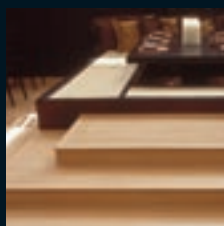
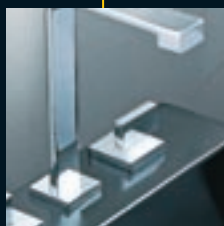




Annual Report

2004



CORPORATE Profile

A private sector, publicly listed and wholly Brazilian-owned, company with its shares traded on the Stock Exchange since 1951, leader in the manufacturing of wood panels and metal bathroom fixtures as well as a major player in the vitreous china segment. This is Duratex, controlled by the second largest private sector business group in Brazil, Itaúsa — Investimentos Itaú S.A., the businesses of which also cover the financial, insurance, chemical, information technology and real estate sectors.

The company's eight industrial units — seven in the state of São Paulo and one in the state of Rio Grande do Sul — are all in the state of the art in terms of the production technology for manufacturing wood, vitreous china and metal bathroom fixtures.

Vitreous China and Metal Fixtures products are sold under the Deca and Hydra brand names and have received innumerable quality awards. In 2004, Deca took an important step towards becoming a world brand by expanding its operations overseas, principally in the United States. The company's plans are to expand its sales to not only the United States but also Europe, thus reducing its dependence on the domestic market.

Also a leader in industrialized wood products — particleboard, and medium and high-density fiberboard and laminate flooring —, today, Duratex has one of the most modern technologies for the production of eucalyptus-based wood paneling at its Botucatu (SP) plant. This facility is particularly noted for its unique technology — developed jointly by Duratex and the equipment supplier — and protected by an eight-year confidentiality agreement.

In 2004, the Company incorporated a further 4,100 hectares of land and forest in close proximity to its industrial units, thus ensuring self-sufficiency in wood feedstock.

Duratex's pine and eucalyptus forests are managed in strict compliance with environmental protection practices and are FSC - Forest Stewardship Council-certified. Production of seedlings, which in 2004 totaled 16.5 million, ensures the sustainability of this operation.

The Company has its registered offices in São Paulo as well as commercial offices in the major Brazilian cities. Duratex operates in Argentina through Deca Piazza, and has commercial subsidiaries and warehouses for distributing products in the United States (Duratex North America) and Europe (Duratex Europe). Duratex had by year-end 5,951 employees.

Highlights

- **Consolidated Gross Revenues** reached R\$ 1,580.6 million and **Net Revenues** amounted to R\$ 1,188.2 million, an improved performance over 2003 of 26.0% and 20.1%, respectively.
- **Exports** totaled US\$ 57.5 million, 23.7% more than in 2003.
- **EBITDA** amounted to R\$ 311.4 million, 38.6% over the preceding year.
- **Net Income** was R\$ 125.3 million, which represents an increase of 95.7% compared with 2003, and a **Return on Equity (ROE)** of 12.7%.
- Distribution of **Interest on Equity Capital** was R\$ 58.1 million, equal to a payout of 46.4%.
- Changes to the bylaws included the **Extinguishment of the Beneficiary Parts** and the increase in the **Minimum Dividend** to 30% of Net Income.
- Existence of 80% **Tag-Along Rights** to shareholders, non-participants in the controlling block.
- Conclusion of a virtuous **CAPEX Cycle** which absorbed about R\$ 890 million in the past five years, R\$ 136.8 million alone in 2004.
- Launch of 25 **new products and standards** by the Wood Division and **109 new products** in the Deca Division.
- In 2004, Duraflor was elected by consumers for the **Top of Mind** and **Top of Brands** awards and also the **Prêmio Pini** for the tenth consecutive year.
- The market recognized Deca's excellence with various awards, among them the **Prêmio Empresa Top**, the **Prêmio Pini** in the Vitreous China and Bathroom Fixtures categories, and the **WorldStar award**, for the best Metals packaging.



Principal Indicators

Shipments	2000	2001	2002	2003	2004	CAGR
Wood (in thousand m ³)	812.1	823.6	881.2	905.6	1,050.8	6.7%
Deca (in thousands of items)	12,750	13,584	14,523	13,318	13,747	1.9%
Consolidated Performance (in R\$ million)						
Net Revenues	744.6	785.3	866.9	989.6	1,188.2	12.4%
Domestic market	618.9	652.9	703.9	799.4	950.6	11.3%
Foreign market	125.7	132.4	163.0	190.2	237.6	17.3%
EBITDA	199.4	187.6	210.4	224.7	311.4	11.8%
EBITDA margin (%)	26.8%	23.9%	24.2%	22.7%	26.2%	-
Net income	66.7	52.1	71.7	64.0	125.3	17.1%
Net margin (%)	8.9%	6.6%	8.3%	6.5%	10.5%	-
Profit per 1,000 shares (R\$)	5.46	4.31	6.48	5.31	10.63	18.1%
Return on Equity (ROE)	7.9%	6.0%	7.9%	6.8%	12.7%	-
Return on Invested Capital (ROIC)	10.4%	7.7%	8.4%	7.7%	10.2%	-
Dividends (in R\$)	2000	2001	2002	2003	2004	CAGR
Gross dividends (accrual)	21.5	23.6	24.6	25.7	58.1	28.2%
Gross dividends (cash)	17.2	24.4	23.5	24.4	44.5	26.8%
Dividends/net income (pay-out)	32.3%	45.3%	34.2%	40.2%	46.4%	-
Dividend yield (cash)	2.6%	4.2%	3.8%	2.5%	3.1%	-
Capital Markets	2000	2001	2002	2003	2004	CAGR
Outstanding shares (million)	12,179.1	12,179.1	11,779.1	11,782.7	11,782.7	-
Number of trades	2,731	1,875	2,169	4,686	3,977	9.9%
Shares traded (in millions of shares)	2,015	1,649	2,274	4,314	4,252	20.5%
Financial volume traded (in R\$ millions)	120.5	87.5	100.7	274.0	381.7	33.4%
Share price at the end of the period (R\$)	55.00	47.4	52.00	83.01	124.00	22.5%
Market value (in R\$ millions)	669.8	577.3	612.5	978.1	1,461.0	21.5%
Book Value at the end of the period (R\$)	70.63	71.81	77.78	80.42	85.05	4.7%



DURATEX

Duratex's industrial activities are directly connected to the transformation and the manufacture of products for the well-being of society and the creation of shareholder value. The Company produces goods from different raw materials, which transform the lives of people, providing them with comfort beauty and practicality, in a socially and environmentally responsible manner.

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* More detailed information on Duratex's socially responsible initiatives are to be found in the Social and Environmental Report.

Message from the PRESIDENT

Duratex's major capital expenditures cycle — the hallmark of the Company in recent years — has driven expansion in different production lines and resulted in growth in volumes, sales revenues, returns and consequently, value. This strategy has allowed it to maximize the opportunities arising from the expansion of the Brazilian economy and to seek out new businesses abroad.

In 2004, Duratex's competitive advantages were fundamental in allowing us to maximize the opportunities, presented by an expanding economy, to grow at a faster rate than the Brazilian average as well as to consolidate a position of leadership in our chosen business segments.

Net consolidated sales were R\$ 1.19 billion, or 20% more than in 2003; operating cash generation based on the EBITDA concept amounted to R\$ 311.4 million, an increase of 39% and net income nearly doubled to R\$ 125.3 million, equivalent to a return on equity of 12.6%.

Performance was directly impacted by the completion of a capital expenditures plan, worth approximately R\$ 890 million over the past five years, that enabled an increase in installed production capacity in all business lines. Sales of wood panels benefited from the recovery in particular segments of the Brazilian economy. The conclusion in capacity expansion — notably the new Botucatu (SP) eucalyptus MDF/HDF/SDF unit — endowed the Wood Division with a sufficient size to meet growing demand exactly at the moment when the domestic economy was beginning to recover.

The difficulties experienced by the metal fittings and vitreous china segments are directly related to the difficulties faced by the civil construction sector for the last four years. The difficult scenario demanded the Company to take strategic actions in order for boosting sales. These actions included the introduction of measures to improve operations and results as well as enhancing exports; thus, reducing the dependence on the domestic market.



Paulo Setúbal

President

As part of this process, the Company commissioned a new gas-fired kiln at the Vitreous China unit in Jundiaí, in the fourth quarter 2004. This modern equipment has increased installed capacity by 30% as well as the unit's competitive edge and environmental efficiency.

We recorded significant progress in our overseas sales strategy with the InterD+ furniture brand gaining market share. We have also established a sales structure for Deca branded goods in the United States, together with the development of vitreous china products especially customized for the North American market.

Other capital expenditures were directed to the acquisition of more than 4,100 hectares of land and forests in the state of São Paulo, as part of our objective of ensuring self-sufficiency in wood feedstock. Implemented over the last few years, the success of this strategy is now patent in the light of the market shortage in this raw material, fundamental to our manufacturing activities.

We have also continued to develop our initiatives for improving the relationship with the Company's varied stakeholders, both internal and external. These initiatives involve differentiated practices, such as technical training for customer sales assistants, cabinetmakers and plumbers, professionals who are important opinion makers with respect to our products and services given that they are permanently in front-line contact with our end-consumers. We continue to run a vocational training and development program for upgrading our employees' skills to compete in an increasingly competitive market place.

During the year, we took some important initiatives for improving corporate governance, strengthening our capital structure and creating value. The Company announced the gradual phasing out of the Beneficiary Parts and the increase in the minimum dividend from 25% to 30% of net income. The Board of Directors approved the distribution of record dividends of R\$ 58.1 million, equivalent to 46.4% of the net income for the fiscal year 2004.

