to offering compatible compensation and benefits with the markets in which it operates, Duratex strives to create a working environment that generates quality of life and encourages personal development and technical advancement.

## EMPLOYEE TRAINING

The Company's practice is to continually offer its employees opportunities for vocational training, skills upgrading and professional recycling, frequently with the support of outside instructors – consultants and lecturers, well known in their fields of activities. Duratex also encourages education extension courses as well as language and postgraduate programs. During

the year, the Company invested R\$ 913,8 thousand in training and skills upgrading for its professionals.

Duratex maximizes the use of time and resources by prioritizing the programs that provide the best managerial and technical conditions to meet the challenges of the competitive market place. Specific programs aimed at the quality and customer service areas are also provided as part of this philosophy.

Participation in Courses and Seminars in 2004	Number of Participants
In-house	38,160
External	4,730
Postgraduate and Master's Programs (funded by the Company)	55





<b>Investments in Training and Development</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Value Invested (R\$ thousand)	1,015.6	1,004.9	913.8
Training hours per employee/year	6.5	7.0	7.7
Number of Participants	34,482	38,808	42,945
Investments in Education and Training as a % of Net Revenues	0.12%	0.10%	0.08%
Investments in Education and Training as a % of Operating Expenses	0.14%	0.12%	0.10%
Investments in Education and Training as a % of Total Payroll Expenditure	1.2%	1.1%	0.8%
Study Grants	34	48	67

Since 1986, groups have been sent to Japan on a series of technical visits, an example of the importance with which skills training is viewed. This program is run by the Imam Institute of São Paulo with the object of exposing participants to modern administration and management techniques. To the present, a total of 67 Company representatives have taken part in this program.

The training programs include the hiring of interns at middle or senior levels to be gradually integrated into the concepts and actions of the Company in a planned and monitored manner.



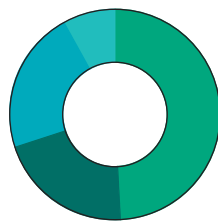


## EMPLOYEE PROFILE

At the end of 2004, Duratex's payroll stood at 5,951 employees, in addition to 96 interns. The number of employees grew by 2% compared with 2003, as employees over 45 grew by 9% to a total of 798, which is indicative not only of the stability of the labor force but also the respect for the more experienced and qualified professionals.

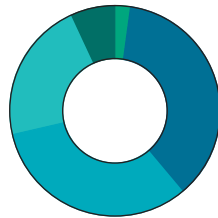
The labor force includes 230 employees with special needs, to whom the Company offers opportunities and development under conditions equal to all its employees as a whole.

Among the employees, 12% have a college education, while 110 have concluded a postgraduate course. Duratex is proud that all its employees have a basic education. The Company encourages all employees to continue their education and sponsors the remote education course Telecurso 2000.



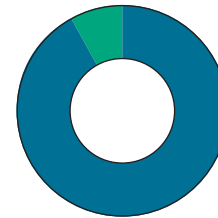
**Time of Service with the Company**

Up to 5 years	49%
From 5 to 10 years	21%
From 10 to 20 years	22%
More than 20 years	8%



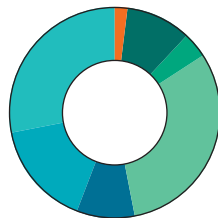
**Age Groups**

Up to 19	2%
20 to 29	37%
30 to 39	32%
40 to 49	22%
50 and over	7%



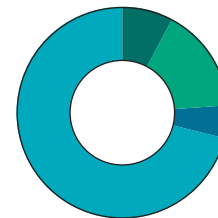
**Gender**

Male	92%
Female	8%



**Education**

Master's/Postgrad.	2%
Completed College Education	10%
Incomplete College Education	4%
Completed High School Education	31%
Incomplete High School Education	9%
Completed Primary Education	16%
Incomplete Primary Education	28%



**Breakdown of Functions**

Managers, Department Heads, Supervisors	8%
College-Educated Technical Staff	16%
Administrative	5%
Operational	71%

Participative programs encourage employees to act in unison with the principles of Company management, with full scope for making suggestions on how to improve the working environment as well as products and processes.

#### VARIABLE COMPENSATION

Duratex operates a Profit Sharing Plan (PPR), which is open to all employees. In 2004, the PPR distributed R\$ 9.2 million, or 6.9% of the gross payroll.

The variable compensation policy also includes performance-linked awards for the sales and customer service areas. Those members of the commercial area, who excel in meeting targets, are awarded the Golden Rhino Trophy. The Company's executives are also included in a bonus program linked to performance and profitability achieved during the year. In this case, a part of the bonus payment rewards individual performance.

#### Incentive Programs

The Deca Division runs the DecAção Program, which gives awards to non-supervisory employees who make suggestions for improving administration, production, quality and the working environment. The purpose behind this initiative is not only to maintain team motivation but also to encourage new ideas for priority areas.

Compensation (in R\$ million)	2002	2003	2004
Wages – Total gross payroll of the Company	104.8	115.4	134.0
Social Security Payments – Mandatory social and labor charges paid by the employer (FGTS, severance payments etc.)	58.6	67.6	69.0
Private Pension Plan – Employer's contribution to the plan	0.4	0.4	0.5
Benefits – Total fringe benefits offered to the employees (healthcare, nutrition, daycare facilities etc.)	17.5	20.0	20.3
Profit Sharing – Value paid to employees as a participation in the Company's results	2.9	5.2	9.2



**BENEFITS**

Investments in fringe benefits amounted to R\$ 20.8 million in 2004, including expenditure on nutrition, healthcare, transportation, insurance and contributions to the complementary pension plan.