The market gave due recognition to these investor-friendly actions making the Company's stock appreciating by 49% during the period, pushing its market capitalization close to R\$ 1.5 billion.

We are convinced that our 2004 earnings reflect the constant quest for improvement and creation of value. This has only been made possible thanks to the support of our shareholders, the dedication and commitment of our employees, the partnership with our suppliers and the trust of our clients and final consumers.

The concept of value creation encompasses the strategy of **INNOVATION** — a company hallmark in the production of vitreous china products and metal bathroom fixtures, wood panels and finishing panels and laminate flooring — and the associated emphasis on **QUALITY** with maximized returns.

**DURATEX TRANSFORMS ENDEAVOR INTO
CREATION OF VALUE.**



2 STRATEGIC Management and CAPITAL EXPENDITURES Plan

Focused on profitability and creation of value, Duratex invests in innovation and market expansion in Brazil and overseas. The bedrock of this strategy is built on the rigorous cost management, a solid financial structure, the integration between teams and areas and actions aligned with the principles of social and environmental responsibility.

Duratex has set its strategy as the creation of shareholder value, by expanding its market share in chosen markets, increasing exports and investing in innovation in vitreous china products and metal bathroom fixtures in the Deca Division, and wood panels, laminate flooring and finishing panels for ceilings and walls in the Wood Division.

To transform this strategy into results, the Company has adopted the following guidelines:

- Strict cost management to maximize return on production, at the same time maintaining the focus on product quality;
- Solid financial structure;
- Healthy and conservative corporate, fiscal and accounting policies;
- Maximum integration between the workforce teams and areas, with the emphasis on internal company culture and clarity of corporate vision;
- Social and environment protecting actions.

The principal objectives by area of activity are:

Deca Division

- Develop products with high technology and greater value-added to face the challenge of the squeeze on margins in the mass consumption segments;
- Expand the Company's international penetration and strengthen brand name recognition to give the Deca mark a world character with the focus on the North American and European markets;
- Constant renewal of the product range to maintain Deca's character as synonymous with all that is contemporary and exclusive;
- Diversify distribution channels and enhance the relationship with clients and opinion makers.



Wood Division

- Expand the product line and, principally, services;
- Enhance the market presence of the MaDeFibra, Durafloor and Durawall brands;
- Add value to the Company's panels by establishing partnerships for developing furniture to the export market through the InterD+ brand name;
- Train and upgrade clientele skills for using the new products.

The highlight of the year was the conclusion of the natural gas-fired kiln at the Jundiaí vitreous china unit. This modern equipment presents greater energy efficiency and savings and a lower level of gas emissions. The completion of this investment has been instrumental in increasing output to meet export demand for the Deca Division's products.

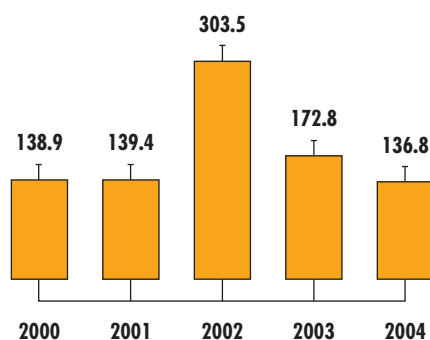
In addition to the commissioning of the new kiln, other important events were:

- Acquisition of 4,100 hectares of new land in the state of São Paulo, close to the Agudos and Botucatu (SP) units;
- Installation of a low pressure coating line at the Botucatu Unit (SP);
- Development of a new and modern hardboard paint application system in Botucatu (SP);
- Installation of equipment for the production of a superfine-finishing particleboard panel, especially made for painting, at the Itapetininga Unit (SP).

CAPITAL EXPENDITURES PLAN

In 2004, the Company invested R\$ 171.4 million of which, R\$ 136.8 million was used for the acquisition of permanent assets. Thanks to its well-balanced capital structure, Duratex was able to fund its investment program largely through internally generated resources.

CAPEX (in R\$ million)



Deca products are manufactured through the usage of advanced **TECHNOLOGY**, which gives them a competitive edge based on productivity in processes and quality of a contemporary and **EXCLUSIVE** product range.

**DURATEX TRANSFORMS RAW MATERIALS INTO
VALUE-ADDED SOLUTIONS.**



3 DECA Division

Deca's products are characterized by exciting modern designs in tune with international tendencies having the Division launched 79 items in metal bathroom fixtures and 30 in vitreous china sanitary ware in 2004. The Division will also be able to increment its overseas business following a 30% expansion in installed capacity given the commissioning of a gas-fired kiln, in Jundiaí.

MARKET

The civil construction sector's real estate segment experienced a difficult trading environment for the greater part of the year. The 5% growth in the Brazilian economy was largely a reflection of export business and stronger demand for consumer durables driven by more plentiful credit.

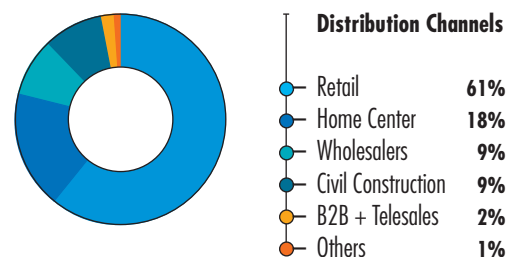
In addition, it is only over the medium to long-term that greater economic activity feeds through as a stimulus to demand for goods typical of the final stages in the civil construction chain – vitreous chinaware and metal fixtures being examples.

PERFORMANCE

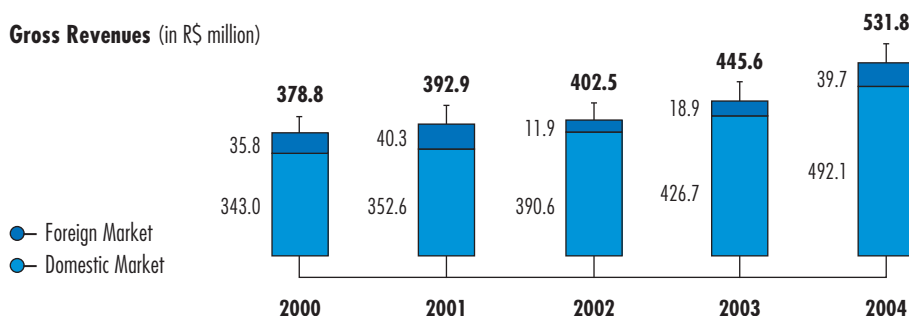
In spite of the sector's difficulties, the Division managed to ship 3.2% more products than in 2003. Net sales grew by 14.2% reaching R\$ 381 million. EBITDA improved by 19.3% to R\$ 60.8 million at the end of the fiscal year, representing a margin of 15.9% against 15.3% of 2003. The Division reported an improved operating performance given the price recovery and a better sales mix, principally in the case of vitreous china sanitary ware.

Exports amounted to US\$ 4.7 million – a growth of 62%. Of this total, the vitreous china segment generated US\$ 3.6 million. Exports are expected to increase in importance as a source of revenues for the Division in 2005, with the expansion of operations in the United States and in Europe. Thirty products were developed for the North American market alone.

Overseas sales totaled US\$ 13.6 million, 56% of which from Deca Piazza in Argentina, where sales increased 77% when compared with 2003.

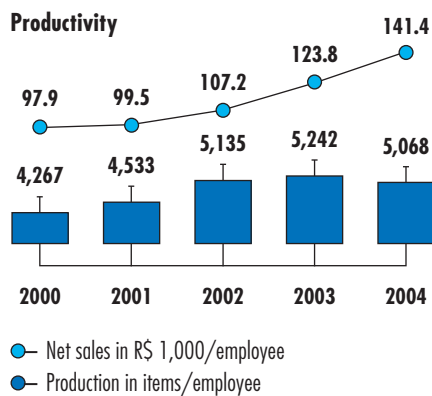


Gross Revenues (in R\$ million)

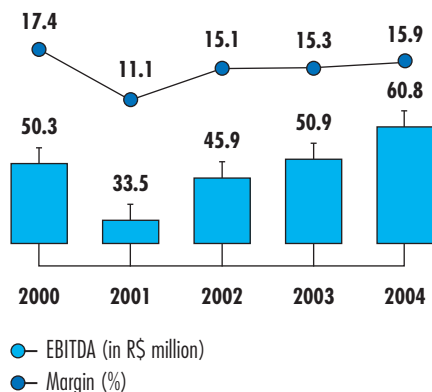




Productivity



EBITDA and Margin



COMPETITIVE POSITIONING

During the year, Deca began operating its third kiln at the Ceramics II plant in Jundiaí — part of the continual policy of increasing productivity. The most modern of its type, the equipment will provide the necessary capacity for supporting the export expansion project.

With an electronic system for the comprehensive monitoring of the entire kiln, this equipment needs just a single operator who controls the whole process, item by item, along the hundred meter-long production line. As the equipment is thermally and acoustically sealed, it can be operated comfortably, allowing free circulation and the development of other activities in adjacent areas.

In addition, the vitreous china and metal bathroom fixture lines have been the object of continual renovation with the adoption of exciting modern designs in line with the latest world tendencies for the sector. The Company has

also successfully increased the coverage of its distribution system in 2004, surpassing 8,000 points of sale, a year-on-year growth of 33%.

PRODUCT LAUNCHES

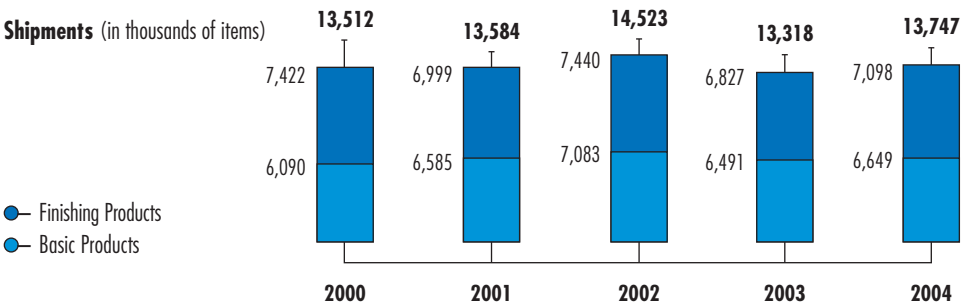
The Deca Division pursued an aggressive policy of renewal and modernization of product lines with the launching of 79 items of bathroom fixtures and 30 vitreous china products. The principal vitreous chinaware launches were the Duna line, with special sinks in rectangular, concave and squared formats, the Slim washbasins and the Nuova toilet basin with coupled flush box and horizontal outlet. In the metal bathroom fixtures segment, innovations included the Decamatic Eco line with the easy-to-use monocommand system, the Clean, Izy and Spot shower heads as well as the Link movable tap nozzle and the Axis line, with elongated profile and straight or cylindrical lines.



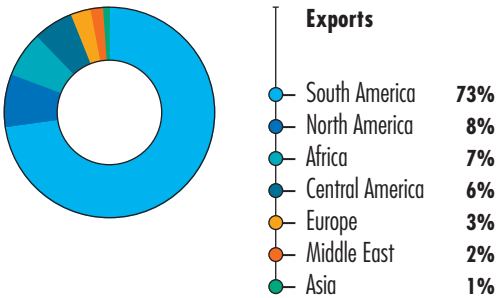
In addition, the metal fixtures area presented the market with the Cromoterapia showerhead. This unique item is part of the emerging Spas Deca concept in which bathrooms are designed to transmit the sensation of peace and relaxation. The Company also increased its supply of vitreous chinaware with rectangular lines and a more contemporary look.

The new launches in the Deca line of products were put on display at the Division’s showroom and at the most important trade events, such as Casa Cor, where the Company is a traditional exhibitor. In 2004, the “A Dream of a Bathroom” contest had a record of about 700 entries from architects. The Deca Division also held an event with plumbers for providing information on the product lines and to receive free instruction on working with the Division’s products.

As part of the strategy of focusing on luxury and high luxury lines, approximately ten special retailers throughout the country agreed to the idea of adopting the Deca brand on an exclusive basis. This exclusivity concept provides larger margins at selected points of sale and will be gradually extended over the next few years.



The Division’s activities in the North American market will have the support of infrastructure on the ground and specific product development to meet consumer tastes and to comply with local technical norms for exclusive items of top-quality and innovative design.



EXPORTS

Deca Division’s export revenues reported a 90% year-on-year increase, reflecting the success of its decision to open up export markets and enhance the penetration of the brand name internationally. Exports totaled US\$ 4.7 million, of which US\$ 3.6 million consisted of vitreous china products, the design and quality of which are successfully enabling the Division to consolidate its position in demanding and competitive overseas markets.

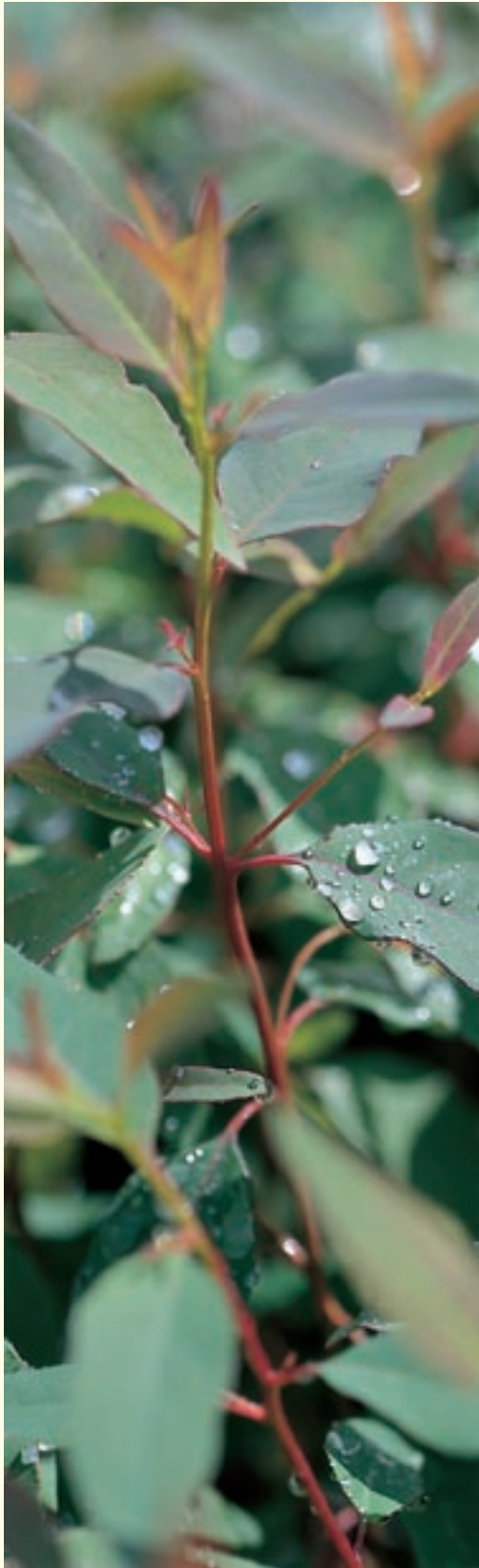
Initial commercial operations have been concentrated on the East Coast of the United States and plans are afoot to expand into other regions over the medium term. In addition to the sale of high value-added products, the decision to enter the North American market will allow Deca to consolidate its name as a quality and exclusive brand with an innovative design.

The Division sells about 30 vitreous china items into the United States, all of them duly certified in compliance with local standards, allowing sales to be made to other markets governed by US standards such as Canada, and Mexico and some Central American countries. As part of its strategy of breaking into this new market, Deca was a participant in the Kitchen & Bath Industry Show in Chicago, one of the most important in the United States.

The Company’s strategy of boosting its international operations is to reduce the Company’s exposure to the Brazilian market, which is highly volatile due to domestic difficulties.

The production of wood panels seeks to enrich the sales mix through verticalized processes, modern technology and services on the **CUTTING-EDGE** of the market. In parallel to this strategy, the Wood Division underscores this commitment with an unceasing quest for higher **EFFICIENCY** and adding value to its products.

DURATEX TRANSFORMS WOOD INTO PROFITABILITY.



4 WOOD Division

Duratex has the greater competitive advantage in the sector through a production process based on state of the art technology and self-sufficiency in wood feedstock. Additionally, the conclusion of the capacity expansion project coincided with a momentum of market recovery principally for MDF, HDF and SDF panels, which are characterized by significant versatility of use and market acceptance.

MARKET

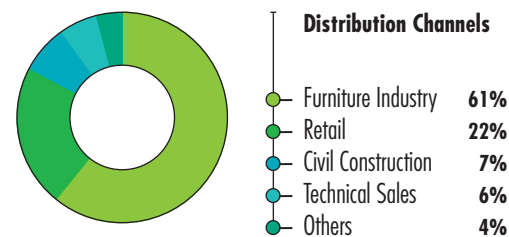
Duratex's completion of its capacity expansion plan and the technological upgrading of previous years coincided with a recovery momentum in domestic market demand and helped to boost the Wood Division's performance.

A significant part of this result reflects the expansion in MDF, HDF and SDF (respectively Medium, High and Super Density Fiberboard) output at the Botucatu unit. Production of this type of panel expanded by about 30% in sales volume over 2003, due to its wide range of uses and market acceptance. Growth in this segment is in line with the Company's plans for upgrading production and the sale of higher value-added products.

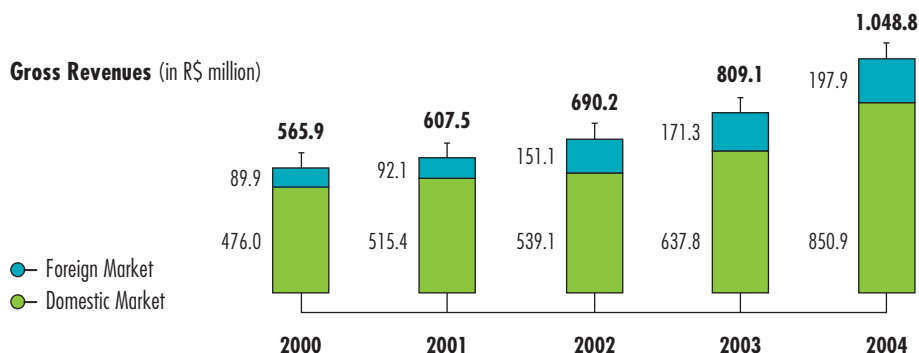
PERFORMANCE

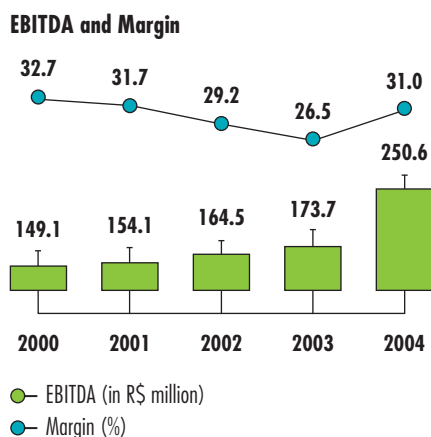
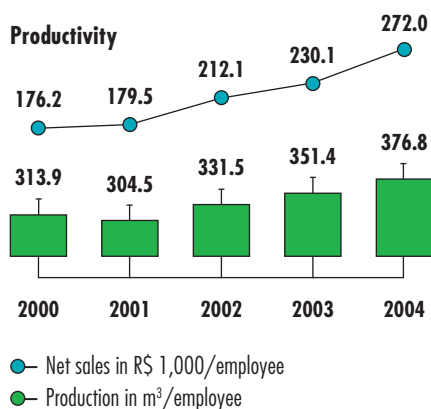
Growth in the domestic economy was the main driver of the Wood Division's net sales, which amounted to R\$ 807.2 million in 2004, which represents a

year-on-year increase of 23%. Sales volume rose 16%, with the remaining sales revenues improvements reflecting sector price adjustments. Improved volume was made possible by the additional work in completing and modernizing the Botucatu plant. During 2004, the annual 400.000 m³ capacity of this new production line was more adequately occupied, having the year-end utilization rate reached an average of 56% against 32% in the preceding year.