Although the units all have recreational areas, some facilities have special facilities, an example being the Botucatu Country Club where employees and their families are able to enjoy an extensive infrastructure for sporting and leisure activities.

Employees’ families are encouraged to visit installations through the Open Doors and Come to the Factory programs. Special ceremonies for paying tribute to those completing 25 years of service are also a Company tradition.

**OCCUPATIONAL SAFETY AND HEALTHCARE**

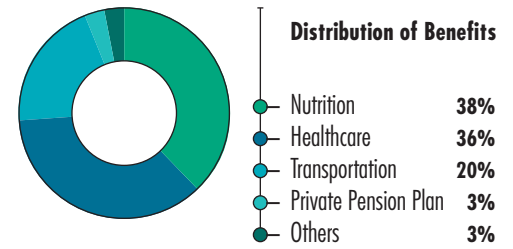
Several educative and preventive initiatives are taken to raise employee awareness on the need to maintain the quality of life in accordance with certain standards. These initiatives include influenza vaccine campaigns, lectures on contagious diseases, smoking, preventive healthcare measures and drug use. Certain campaigns are designed to improve family ties, an example being the program for encouraging breast-feeding.

Duratex also offers dental and ophthalmological examinations to its employees. It also operates onsite first aid posts at all industrial units with professionals on call and specialized within the occupational health, safety and hygiene areas.

All the industrial units participated jointly in the Accident Prevention Campaign, the purpose being to offer the latest information on risk factors and prevention methods, the slogan of the campaign being “Accident Prevention – Responsibility of All”. The campaign was instrumental in helping integrate the individual safety teams.

The Company has set a target for 2005 to reduce by 10% the number of work-related accidents at all its units – as an ongoing plan established over the past two years involving permanent attention to occupational security.

This corporate concern is disseminated on a weekly basis through the “5 Minutes of Safety” program. In addition, Duratex has an in-house fire fight brigade and an Internal Commission for Accident Prevention (Cipa). The Occupational Safety, Maintenance and Production areas also carry out periodic joint inspections to eliminate risks.



The Company has set a target for 2005 to reduce by 10% the number of work-related accidents at all its units as part of an ongoing focus on safety aspects.

#### **Quality of Life**

The Company promotes lectures on physical exercise and encourages measures for combating the effects of sedentary occupations and prejudicial practices to good health. The Company's head office building has a physical fitness center with a jogging track. Discussions are held with the employees on ergonomics to identify situations and practices that may negatively impact individual's well-being at the working environment.

#### **LABOR UNION RELATIONS**

Duratex fully supports labor union freedom, employee representation and the right to collective organization and bargaining. Openness in the discussion of labor union demands has been instrumental in avoiding any form of confrontation such as strikes over the past seven years. In 2004, five employees were given leave of absence to conduct labor union activities while a further nine continue working for the Company in parallel with their respective labor union functions.

#### **COMMUNICATION**

Criticisms, suggestions, compliments and requests for information are channeled to the Human Resources Listens (RH Escuta) service, where the anonymity of the correspondents are preserved. Replies are put up on notice boards, thus providing access to all. In-house communication involves the distribution of no less than 26 different

information bulletins, a total of 1,134 editions during the year. Among these is the Duratex Magazine, distributed to all employees. Additionally, 37.9% of all employees have access to electronic information channels. The target for 2005 is to increase this to 40%.

#### **PARTICIPATIVE MECHANISMS**

General management principles set through participation programs reach all personnel that follows it. An important channel to disseminate Duratex culture regards the 5S philosophy (Seiri – organization; Seiton – tidiness; Seiso – cleanliness; Seiketsu – standardization and Shitsuke – discipline). The objective here is to continually improve the working environment through the standardization of procedures – which are thus performed faster and more efficiently – as well as encouraging creativity.

The TPM (Total Productive Management) program is designed to constantly reduce managerial and technical losses. The Company also uses the Activities in Small Groups (APG) program, where up to eight people meet to share experiences, knowledge and skills. APG has proved to be an efficient instrument for continual improvements in areas where it has been introduced. Thanks to the APG program, in only six months, it was possible to reduce the consumption of paper and resins at the MDF impregnating line, at the Itapetininga unit, by R\$ 600,000, without sacrificing quality.



# 3 Relationship with CLIENTS and CONSUMERS

In the relationship with clients and end-consumers, the Company's priority is to offer solutions rather than products and services alone. The purpose is to ensure satisfaction combined with quality and customer preference as well as achieving brand loyalty to the Duratex marks, this process also involving constant training on product use and applications.

Duratex's relationship with its clients and consumers is based on always achieving a high degree of reliability and satisfaction with the Company's products and services, surpassing the minimum requirements of the Consumer Protection Code.

Consumer contact with the Company is through a variety of different channels, of which the most important is the toll free calling service (0800), the websites: [www.duratex.com.br](http://www.duratex.com.br), [www.duratex-madeira.com.br](http://www.duratex-madeira.com.br) and [www.deca.com.br](http://www.deca.com.br), the technical assistance service points, as well as specific relationship programs.

## DECA DIVISION

In a survey conducted through the Consumer Service Center (SAC) and through questionnaires included with technical assistance orders, the level of satisfaction recorded in 2004 was 96%. This is indicative of the high degree of reliability and consumer satisfaction with the products and services provided by the Division. The technical assistance orders are

also audited by the SAC through calls to the consumer to evaluate the quality of the services rendered.

Out of a total of 139,212 calls received in 2004, 42% were enquiries on technical assistance service centers, 35% requests for product information and 22% on other matters. Complaints amounted to only 1% of the total.