Gross Revenues (in R\$ million)





The Division's exports rose 21.2% to US\$ 52.8 million having overseas sales of InterD+ brand for furniture accounted for US\$ 3 million of this total against US\$ 900,000 in 2003. Prospects are for these furniture exports to double in 2005.

The Wood Division posted EBITDA of R\$ 250.6 million, 44.2% higher than in 2003. This amount represents 80.5% of the consolidated operating result, having the EBITDA margin jumped from 26.5% to 31.0%.

COMPETITIVE POSITIONING

Self-sufficiency in wood feedstock gives Duratex a competitive advantage in terms of cost structure. The average distance of wood supplies from the plants is 55 kilometers, representing an important competitive differential due to a reduction in freight costs. In addition, the Company manages its own forestry operations, allowing greater control over the costs of these activities.



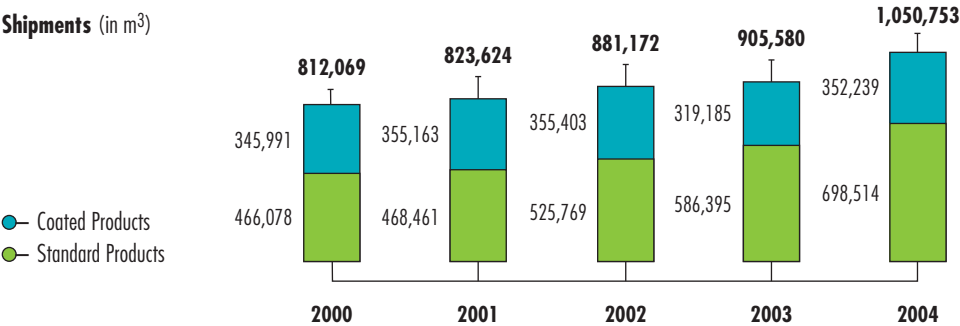
As part of an ongoing process of technological innovation, Duratex has improved its hardboard painting operation, by cutting the time needed for painting a panel in 60%. Using the new method, the Company is the only one in the world able to paint 100 meters of hardboard per minute, underscoring its commitment to constantly upgrading efficiency. The technology already available at the Jundiá painting line goes into operation at the Botucatu painting line in 2005. A new Low Pressure coating line was inaugurated at the Botucatu (SP) Unit during the year. The improvement in coating ability is responsible for incrementing the offered volume of coated products that increased by 10% during the year. This initiative focus a greater return from operations as there's more supply capability of value-added products.

The Wood Division has also installed an industrial maintenance software for improving process efficiency and reducing eventual production line stoppages. The same concept has been applied to inventory and delivery management which has been entirely automated.

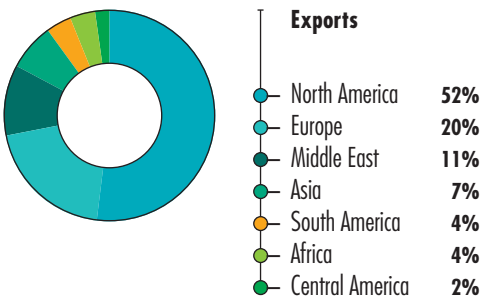
PRODUCT LAUNCHES

Following the inauguration of the Botucatu plant in 2003 and the resulting scale gains, Duratex was able to ramp up production volumes of Medium and High Density Fiberboard (MDF and HDF) for increasing the supplies of higher value added panels to the market. Both in this segment as well as for particleboard, new

Shipments (in m³)



As a traditional exporter of wood panels and the largest Brazilian exporter of hardboard, Duratex seeks to leverage up its overseas sales with a mix of volume and higher value-added products.



standards were launched on the market, principally in the form of products with low pressure coating and painted hardboards – widely used as raw material in the furniture industry, for doors and interior partition panels, among others. The Company was thus able to increase its range of products with 25 new standards of boards.

EXPORTS

The Wood Division increased its exports by 21.2% in 2004 to US\$ 52.8 million. This increase was spearheaded by a jump of more than 200% in MDF export volume, balancing the deliveries between the domestic and overseas markets. However, the principal exported product continues to be hardboard with a 62% share in the Division’s foreign trade. Overall, exported panels in volume terms reported an evolution of 18% compared with 2003, reaching 230,000 m³.

Leading overseas markets are the United States and Europe, where Duratex North America and Duratex Europe respectively represent the Company, both of them wholly owned subsidiaries.

InterD+ branded furniture exports reported a substantial improvement from US\$ 900,000 in 2003 to US\$ 3 million.

COMPETITIVE Advantages

Differentiating characteristics ensure a superior **COMPETITIVE EDGE** in the Company's chosen markets, transforming the continuous investments in manpower, technology, **BRANDS**, development of innovative products and the building of client **RELATIONSHIPS** into profitability.

**DURATEX TRANSFORMS VOCATION INTO
A PIONEERING SPIRIT.**



Technology, scale of production, development of innovative and cutting edge design, brand penetration, self-sufficiency and lower wood feedstock costs, management tools and relationship programs with clients and distribution networks are the principal advantages which underscore Duratex's competitiveness in its chosen markets.

Duratex is focused on the return from its business activities and the creation of value along its entire production chain. With its capital expenditures program concluded, the Company is now able to concentrate its actions in this direction even more — a fact that is already reflected in 2004 earnings.

The adoption of new technologies has been carefully planned so that the Company has been able to cut costs to become one of the most competitive industries in its chosen markets.

TECHNOLOGY

In addition to an already highly automated industrial infrastructure, the Company made further investments in technology at its plants during the year. An example is the new kiln at the Jundiá unit, the operation of which can be monitored stage by stage. The introduction of maintenance software together with inventory and delivery management have reduced costs and improved response time in all the operations.

BRANDS

Brand penetration was improved on various fronts during 2004. The Wood Division received a series of awards for its Durafloor laminate flooring as well as expanding overseas business with its InterD+ branded furniture. The Deca Division in turn, consolidated its position as market leader, being awarded the Pini Prize for the tenth consecutive year as the preferred brand in the vitreous china (62.2%) and metal bathroom fixture (54.4%) categories according to the *Construção* magazine survey.

INNOVATION

The Company once again prioritized meeting consumer demand and consolidating its market leadership with the launch of more than one hundred new items in metal bathroom fixtures and vitreous china sanitary ware, together with 25 new options in wood products. Duratex's strategy continues to actively participate in trade fairs and events in the furniture, decoration and vitreous chinaware and metal bathroom fixture segments. This is part of the process of identifying



Product Launches	2000	2001	2002	2003	2004	Total
Hardboard	8	33	16	14	6	77
Particleboard	4	18	24	14	5	65
MDF/HDF/SDF/Durafloor/Durawall	16	14	41	64	14	149
Metal Fixtures	17	15	53	21	79	185
Vitreous China	5	30	32	12	30	109

consumer tendencies and the continual upgrading in line with the latest technological developments.

PROPRIETARY FOREST PLANTATIONS

The Company owns approximately 90,000 hectares of land and forests, which ensure the Wood Division's sustainability in the manufacture of panels. Duratex is endowed with additional advantages in the forestry area: the use of modern planting methods, fertilizing and harvesting techniques and the location of its factories, which are only an average of 55 kilometers

away from the forest plantations, which gives the Company an important cost differential in terms of raw material.

MANAGEMENT TOOLS

Duratex uses two principal tools for integrating and motivating its teams, part of its program for maximizing production, and managerial quality and efficiency, in turn designed to prevent accidents and reduce costs and waste. This program uses Total Productive Management (TPM) methods for the continual upgrading of production and management processes.



The Company also adopts the 5S philosophy: (Seiri - organization; Seiton - order; Seiso - cleanliness; Seiketsu - standardization and Shitsuke - discipline) as a stimulus to creativity and permanent employee participation.

The Deca Division also operates a permanent employee incentive program with different award criteria for ideas and suggestions that enhance responsiveness, productivity, cost savings and innovation at the units and in branded products.

CONSUMER RELATIONSHIPS

Duratex's priority has been to develop innovative products and services which satisfy client requirements. The Company believes that a permanent effort to improve the levels of consumer satisfaction and product reliability is essential. The organization communicates with its consumer market through a toll free calling service (0800), more than 400 technical assistance representatives throughout the country and through specific relationship programs.

Award	Awarded by	Reason
WorldStar	WPO	Best packaging in the household solutions category for Deca kitchen faucets
Pini Award	Editora Pini	Preferred brand among consumers in vitreous china (62.2%) and metal fixtures (54.4%) for the tenth consecutive year, and in the floor laminate category with Durafloor (48.5%)
Empresa Top	<i>Casa e Mercado</i> magazine	Innovative character of the metal bathroom fixtures and vitreous china sanitary ware line
Top of Mind	<i>Casa e Mercado</i> magazine	Durafloor was the most spontaneously recalled name among consumers
Top of Marcas	<i>Projeto e Design</i> magazine	The most recalled brand by the public
Best product of the year	<i>Revenda e Construção</i> magazine	Construction material retailers from throughout Brazil chose the Vogue Plus line in vitreous china and the Hydra Valve in metal bathroom fixtures as the best products of the year in their respective categories

Innovation and leadership are among the advantages that differentiate Duratex from its competitors and in 2004, these were instrumental in achieving important market recognition of product quality and the Company's responsible management.