Consumer Service Center - Deca Division	2002	2003	2004
Total number of calls taken by the SAC	101,260	113,047	139,212
Percentage of complaints in relation to total number of calls taken by the SAC	0.93%	0.64%	1.03%
Percentage of complaints not resolved by the SAC	0.20%	0.24%	0.17%
Average waiting time before SAC answers caller	51s	52s	37s



### Program for the Rational Use of Water (Pura)

Deca is highly conscious of the need to save water; thus it takes part of the Pura program, which is run by Companhia de Saneamento Básico do Estado de São Paulo (Sabesp), the state of São Paulo water utility. The program provides technical assistance on rationalization measures of water consumption in commercial buildings. In addition to recommending the most appropriate materials for reducing water consumption and the elimination of wastage, the service examines supply practices and provides a diagnosis of aspects where improvements can be made.

### Commercial Training

The Deca Division runs courses for engineers, architects, students and plumbers designed to ensure the correct installation and maintenance of its products. The training activities are held either at the Deca Training Center in São Paulo or in one of the 14 mobile units.

In 2004, Deca invested R\$ 994,500 in training programs and factory visits for 15,456 retailers, 2,753 engineers and architects and 5,892 plumbers. Factory visits involved 1,116 outside professionals and 14 students.

### Plumbers' Festival

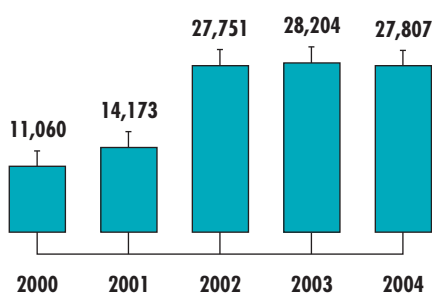
In October, Deca held its eighth Hydraulic Installer Festival at the Parque da Uva in Jundiaí (SP). This has now become a traditional biannual event for cementing Company-client relationships. In addition to shows and sporting and leisure activities, the meeting gave the participants an opportunity to get to know more about the Company as well as take part in short training programs. In 2004, there were about 2,600 attendees at the festival.

### WOOD DIVISION

The Duratex sales team is prepared to analyze macroeconomic information and the market situation, thus providing the best possible service to the Division's clients

### Training (number of participants)

Deca Division







– largely cabinetmakers, the furniture industry and wood panel fitters. Besides providing a premium service, the Division’s professionals are also able to evaluate the outlook for the sector and facilitate the decision-making process on the part of the client.

### SAC

The Consumer Service Center (SAC) conducts satisfaction surveys among the clients for its Durafloor floor, the Durwall wall and ceiling panels. The main objective is to gauge the quality of the technical assistance service, responsible for the largest number of calls to the SAC. The 2004 survey revealed that 70% of the clients were either satisfied or very satisfied with the service and the way calls were handled and the solutions proposed by the Company. The Wood Division’s sales and promotion team

also has a direct channel which identifies the principal problems and doubts of the cabinetmakers and furniture manufacturers, communicating these directly to the production and product development areas, thus shortening response time and providing suitable alternatives.

<b>Consumer Service Center - Wood Division</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total number of calls taken by the SAC	37,910	36,002	31,535
Percentage of complaints in relation to total number of calls taken by the SAC	7.00%	8.87%	11.28%
Percentage of complaints not resolved by the SAC	0%	0%	0%
Average waiting time before SAC answers caller <sup>1</sup>	8s	8s	5s

<sup>1</sup> - Figures exclude introductory welcome message (10 seconds).

Duratex combines the supply of products and services with the availability of a trained team of professionals able to analyze the macroeconomic scenario and evaluate the sector's outlook, thus facilitating the client's business decision-making.

### Commercial Training

The Duratex Training Center, at the Agudos (SP) unit, together with the mobile training units provide vocational training programs for furniture manufacturers, cabinetmakers, installers, architects and decorators. The programs provide the Division's public with guidance on the correct installation, application and handling of the Company's products.

The Itapetininga Unit, together with the Wood Division's Technical Assistance Area has increased the number of technical visits to clients and prepared a specific training program on procedures such as sawing and tool sharpening, calibration and board sanding. During the year, the Division provided solutions and training to its clients' employees on how to avoid waste when working with industrialized wood boards.

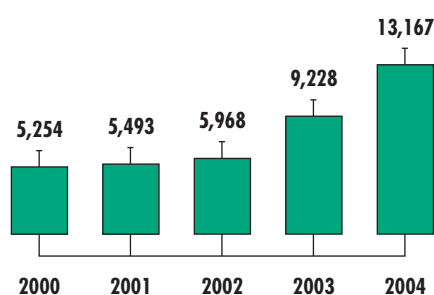
The Division held different training courses in 2004 totaling 1,904 hours, 86.3% more than 2003.

### Cabinetmakers Festival

In 2004, the annual Cabinetmakers' Festival was held in Jundiaí (SP) with three thousand professionals taking part. In addition to leisure activities, the Division offers training sessions focused on new products and best handling and finishing methods when working with industrialized wood panels. The 2004 festival included the final game of the Duratex Seven-A-Side Soccer Cup, organized as a way of enhancing the relationship between the Wood Division's sales, marketing and training teams, and the clients. The Cup was officially sanctioned by the Brazilian Seven-A-Side Soccer Confederation.

**Training** (number of participants)

Wood Division



# 4 Relationship with the COMMUNITY

**Socially responsible actions largely involve programs for the communities surrounding the Company's units, the focus being on the professionalizing of youngsters, education and the development of environmental awareness. The programs are also designed to encourage volunteer work by employees in projects being run in conjunction with the Third Sector.**

Duratex injected R\$ 1.4 million into community relationship programs in 2004. One of the principal programs involves the technical formation of young professionals through the Tide Setúbal Cabinetmaking School in partnership with the National Service for Industrial Training (Senai) and the City Government of Agudos (SP), where the school is located. The Get Onboard (Embarque Nessa) program for volunteer workers gathered momentum in 2004 and has become the Company's leading instrument for social action with about 300 employees involved in nine different Third Sector entities.

Significant work was also done at the Piatan Environmental Experience Area in Agudos, the objective of which is to increase community awareness on the need for environmental preservation. Duratex also co-sponsored the edition of *Árvores do Brasil* (Trees of Brazil), and the new edition of the Planet Water, Atlantic Rainforest and Landscapes program, as well as contributing with donations to the Child and Adolescents' Welfare Fund and the refurbishing of the São Paulo Art Museum (MASP).

## **TIDE SETÚBAL CABINETMAKING SCHOOL**

Opened in 2000, in partnership with the National Service for Industrial Training (Senai) and the City Government of Agudos, the Tide Setúbal Cabinetmaking School is located in Agudos (SP), where every year 36 places are offered on a cabinetmaking professionalization course for adolescents from low-income families. The school was set up to provide quality technical training for preparing youngsters for the labor market. The Company believes that in this way it is making a contribution to the development of the regional furniture-making complex.

The two-year course has recorded a high success rate with more than 90% of the students receiving their graduation diplomas. Duratex supplies the raw material (wood panels manufactured by the Company), inputs (paint, resins, glue etc.), equipment and uniform. The city government of Agudos provides the teaching staff while Senai is responsible for the pedagogic material.





### **GET ONBOARD (EMBARQUE NESSA)**

The success of the Get Onboard Program in the preceding year led Duratex to widen its scope in 2004. Instead of benefiting one entity, the program now benefits a total of nine, selected by the employees. About 300 employees involving nine groups, collected donations and worked on projects at the entities themselves. The program is organized in the form of a contest to encourage participation and effectiveness in the performance of activities – each team receiving points according to performance and culminating in the presentation of awards at the end of the year.

With “Doing good for someone” as its motto, the campaign raised funds for use in the purchase of equipment, food, toys, books etc. During the year, the installations of Casas André Luiz, the Fundação Gol de Letra auditorium and the multi-sports court of the Arrastão Project were all refurbished. The program was also instrumental in benefiting: Casa Hope, Casa do Zezinho, Adere, the Reviver Project, the Adolescent and Child Cancer Patient Support Group and the Child with Cancer Support Association. Among cultural activities, visits

were organized to the Itaú Cultural Institute, theatrical presentations and other entertainment for the children.

### **PIATAN ENVIRONMENTAL EXPERIENCE AREA**

The principal objectives of the Piatan Project are to develop the community’s environmental awareness, emphasize the importance of the preservation of the fauna and flora as well as instill the concept of sustained forestry management. Created in 1996 in Agudos (SP), the Project seeks to disseminate the information on forestry activities to society.

The project also includes guided tours to the forest reserve, plantations and other company installations in the region. During 2004, more than 5,300 visited the Piatan Area, including students, as well as senior citizen and special needs groups. Visitors are provided with information on the cultivation of the forestry plantations which supply the Company’s industrialized board factories.

The project also has a museum and a zoo where visitors can learn about the existing fauna in Duratex’s forestry areas.

## ENVIRONMENTAL Responsibility

The commitment to the preservation and rational usage of natural **RESOURCES** and the correct disposal of waste are an integral part of the Company's environmental practices, which are combined with the use of modern technology, **AWARENESS** initiatives and environmental education.

**DURATEX TRANSFORMS PRINCIPLES INTO ENVIRONMENTAL PRESERVATION.**







# 5

## ENVIRONMENTAL Management

**Sustainability, the rational use of natural resources and preservation of the environment are guiding principles in Duratex's environmental management policy. The Company believes that only in this way it can guarantee quality and competitiveness in its chosen markets, and ensure society's respect as well as balanced economic and long-term development.**

Duratex sees environmental management as a part of its quality program. Consequently, the Company's investments are always geared to improving production in parallel with a high degree of environmental sustainability. In addition to pollution prevention, this program is also designed to increase the awareness of the external and internal public on the need for environment conservation.

Investments in the environmental area during 2004 amounted to R\$ 6.1 million. The year was particularly notable for the certification and recertification of the forestry areas, the acquisition of filters and the conclusion of the effluent treatment plant in Agudos (SP) as well as investments in waste disposal.

### **FORESTRY**

Duratex injected R\$ 498 thousand of additional investment into the forestry areas, both directly into environmental initiatives as well as institutional expenses and for the renewal of environmental certifications. A further R\$ 59.9

million went on the acquisition of land, machines and equipment and forest formation.

FSC (Forest Stewardship Council) certification covers 87% of the Company's forest reserves, testifying that the Company employs environmentally correct, socially just and economically viable practices in its forestry management. FSC certification provides a competitive advantage in the market and is indicative of the importance Duratex places on its forestry administration practices. This has important consequences both commercially and politically in and outside Brazil, principally in relation to the export of wood and furniture.

The Environmental Management System used in the Botucatu forests and the seedling nursery at Lençóis Paulista are certified in accordance with ISO 14,001 standards. The Company also has two more forest units: Agudos and Itapetininga, totaling approximately 90,000 hectares of own forests.