Duratex conducts periodic satisfaction surveys as part of the process of obtaining continuous client feedback. These surveys are designed to identify improvement, which can be made in both products and services.

AWARDS

Duratex consolidated its position as an innovator and market leader through various awards received during 2004. Among these was the WorldStar award (World Packaging Organization-WPO), presented for the packaging of the kitchen faucet in the household solutions category (home appliances). *Construção* magazine also ranked the Company as brand leader in vitreous china sanitary ware and metal bathroom fixtures for the tenth consecutive year.

OTHER ADVANTAGES

Both Divisions also present specific competitive advantages in ensuring a leading position in their respective markets:

Deca Division

- A proprietary research and development team for projects and product development for anticipating market tendencies;
- Launching of innovative products in increasing numbers;
- Continual investments in technology;
- Policy of approximation and training of retailers to ensure products are sold in the most effective manner possible;
- Improvements in brand penetration through systematic publicity campaigns.

Wood Division

- State-of-the-art technology used at the production units;
- Company has a leading position with competitive technology and costs;
- Advanced technology used in product development;
- Permanent focus on adding value by upgrading the product mix;
- Relationship marketing directed towards the creation of value;
- Well experienced in international market operations.

The **RECORD** performance in 2004, with growth in sales, cash generation and profit, together with the conclusion of the capital expenditures cycle at a favorable momentum in the Brazilian economic recovery, has enabled the Company to **CAPTURE** the benefits of the strategy adopted for creating value.

DURATEX TRANSFORMS SKILLS INTO RESULTS.



6

Economic-Financial PERFORMANCE and Capital MARKETS

2004 earning figures showed a positive trend in both domestic and international sales, with net sales amounting to R\$ 1.19 billion, 20.1% more than in 2003. Operating cash generation according to the EBITDA concept rose 39% to R\$ 311.4 million and net income at R\$ 125.3 million practically doubled in relation to the preceding year.

SALES REVENUE

With gross sales of R\$ 1.58 billion in 2004, Duratex posted a 26% growth when compared with 2003. Net sales totaled R\$ 1.19 billion, an increase of 20.1% for the fiscal year. Exports amounted to US\$ 57.5 million, a year-on-year improvement of 23.7%.

The recovery in the demand for durable and consumer goods made a positive impact on delivery volume, especially in the Wood Division. Exports increased thanks to greater MDF volume and structured export projects for the sale of InterD+ branded furniture and vitreous china sanitary ware.

COST OF GOODS SOLD

Costs during the year posted an increase of approximately 15%, determined largely by the increase of 25% in depreciation costs to R\$ 69.8 million, the result of the Capital

Expenditures Plan, which consumed R\$ 136.8 million in the acquisition of fixed assets. The weaker dollar prevented more significant cost increases due to the impact on the prices of inputs and raw materials contracted in foreign currencies. On the other hand, the stronger Real limited the growth in sales revenues denominated in US dollars.

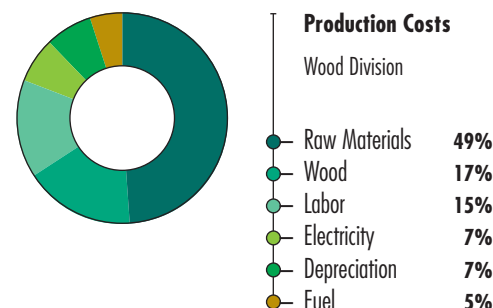
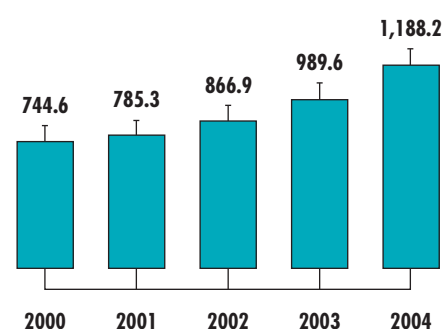
SELLING EXPENSES

Selling expenses increased 15% to R\$ 163.2 million, impacted largely by freight charges that represents about 32% of this total, and by the initial expenses required to introduce the InterD+ and Deca (vitreous china sanitary ware) brands into the overseas markets.

ADMINISTRATIVE EXPENSES

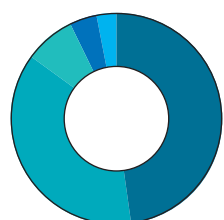
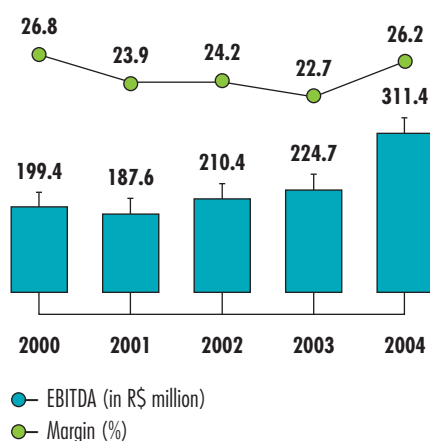
General and administrative expenses amounted to R\$ 49.5 million during the year, representing an 11% increase when compared with 2003.

Net Revenues (in R\$ million)





EBITDA and Margin



Production Costs

Deca Division

Raw Materials	48%
Labor	37%
Depreciation	8%
Electricity	4%
Fuel	3%

EBITDA

EBITDA posted an increase of 39% from R\$ 224.7 million to R\$ 311.4 million due to a combination of higher volumes, basically originated in the Wood Division, and better pricing at both Divisions compared with 2003.

FINANCIAL RESULT

Dutatex reported a negative R\$ 55.1 million in 2004, albeit a positive trend compared with the negative performance of R\$ 63.3 million in the preceding year. The improved performance is due to the effect of the appreciation of the local currency in the unhedged portion of the Company's debt as well as the greater income from financial investments due to the increase in domestic interest rates. Since a large part of the debt is priced according to the Long-Term Interest Rate (TJLP) or the Reference Rate (TR), outstanding debt is not impacted by interest rates linked to the CDI (the Interbank Deposit Certificate).

NET INCOME

Net income rose 95.7% to R\$ 125.3 million, corresponding to a return on equity (ROE) of about 12.6% and significantly better than the 6.8% posted in 2003. This positive trend was largely impacted by the conclusion work on increasing installed capacity for producing MDF/HDF/SDF panels at a time when domestic demand started to recover.

DEBT

The Company's year-end total debt stood at R\$ 517.7 million, a 14% increase in relation to 2003. Net debt amounted to R\$ 416.6 million, 17.5% more than in 2003. However, improved operating results reduced the net debt/EBITDA ratio from 1.56 to 1.32 times.

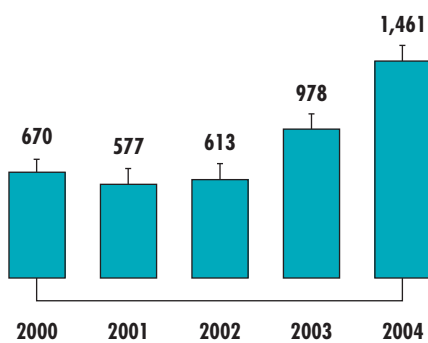


SHARES

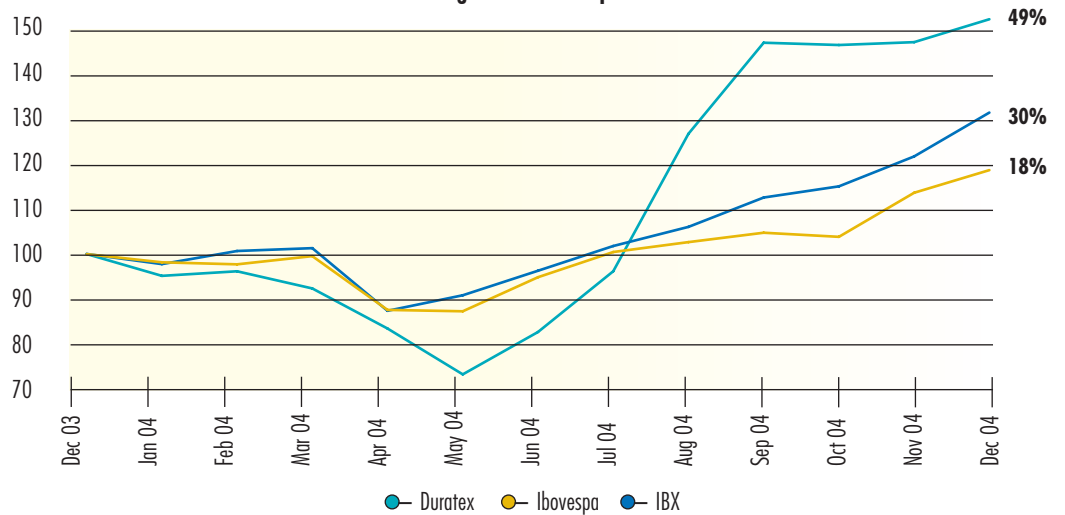
Duratex's preferred shares were traded on all the days the São Paulo Stock Exchange (Bovespa) was open for business over the year reporting an appreciation of 49.4% against an increase in the Bovespa Index (Ibovespa) of 17.8%. Trading in the cash market amounted to R\$ 381.7 million, up 39.3% on 2003, and representing a daily average of R\$ 1.5 million. There were 3,977 trades with a turnover of 4.25 billion shares.