The year saw the conclusion of the investment program in new forests with the acquisition of 4,100 hectares of new land in the state of São Paulo. An area of 8,000 hectares was planted with new forests alternating between the use of seedlings produced from seeds and from different clones, thus ensuring genetic variation and environmental safety.

The Company is self-sufficient in seedling production. In 2004, the Lençóis Paulista (SP) nursery produced 16.5 million seedlings, of which 1.25 million were clones. The target is to produce a third of total output using the cloning system. One million seedlings were also distributed to small farmers for forestry incentive projects in areas surrounding Duratex's plantations.

Under the environmental improvement plan for the cultivated areas, 330 hectares were added to the already existing conservation areas, the purpose being to ensure more space for the native flora and fauna. This strategy will preserve the biodiversity in the areas used for supplying the industrial units.

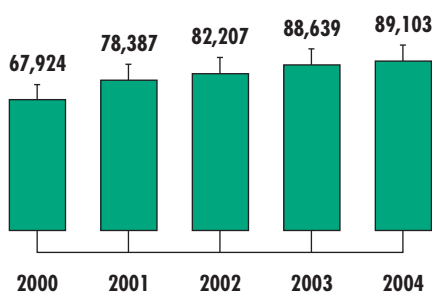
### Sustainability

The forestry sustainability program is based on the following pillars:

- The genetic improvement program and other actions geared to increase the resistance of the plantations to disease and pests;
- Modern forestry handling practices, notably minimum cultivation techniques which conserves the organic cover and involves a low degree of soil disturbance;
- Conservation of the native flora, especially the protection of the river bank vegetation and other native forest growth inhabited by a highly diversified fauna.

During the year, Duratex continued to pursue research projects for assessing the habitat of the flora and fauna in its forests. As part of this research, the Company conducted a survey of the bird population in the Itapetininga region in partnership with the Paulista State University – Unesp/Bauru, as well as further research of other fauna in conjunction with the Universidade Sagrado Coração – USC/Bauru. More than two hundred species of animals were

Own Forests (in hectares)





detected in the region, including some threatened with extinction such as the scutated fruit crow, a bird typical of the Atlantic Rainforest. Among the flora research made into the region, the Company concluded another project jointly with Unesp/Botucatu and USC for studying the native vegetation in the conservation area. This revealed a number of threatened tree species, albeit species growing within the boundaries of the Company's forest reserves.

### **Genetic improvement**

Duratex operates a genetic improvement program for increasing the productivity of its forests and contributing to the conservation of the environment. Since 2002, the Company has been working on the Eucalyptus Genome Project together with three other companies in the pulp and paper sector and the State of São Paulo Research Foundation (Fapesp). Following the conclusion of the initial stage which defined the genetic sequencing of the eucalyptus tree, this project is now moving forward to the identification of practical applications such as the improvement in fertilizer and water usage, developing trees with a greater wood density per cubic meter and more resistant to pests, and with a lower percentage of bark.

In 2004, the Company adopted the concept of genetic improvement nuclei according to soil type in the plantation area. The Company's own researchers are working on several projects themselves, as well as projects in partnership with other entities, for improving the use of natural resources without negatively impacting the environment. Among the projects are studies for adopting fertilizer formulae that ensure the conservation of the soils sustaining the forest plantations and also methods of biological control for guaranteeing forest productivity and environmental conservation.

The genetic improvement program allows eucalyptus seedlings to be produced which are more resistant to pests, disease and extreme events such as frost and drought.

### **Modern Practices of Forestry Farming**

Duratex's forestry farming techniques are designed to improve productivity and protect the environment, the following practices being the most notable:

- **Forestry nutrition** — The Company uses minimum cultivation techniques in which the soil is protected by the organic cover derived from the forest itself and the land



The Company has its own projects as well as those in partnership with research institutes to optimize the use of natural resources without damaging the environment as well for protecting the fertility of cultivated soils and the use of biological controls.

suffers only very limited churning. In addition, programs are being developed for ensuring plant nutrition is suitably administered to the plantations through the selection of formulae and methods of applying fertilizer for conserving soil fertility. Modern techniques have resulted in significant cost reductions, which in the case of fertilizers can be as much as 40%.

- **Machines and Modern Equipment** – The Company has continued to upgrade its machinery choosing those best designed for forestry work. A specific project has identified 511 alternative parts and components that can be used for maintenance purposes, optimizing the useful life of the equipment and resulting in cost savings of between 32% and 69%.

#### **Conservation and Preservation**

Duratex's objective is to maintain the biodiversity by conserving areas of natural flora and fauna interspersed with the forest plantations. In 2004, the Company concluded the conversion of 330 hectares of cultivated areas into conservation areas. Studies in partnership with universities were conducted to survey and monitor the flora and fauna.

These studies identified several tree and animal species nearing extinction and living in the Company's forests.

Duratex protects its forest areas through the following programs:

- **Biological Controls** – Biological control involves the breeding and introduction of natural predators to combat pests, which can attack the cultivated forest species. In 2004, joint projects with universities and other research centers were undertaken to implement the use of natural predators in controlling the psyllid snail, a new pest that has begun infesting Brazilian plantations.
- **Fire prevention** – This program covers the prevention and fighting of forest fires and is designed to protect plantations, machinery and installations and natural flora and fauna conservation areas. Using its accumulated experience in controlling fires, Duratex's fire service combats fires which occur in neighboring communities, if called upon by the local authorities.