At the end of the fiscal year, market capitalization stood at R\$ 1.5 billion against R\$ 978 million for the preceding year.

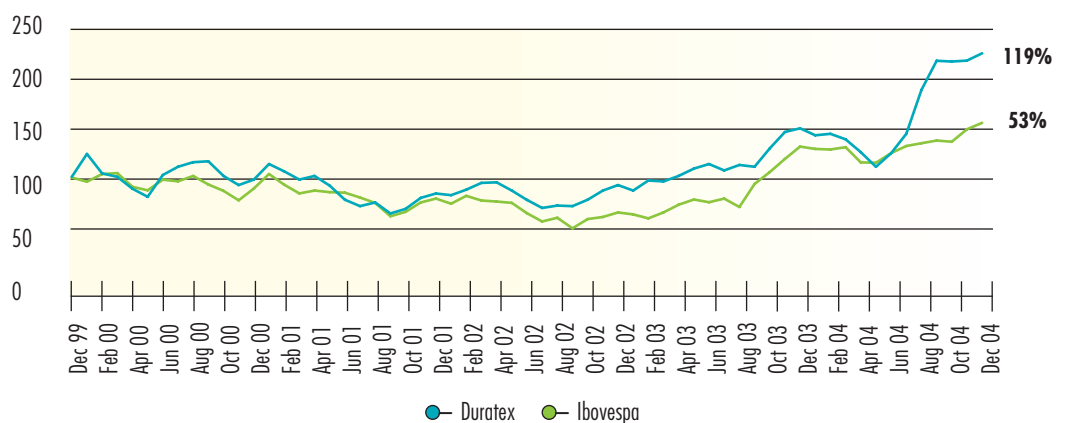
Market Value (in R\$ million)



Performance of Duratex Preferred Shares against the Principal Market Indexes



Duratex against Ibovespa

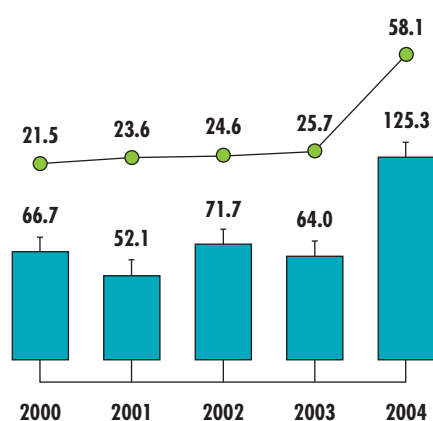


Duratex's relationship with its shareholders is one of respect, fairness and transparency. In 2004, the Company distributed R\$ 58.1 million in dividends, corresponding to 46.4% of registered net income for the year.

Trading of Preferred Stock	2003	2004	Var.%
Closing price (R\$)	83.01	124.00	49
Monthly average trading volume (R\$ th.)	22,833	31,829	39
Average price (R\$)	66.20	92.08	39

Pay-out (%)

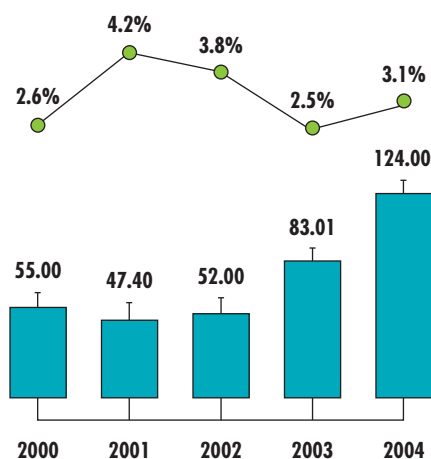
32.3% 45.3% 34.2% 40.2% 46.4%



— Net Income (in R\$ million)
— Provisioned Dividends (in R\$ million)

Share Price at Year-End and

Dividend Yield (cash)



— Share Price at year-end (R\$)
— Dividend Yield (cash)

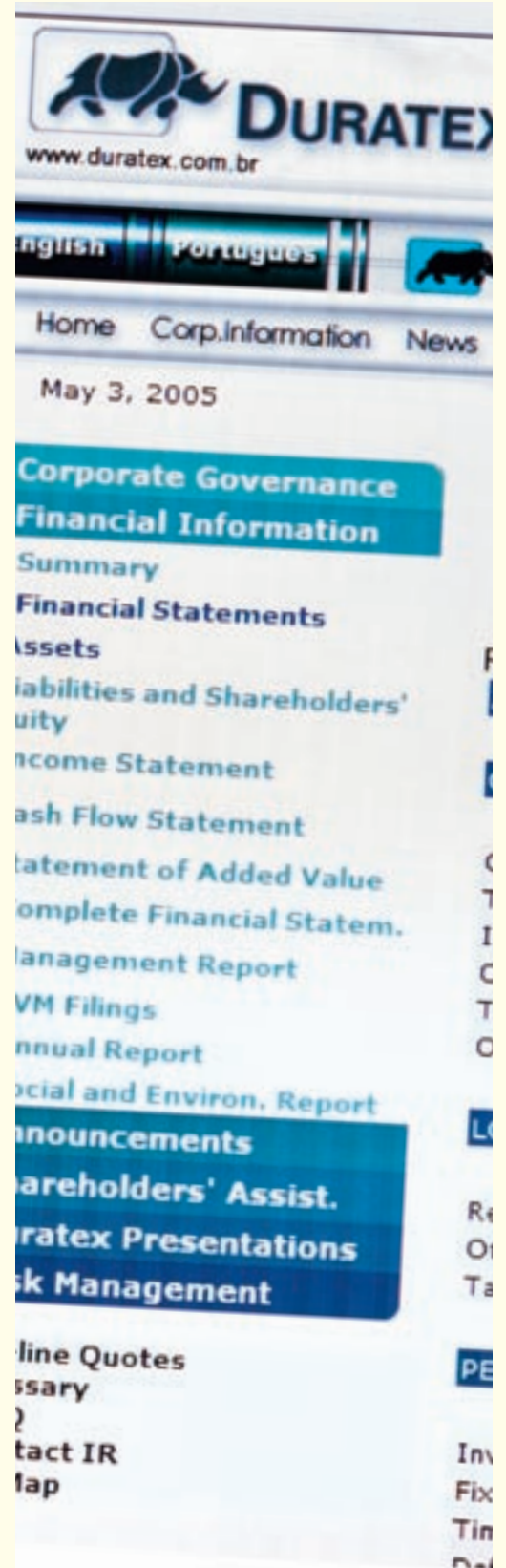
SHAREHOLDER REMUNERATION

The Board of Directors approved the distribution of R\$ 27.7 million as interest on equity relative to the Company's second half performance. This value is equivalent to R\$ 2.35 per thousand shares amounting to a gross value for the year of R\$ 42.8 million, or 34.2% of the net income for the period.

Additionally, in November 2004, the Board authorized the payment of an extraordinary dividend as interest on equity worth R\$ 1.30 per thousand shares, which increased the total distribution to shareholders for the year to R\$ 58.1 million, or 46.4% of net income.

The Company values its relationship with capital markets. It is committed to the principles of **TRANSPARENCY**, professionalism, maintaining a comprehensive system for disclosing information and the appropriate **PROCESSES** for controls and decision-making.

DURATEX TRANSFORMS MANAGEMENT IN RESPECT.



7 CORPORATE Governance

Among a series of measures adopted in 2004 were the extinguishment of the Beneficiary Parts and the increase of the minimum dividend from 25% to 30% of net income. The objective of these measures were to strengthen the Company's capital structure, preserve minority shareholder rights and prepare Duratex to join Bovespa's Level 1 of Differentiated Practices of Corporate Governance.

In 2004, Duratex adopted some important measures to strengthen its capital structure, preserve minority shareholder rights and prepare its entrance in Bovespa's Level 1 of Differentiated Practices of Corporate Governance. Among these measures, the Company announced the gradual phasing out scheme of the Beneficiary Parts, which were originally issued in 1964 and granted their holders a 10% share in the Company's annual net income — to be reduced by 2.5% annually until its complete elimination at the end of 2006. Approval was also given to increasing the minimum dividend to 30% of the net income instead of 25% as previously.

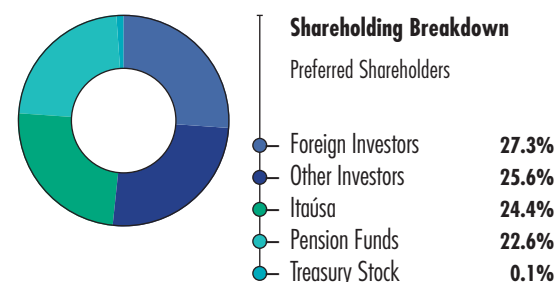
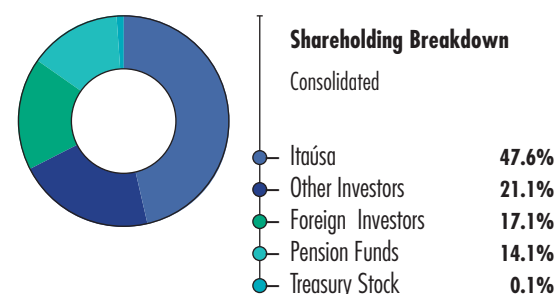
These changes are additional to other investor-friendly initiatives already in effect such as tag along rights that guarantee preferred shareholders the same rights as are legally applicable to minority common shareholders, namely 80% of the premium paid to the Company's controllers in the event of the sale of the controlling stake; the Stock Options Plan for the Company's executives; the internal policy for disclosing material information and the share buy-back program.

At the end of the fiscal year, the Company's outstanding shares amounted to approximately 11,782.7 million, being 37% common and 63% preferred.