## INDUSTRIAL

The same care that is taken in the forestry area in relation to the environment is also applied in administering the industrial area. Each stage of the manufacturing process is monitored and the emissions of particulate material, gases, effluent and waste is all analyzed and treated according to the correct disposal method and, whenever possible, reused. Duratex rigorously adheres to an Environmental Management System developed in-house to maximize the efficiency of these controls.

### Effluent treatment

Duratex took a significant step forward in 2004 by upgrading the Effluent Treatment Plant (ETE) concept and adopting the Material Recovery Area (ARM) method: instead of simply treating effluent and disposing of the resulting material, the latter is reworked to maximize its use. The Deca Division implemented the ARM concept at the Jundiaí vitreous china unit in 2004. Surplus water from the industrial processes is reused for refrigeration purposes, the washing down of floors and in sanitation as well as being recycled back into the manufacturing process.

The Wood Division ended 2004 recording a 95% removal level of pollutants from effluent. This level of efficiency achieved by the Agudos (SP) unit, substantially surpasses the legal minimum of 80% purity required by the legislation in the state of São Paulo. The unit is also expected to begin the program for reusing water in 2005.

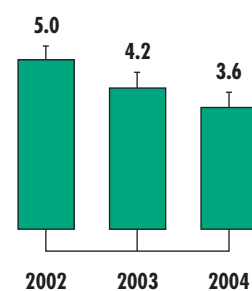
The Botucatu plant uses an irrigation system in graminea, which absorbs the organic discharge from the industrial process without causing environmental damage, the soil functioning like a filter. The graminea is later transformed and sold in the region.

### Water consumption

The new Botucatu (SP) production system has substantially reduced water consumption at the unit. In 2002, consumption was 13 cubic meters of water per cubic meter of product. With the commissioning of the new plant at the end of 2003, the new system reduced consumption in 2004 to 6.5 cubic meters of water per cubic meter of product.

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

Wood Division



The priority in the industrial process is to reduce the generation of waste substances and recover the largest possible volume of this material as well as expand the reuse of water and control the non-renewable energy sources consumption.

Investments at the Jundiá (SP) vitreous sanitary ware facility were made in a parallel water supply network. By the end of 2004, the percentage reuse of water had increased to 60% – an average of 40% over the year as a whole. The same system has been in operation at the vitreous china sanitary ware facility in São Leopoldo (RS) since 2002. The adoption of this system in Jundiá has produced savings of 26.8% in water consumption per item – considering pure piped water alone. Total consumption (piped water and reused water) has fallen by 11.4%.

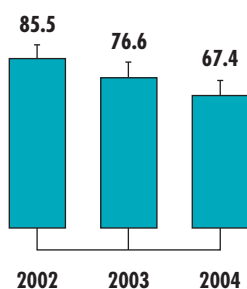
#### Atmospheric emissions

With the start-up of the new natural gas-fired kiln at the Jundiá vitreous china unit, the last item of fuel oil-fired equipment in the production of ceramics in the state of São Paulo was eliminated. The result has been an even greater reduction in atmospheric emissions, notably of sulfur and particulate material. The use of reject material as fuel in the Wood Division has also contributed to a considerable reduction in emissions. All the industrial units operate with gas washing systems and cyclones for the control and reduction of emissions.

Some 30% to 35% of water is reused on average at the metal division unit in São Paulo. The construction of an independent sanitary water network in 2005 will allow this level of reuse to be expanded, a process which will be also adopted at the Wood Division in Agudos.

**Water Consumption** (liters/item)

Deca Division







### Solid waste

New practices of reuse at the vitreous china sanitary ware units have enabled solid waste volume consigned to landfills to be cut by 12.5% despite increased production. In volume terms, the reuse of material in the production process has grown 39.4%, and totaled 10,100 tons – now higher than the volume dispatched to landfills (8,000 tons).

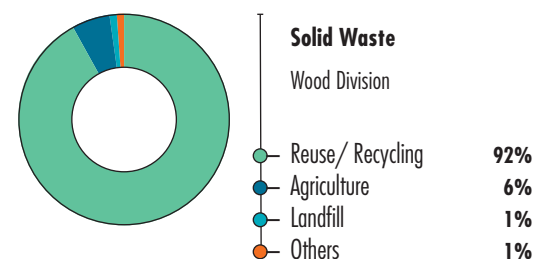
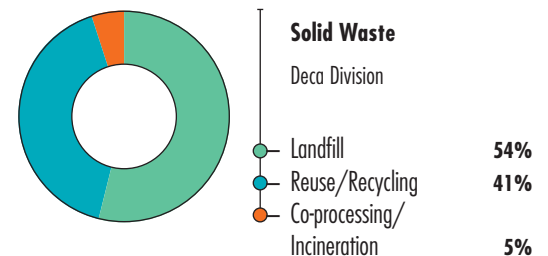
Again at the vitreous china units, 20% of the fire clay remaining after the manufacturing process is now being reworked after exhaustive testing confirmed that product quality was in no way reduced. The target for 2005 is to further ramp up the reworking of discarded fire clay to 35% by installing a new material purification system.

In the metal fittings area, the recovery of solid waste reached approximately 19% of total waste generation, which is higher than the 9% recorded in 2003. All rejects are returned to the Division's own fusion process and totally reworked. Some of the discarded material is also recuperated and sold as a byproduct to other industries such as the chemical industry in the case of nickel hydroxide. In 2004, this product

ceased to be disposed of in landfills. The sale of byproducts from the metal segment generated R\$ 959,900, 73% more than in 2003, thanks to the increase in production and the higher reworking of solid waste.

Other materials are also sent for production processing rather than dispatched to landfills. A case in point is plaster used in the manufacture of vitreous chinaware and sold to the cement industry. The Company endeavors to reduce the amount of discarded material as much as possible and maximize the level of reuse.

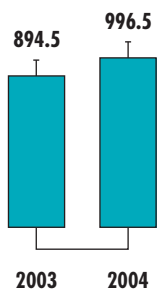
The concept of selective waste collection has been expanded. For this purpose, training programs instruct staff how to identify and correctly dispose of waste according to its characteristics. With the introduction of these changes, gains in efficiency have exceeded 90%, facilitating the management of growing disposal costs.



The concept of recovery and the identification and correct disposal of waste has achieved efficiency gains in excess of 90%, reducing the consumption of materials and facilitating the management of growing waste disposal costs.

**Energy Consumption (kw/item)**

Deca Division



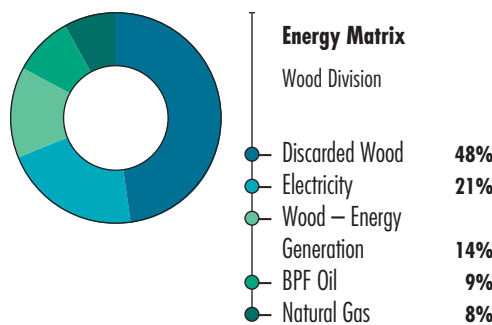
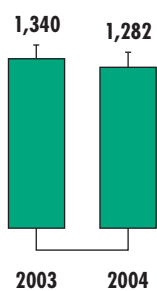
Wood Division waste which cannot be reused in the manufacturing process is sold as organic fertilizer for agricultural purposes or as fuel for generating energy. In Jundiaí, for 50 years, the Company has had a program of selling organic material to local vineyards. In 2004, the Wood Division expanded the reuse of solid waste by 131%, equivalent to 110,900 tons in the year.

**Sources of energy**

The wood units use discarded raw material (biomass) for the generation of thermal energy. The Wood Division's target in 2005 is to maximize the use of biomass as a fuel and to reduce oil consumption — and consequently saving operating costs — and further improving the standards of atmospheric emissions. In 2004, fuel oil represented only 8.7% of the energy matrix against 12.3% in 2003. On the other hand, reused wood waste increased from 46.5% to 48%.

**Energy Consumption (Gcal/m<sup>3</sup>)**

Wood Division



## 6

## SOCIAL indicators – Ibase model

<b>Basis for calculation</b>	<b>2004 Value (R\$ Million)</b>			<b>2003 Value (R\$ Million)</b>		
Net Revenues (NR)	1,188.2			989.6		
Operating Result (OR)	237.2			165.9		
Gross Payroll (GP)	134.0			115.4		
<b>Internal Social Indicators</b>	<b>Value (R\$ Million)</b>	<b>% of GP</b>	<b>% NR</b>	<b>Value (R\$ Million)</b>	<b>% of GP</b>	<b>% NR</b>
Nutrition	6.1	5%	1%	7.6	7%	1%
Mandatory payroll taxes	69.0	52%	6%	67.6	59%	7%
Private pension plan	0.5			0.4		
Health	7.5	6%	1%	6.9	6%	1%
Occupational Safety and Medicine				3.5	3%	
Education				0.2		
Culture						
Skills upgrading and professional development				1.1	1%	
Daycare/daycare assistance						
Profit sharing	9.2	7%	1%	5.2	5%	1%
Other benefits	6.7	5%	1%	5.5	5%	1%
<b>Total – Internal Social Indicators</b>	<b>99.0</b>	<b>74%</b>	<b>8%</b>	<b>97.9</b>	<b>85%</b>	<b>10%</b>
<b>External social indicators</b>	<b>Value (R\$ Million)</b>	<b>% of OR</b>	<b>% of NR</b>	<b>Value (R\$ Million)</b>	<b>% of OR</b>	<b>% of NR</b>
Education						
Culture						
Health and sanitation						
Sport						
Combating hunger and providing nutrition						
Others				1.4	1%	
<b>Total contributions to society</b>				<b>1.4</b>	<b>1%</b>	
Taxes (excluding payroll taxes)	326.1	137%	27%	223.2	135%	23%
<b>Total – External Social Indicators</b>	<b>326.1</b>	<b>137%</b>	<b>27%</b>	<b>224.6</b>	<b>136%</b>	<b>23%</b>
<b>Environmental indicators</b>	<b>Value (R\$ Million)</b>	<b>% OR</b>	<b>% NR</b>	<b>Value (R\$ Million)</b>	<b>% OR</b>	<b>% NR</b>
Investments related to production/ Company operations	6.1	3%	1%	7.3	4%	1%
Investment in external programs and/or projects	1.4	1%		0.4		
<b>Total environmental investments</b>	<b>7.5</b>	<b>3%</b>	<b>1%</b>	<b>7.7</b>	<b>5%</b>	<b>1%</b>
In relation to annual targets for minimizing waste, consumption in production/operations in general and increasing efficiency in the use of natural resources, the Company:		( ) has no targets ( ) meets 0-50% of targets ( ) meets 51-75% of targets (X) meets 76%-100% of targets			( ) has no targets ( ) meets 0-50% of targets ( ) meets 51-75% of targets (X) meets 76%-100% of targets	