Duratex adopts a policy of transparency, accountability and fairness in its relationships with shareholders and the capital markets. A broad-based Code of Ethics establishes standards of conduct for all employees in their relationship with shareholders, clients, suppliers, communities, government and society.

INVESTOR RELATIONS

In 2004, Duratex continued a policy of maintaining close relations with the market through roadshows and by participating in various events — both domestic and international — with more than 700 participants, among analysts and investors present.





For the 18th consecutive year, the Company organized a meeting with members of Apimec — Association of Capital Markets' Investment Analysts. The Company's investor relations' website site received 147,000 hits during the year, a growth of 52% compared to 2003.

Once again, Duratex's Annual Report was classified among the best out of 75 entries in the choice of the Best Annual Report for 2003/2004 contest, sponsored by the Brazilian Association of Listed Companies (Abrasca).

BOARD OF DIRECTORS

The Bylaws establish that the Board of Directors can be made up of a minimum of six and a maximum of twelve members, elected for a one-year term of office, and eligible for reelection. At the end of the year, the Board comprised eight effective members including a chairman and three vice chairmen. Meetings are held ordinarily once every quarter and extraordinarily as required. The main functions of the Board are to establish general business guidelines, elect the executive officers, supervise the

Company's management and approve the payment of interest on capital.

FISCAL COUNCIL

The council is installed on a non-permanent basis and can be made up 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. The Council is responsible for supervising management and analyzing information provided to the Company's General Meeting.

EXECUTIVE BOARD

The Executive Board can be made up of a minimum of five and a maximum of fifteen executive officers. The Board currently consists of a president, three executive vice presidents, four executive directors and three managing directors, all elected by the Board of Directors for a one-year term of office and eligible for reelection. Executive officers are subject to an age limit of 65, the purpose being to encourage renewal in the Company's management. Officers are responsible for implementing decisions taken by the Board of Directors and for the management of the business. The Executive Board meets weekly, and extraordinarily whenever necessary.

STOCK OPTIONS COMMITTEE

This is a committee that can be made up of a maximum of five members appointed by the Board of Directors. It is responsible for establishing the variable compensation of the Company's executives based on the Stock Option Plan introduced in 1996. Its purpose is to reconcile the interests of the shareholders and executives in the search for sustainable earnings over the medium and long-terms.

BOARD OF DIRECTORS

Chairman

- **Olavo Egydio Setúbal** - Engineer, graduated in 1945 from the Escola Politécnica of the University of São Paulo (USP). Currently also sits on the boards of: Itaúsa — Investimentos Itaú S.A., Banco Itaú Holding Financeira S.A., Itaútec Philco S.A., Elekeiroz S.A. and Fundação Itaúsa Industrial. He has held the positions of Foreign Minister in the federal government, mayor of the city of São Paulo and council member on the National Monetary Council, the National Private Insurance Council and the Technological Research Institute.

Vice Chairmen

- **Laerte Setúbal Filho** - Civil engineer, graduated in 1949 from the Escola Politécnica of the University of São Paulo (USP). He has sat on the boards of the Brazilian Foreign Trade Association (AEB), the Brazilian Silviculture Society (SBS), Institute for Work Rationalization (Idort), Institute for Forestry Research and Studies (Ipef), Federation of Industries of the State of São Paulo (Fiesp), Scânia do Brasil S.A., Vidraria Santa Marina, Siemens S.A., Lion Empreendimentos, Samba S.A., Caterpillar do Brasil and Eternit S.A.
- **Maria de Lourdes Egydio Villela** - Psychologist, graduated in 1971 from the Catholic University of São Paulo (PUC SP). She is also currently vice president on the Board of Itaúsa — Investimentos Itaú S.A., president of the São Paulo Museum of Modern Art (MAM) and the Itaú Cultural Institute, and is a Unesco Goodwill

Ambassador. Founder and president of the Associação Comunitária Despertar e Faça Parte — Instituto Brasil Voluntário and the São Paulo Volunteer Center.

- **Paulo Setúbal** - Electrical engineer, graduated from the Industrial Engineering Faculty (FEI) in 1971 with postgraduate degree in Finance from the Getúlio Vargas Foundation (FGV) in 1974. Currently also sits on the boards of: Itaúsa — Investimentos Itaú S.A., Itaútec Philco S.A., Elekeiroz S.A. and Fundação Itaúsa Industrial.

Board Members

- **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, he also sits on the boards of: Itaúsa - Investimentos Itaú S.A., Banco Itaú Holding Financeira S.A. and Itaútec Philco S.A.
- **Jairo Cupertino** - Engineer, graduated from the Escola Politécnica of the University of São Paulo (USP). He was CEO of Itaútec Philco until 1995. Currently, he also sits on the boards of: Itaúsa — Investimentos Itaú S.A., Itaútec Philco S.A., and Elekeiroz S.A.
- **José Carlos Moraes Abreu** - Lawyer, graduated in 1944 from the University of São Paulo (USP). Currently, he also sits on the boards of: Itaúsa — Investimentos Itaú S.A., Banco Itaú Holding Financeira S.A., Itaútec Philco S.A., Itaútec Informática S.A. and Elekeiroz S.A. He was a member of the National Monetary Council, the Association of São Paulo Banks, the Brazilian Federation of Banks and the Brazilian

Association of Leasing Companies. He also sat on the Board of Libra Bank Ltd. (London).

- **Olavo Egydio Setúbal Jr.** - Business administrator, graduated from the Armando Álvares Penteado Foundation (Faap). Currently, he also sits on the boards of: Itaú Seguros, Banerj Seguros, Cia. de Seguros Gralha Azul, Bemge Seguradora, Paraná Cia. de Seguros and Gralha Azul S.A.

EXECUTIVE BOARD

President

- **Paulo Setúbal** - Electrical engineer, graduated in 1971 from the Industrial Engineering Faculty (FEI), with a postgraduate degree in Finance from the Getúlio Vargas Foundation (FGV) in 1974. Currently, he also sits on the boards of: Itaúsa — Investimentos Itaú S.A., Itaútec Philco S.A., Elekeiroz S.A. and Fundação Itaúsa Industrial.

Executive Vice Presidents

- **Guilherme Archer de Castilho** - Business administrator, graduated from Mackenzie University. Currently, he also sits on the boards of Itaútec Philco S.A. and Itaúsa Empreendimentos.
- **Plínio do Amaral Pinheiro** - Business administrator, graduated in 1975 from Getúlio Vargas Foundation (FGV). Currently, he also sits on the boards of Fundação Itaúsa Industrial and the Brazilian Association of Listed Companies (Abrasca), and is Investors Relation Director of Duratex S.A.

- **Raul Penteado** - Lawyer, graduated from Mackenzie University. Currently, he also sits on the boards of Itaútec Philco S.A. and Fundação Itaúsa Industrial.

Executive Directors

- **Carlos Alberto Tenório Nobre** - Metallurgical engineer, graduated in 1969 from the Escola Politécnica of the University of São Paulo (USP), and obtained a bachelor's degree in business administration from Mackenzie University in 1977.
- **Enrique Judas Manubens** - Mechanical production engineer, graduated in 1972 from the Industrial Engineering Faculty (FEI) and has a Business Administration degree from Mackenzie University. Currently, he also sits on the boards of the Brazilian Wood Panels Industry Association (Abipa) and the Brazilian High Resistance Floor Laminates (Abiplar).
- **José Roberto Refinetti Guidi** - Engineer, graduated from the Mauá School of Engineering, with a postgraduate degree in Business Administration from Mackenzie University.

- **Mário Colombelli Filho** - Agronomist, graduated in 1972 from the Escola Superior de Agricultura Luiz de Queiroz (Esalq/USP). He also has a bachelor's degree in Business Administration from the Anchieta Faculty.

Directors

- **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.

- **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 also a director of the Private Pension Funds Association (Apep).
- **Flávio Dias Soares** - Business administrator, graduated from the Armando Álvares Penteado Foundation (Faap) with a postgraduate degree in Finance from São Paulo University (USP).

The Company seeks to reduce and eliminate the risks inherent in its operations through **PLANNING**, analyses and preventive actions, to ensure that changes in macroeconomic **SCENARIOS** and businesses daily activities do not impact the results.

DURATEX TRANSFORMS RISKS INTO OPPORTUNITIES.



8

RISK Management

The risk management model is designed to create a solid operation for eliminating or minimizing the vulnerabilities of the business, thus avoiding compromising the results of the operations. Among other actions, the model includes insurance against eventual risks, preventive maintenance and the dispersal of sales among thousands of clients.

Duratex activities are linked to analysis and procedures for reducing the vulnerability of the operations and results in the face of various impacts to which the business is subject. Risk scenarios and recommendations of ways of avoiding or minimizing them are assessed by representatives of the Company's different areas (such as finance, procurement, research and development).

MARKET

The performance of the civil construction and furniture industries impinge directly on Duratex's results. The Company has been intensifying its strategy of developing segments with greater value-added and higher returns. These segments are less subject to negative trading conditions and react better and more rapidly to periods of renewed expansion. The Deca Division seeks to expand its presence in various markets either through a more comprehensive distribution network, or by broadening the product range, above all through the launching of lines directed to the luxury and high luxury segments, less susceptible to the changing trading scenario.

To meet the challenge of intense competition, notably due to recent increases in installed capacity, Duratex adopts a strategy of market segmentation as well as offering training to retailers and users. The Company reduces its dependence on the domestic market and ensures a foreign currency income stream from the sale of value-added goods by developing specific lines of furniture for the overseas markets and through partnerships with other companies for manufacturing these lines.