<b>Employee Functional Indicators</b>	<b>2004</b>	<b>2003</b>
Number of employees at end of period	5,951	5,829
Number of employees hired during period	717	989
Number of outsourced employees	132	144
Number of interns	96	93
Number of employees over 45	798	731
Number of women working at the Company	498	496
% of women in supervisory positions	0.60%	0.50%
Number of Afro-Brazilians working at the Company	986	970
% Afro-Brazilians in supervisory positions	0.39%	0.38%
Number of employees with disabilities or special needs	230	187
<b>Information on Corporate Responsibility</b>	<b>2004</b>	<b>2005 Targets</b>
Relation of highest to lowest compensation at the Company	69.2 times	69.2 times
Total number of work-related accidents	255	229
Company-sponsored social/ environmental projects were decided upon by:	<input type="checkbox"/> senior management <input checked="" type="checkbox"/> senior and middle management <input type="checkbox"/> all employees	<input type="checkbox"/> senior management <input checked="" type="checkbox"/> senior and middle management <input type="checkbox"/> all employees
Occupational safety and health standards in the workplace were set by:	<input type="checkbox"/> senior and middle management <input type="checkbox"/> all employees <input checked="" type="checkbox"/> all employees plus CIPA	<input type="checkbox"/> senior and middle management <input type="checkbox"/> all employees <input checked="" type="checkbox"/> all employees plus CIPA
With respect to the freedom of labor union activities, to the right to collective bargaining and the internal representation of employees, the Company:	<input type="checkbox"/> does not get involved <input checked="" type="checkbox"/> adheres to ILO norms <input type="checkbox"/> encourages and monitors the implementation of ILO norms	<input type="checkbox"/> does not get involved <input checked="" type="checkbox"/> adheres to ILO norms <input type="checkbox"/> encourages and monitors the implementation of ILO norms
The Company pension plan covers:	<input type="checkbox"/> senior management <input type="checkbox"/> senior and middle management <input checked="" type="checkbox"/> all employees	<input type="checkbox"/> senior management <input type="checkbox"/> senior and middle management <input checked="" type="checkbox"/> all employees
Profit-sharing program covers:	<input type="checkbox"/> senior management <input type="checkbox"/> senior and middle management <input checked="" type="checkbox"/> all employees	<input type="checkbox"/> senior management <input type="checkbox"/> senior and middle management <input checked="" type="checkbox"/> all employees
In the selection of suppliers, the same standards for ethics and social and environmental responsibility used at the Company:	<input type="checkbox"/> are not taken into consideration <input type="checkbox"/> are suggested <input checked="" type="checkbox"/> are required	<input type="checkbox"/> are not taken into consideration <input type="checkbox"/> are suggested <input checked="" type="checkbox"/> are required
With respect to volunteer work by employees, the Company:	<input type="checkbox"/> does not become involved <input type="checkbox"/> supports it <input checked="" type="checkbox"/> sponsors and encourages it	<input type="checkbox"/> does not become involved <input type="checkbox"/> supports it <input checked="" type="checkbox"/> sponsors and encourages it
Total number of complaints/criticisms received from consumers:	by the Company 1,042 by Procon (consumer protection agency) 11 by the law courts 22	by the Company 1,042 by Procon (consumer protection agency) 11 by the law courts 22
% of complaints and criticism received or resolved	by the Company 99% by Procon 72% by the law courts 60%	by the Company 99% by Procon 72% by the law courts 60%
Total value added to be distributed (in R\$ thousands):	In 2004: 761,079	In 2003 658,3000
Distribution of Value Added (DVA)	43% government 28% employees 8% shareholders 12% third parties 9% retained	39% government 30% employees 4% shareholders 21% third parties 6% retained

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# CORPORATE Information

## BOARD OF DIRECTORS

### Chairman

Olavo Egydio Setúbal

### Vice Chairmen

Laerte Setúbal Filho

Maria de Lourdes Egydio Villela

Paulo Setúbal

### Board Members

Alfredo Egydio A. Villela Filho

Jairo Cupertino

José Carlos Moraes Abreu

Olavo Egydio Setúbal Jr.

## EXECUTIVE BOARD

### President

Paulo Setúbal

### Executive Vice President

Guilherme Archer de Castilho

Plínio do Amaral Pinheiro \*

Raul Penteadó

*\* Investor Relations Director*

### Executive Directors

Carlos Alberto Tenório Nobre

Enrique Judas Manubens

José Roberto Refinetti Guidi

Mário Colombelli Filho

### Directors

Antonio Joaquim de Oliveira

Antonio Massinelli

Flávio Dias Soares

## FISCAL COUNCIL

### President

Paulo Ricardo Moraes Amaral

### Councilors

Iran Siqueira Lima

Wilton de Medeiros Daher

## EXTERNAL AUDITORS

PricewaterhouseCoopers Auditores Independentes Ltda.

## ACCOUNTANT

Roberto Frederico Battaglioli

CRC 1SP109479/0-0

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Caixa Postal 7611  
PABX: (11) 3179-7733  
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#### **SUBSIDIARIES IN BRAZIL**

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

##### **Duratex Comercial Exportadora S.A.**

##### **Duratex Empreendimentos S.A.**

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01310 942 – São Paulo – SP  
Caixa Postal 7611

#### **OVERSEAS SUBSIDIARIES**

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Fax: (54 11) 4909-0992

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Fax: (32 15) 28-60-79



# Credits

## **Coordination**

Investor Relations Department

## **Editorial Project**

Editora Contadino

## **Revision**

CorpGroup | Comunicação Corporativa

Editora Contadino

## **Photographs**

Duratex Library

Banco de Imagem

Eduardo Simões

## **Graphic Design**

CorpGroup | Comunicação Corporativa

## **Graphic Production**

Excellence

*The people in the photographs in the pages of this report are either employees of Duratex or participants of the Company's external projects. Our thanks go to all for their participation.*



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