PRICE

The Company operates in competitive markets and is therefore subject to supply and demand in setting its prices. It maintains a competitive edge by prioritizing segments where it can place greater value-added products as well as providing technical assistance services to consumers. Duratex constantly renews its lines, launching new products and standards to ensure that it remains in the vanguard of the market. It also adopts a policy of improving ties with opinion formers by offering technical training to customer service personnel in stores, and to



cabinet makers and plumbers — professionals which have front-line contact with the end consumer.

These strategies all contribute to maintaining competitive pricing.

OPERATIONAL

Duratex has introduced a preventive maintenance software to reduce factory downtime and the possibility of damage to equipment — a further initiative to ameliorate operating risks.

The Company's installations and equipment are covered by insurance policies and all operations are permanently monitored and strictly controlled. In 2004, R\$ 914 thousand was spent on training and upgrading professional skills.

The Wood Division's decision to achieve self-sufficiency and sustainability through reforestation programs has guaranteed the supplies of its principal raw material. In addition, the Division adopts a policy of acquiring inputs

from a large number of suppliers to minimize the risk of interruption to supplies, a strategy that the Deca Division also pursues.

ENVIRONMENTAL

Duratex is conscious of the need to maintain the environmental balance in the regions where it operates. It complies strictly and, indeed, exceeds the legal requirements, thus comprehensively protecting the environment and reducing its exposure to risks. In this context, in 2004, the Company upgraded its effluent treatment system by adopting parameters much above the current environmental code of conduct. The model, which was initially projected only for the treatment of effluent before discharge into water bodies, now involves the reuse of water in the industrial plants.



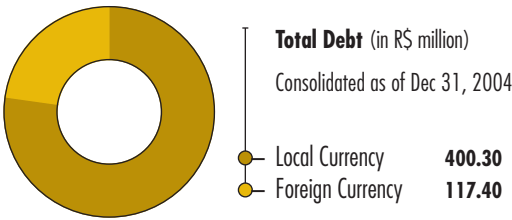
In the forestry area, the Company is developing research for attenuating the effects of operations and at the same time monitoring the plantation areas. A new system adopted in 2004 reduced the use of fertilizer by 40% during the tree planting stage, thus helping to offset any environmental impacts and cutting costs. The start-up of the new kiln at the vitreous china unit in Jundiá finally substituted the use of fuel oil for natural gas, thus significantly lowering the amount of gaseous emissions.

TECHNOLOGY

All industrial units use the most modern technology available to their areas, the result of a major investment program worth approximately R\$ 1.2 billion spread over the last ten years. With a large part of production fully automated, additional investments in technology are designed to improve productivity and quality and reduce costs.

EXCHANGE RATE

Duratex manages its foreign exchange rate risk by using hedge operations, which currently cover 70% of its foreign currency debt. Approximately 23% of the Company's total debt is foreign currency denominated, part of which has a natural hedge consisting of export receivables and the Company's overseas assets.



The Company protects its exposure to financial and credit risk through a policy of hedging foreign exchange risk in addition to a strict process of cash management and investments.

INTEREST

Duratex's interest rate risk is considerably reduced by its low leverage in conjunction with a robust cash flow. The Company adopts a conservative policy of cash management and investments in financial assets, thus dispensing the need for other protective instruments.

Liquidity risk is minimized since the Company does not raise finance through the discount of trade receivables.

CREDIT

Credit risk is very low since sales are dispersed among more than 12,000 clients nationwide — about 10,000 in the case of the Deca Division and a further 2,000 plus in the Wood Division. As a rule, sales to major clients carry additional guarantees. The Company's credit area evaluates and decides individual client credit limits. Client non-performance is low in relation to sales.

LEGAL

The Company adopts a conservative policy of provisioning legal contingencies. Decisions are based on the periodical analysis of the corporate legal department's requirements. These assessments are duly communicated to the outside auditors. In 2004, Duratex did not identify any new source of litigation which might negatively impact its business.

SOCIAL and Environmental RESPONSIBILITY

Social actions and environment preservation are an integral part of the business' three **DIMENSIONS**: economic, social and environmental, the objective being to assure the **EFFECTIVE** creation of value for all Company stakeholders.

DURATEX TRANSFORMS CONCEPTS INTO SUSTAINABILITY.



9 SOCIAL and Environmental RESPONSIBILITY

Duratex's strategy includes social actions and preservation of the environment as essential conditions for assuring the Company's growth and longevity. The Company conducts its relationship with employees, clients, suppliers and the community based on this vision of social and environmental responsibility, supported by the principles of ethics and transparency.

Duratex's main concern is with maintaining the principles which have always guided its development as an ethical company. The Company understands that its business strategies and consequently, its results, must be achieved through strict adherence to good social, environmental and economic practices. These in turn translate into a corporate commitment to the preservation of the environment, sustainable development and the well-being of the communities surrounding its industrial plants.

HUMAN RESOURCES

The Company's personnel management policy encourages interaction between work teams and promotes the advancement of the 5,951 employees, stimulating personal and professional development as well as their adherence to the corporate culture. The objective is to establish, develop and maintain sustained competitive advantages for Duratex, providing reciprocal benefits to the employees themselves, the investors, shareholders and the community.

In 2004, Duratex invested R\$ 1.3 million in training and skills enhancement for its employees and third parties (retailers, plumbers cabinet makers and technical assistance service personnel), in all a total of 42,945 professionals being trained during the year. Direct payroll costs were R\$ 134.0 million in addition to fringe benefits of approximately R\$ 20.8 million (nutrition, healthcare, transportation and complementary pension) with mandatory social payments of R\$ 69.0 million.

Variable compensation

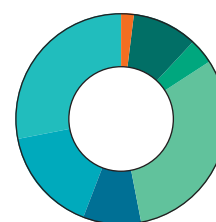
In 2004, Duratex distributed R\$ 9.2 million through its Profit Sharing Plan (PPR), which is extensive to all employees. The Deca Division runs the DecAção program recognizing and rewarding employees' suggestions for effective improvements.

From mid-2004, the Itaúsa Industrial Foundation incorporated the Duratex Foundation, becoming responsible for the pension plans for the industrial companies of the Itaúsa Group. The Itaúsa Foundation reported assets of more than R\$ 840 million at the end of the fiscal year.



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%



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%



Occupational Safety and Health

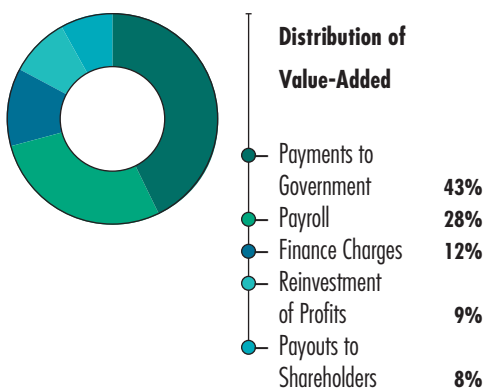
Professional teams specialized in occupational medicine, safety and hygiene are responsible for preventive and corrective actions at the Company. Its safety policy includes educational initiatives such as the Safety Management Program (PGS), presentations on physical exercising and weekly meetings on the importance of safety measures when using equipment and to simulate emergency and occupational safety procedures.

COMMUNITY

Among the most important of the Company's social initiatives is the Tide Setúbal Cabinetmaking School in Agudos (SP). Since 2000, the school has been run in partnership with the National Service for Industrial Training (Senai) and the local government authorities. Every year, it offers 36 places on a cabinetmaking vocational training course for adolescents from low-income families. Duratex supplies the raw materials, inputs, equipment and uniforms; the city government provides the teachers and Senai is responsible for the pedagogic material and for monitoring the students' progress.

Added Value Distribution

In 2004, the Company generated an added value of R\$ 761.1 million, which is the difference between sales (R\$ 1,580.6 million) and the cost of acquisition of raw materials, services, as well as depreciation and amortization and other operational and non-operational results (R\$ 819.5 million). Of this amount, R\$ 326.1 million, or 20.6% of sales revenue and 42.8% of the value added was paid into federal, state and municipal government coffers in the form of taxes and contributions.



Another social initiative is the Piatan Environmental Experience Area in Agudos, set up in 1996 to disseminate the concept of sustainable wood production in conjunction with the conservation of the biodiversity. The project was visited by more than 5,300 people on guided tours during 2004.



In addition, Duratex encourages volunteer work such as the Get Onboard (Embarque Nessa) program for mobilizing Head Office employees in helping at child and adolescent welfare entities.

Social investments during the year amounted to R\$ 1.4 million and included the publication of *Árvores do Brasil* (Trees of Brazil), the reediting of the Atlantic Rainforest and Landscapes program and donations to the Child and Adolescents' Welfare Fund and the refurbishing of the São Paulo Art Museum (MASP).

ENVIRONMENTAL MANAGEMENT

Some R\$ 6.1 million was injected into environmental projects in the forestry and industrial areas in 2004. Duratex adopts a standard policy of management practices which respect the environment, at the same time assuring the sustainability of the businesses.

Forestry

With about 90,000 hectares of its own pine and eucalyptus plantations, Duratex is Forest Stewardship Council (FSC) certified (Green Seal). The management of the forest plantations in Botucatu (SP) is certified according to ISO 14,001 norms.

In 2004, the Company implemented a new direct fertilizing technique at the planting stage for ensuring productivity and conserving soil fertility. Every care is taken in the continuous monitoring of forest soils. An early warning system allows forest fires to be brought under control quickly, protecting the plantations and the fauna and flora in the conservation areas.

In the genetic improvement area, the Company adopted the regional improvement nuclei concept in which the type of soil in each wood-producing region dictates the type of work to be carried out. Continuing fauna and flora surveys indicated a high degree of biodiversity conservation on the Company's forest farms.

The Company employs three methods of ensuring the sustainability of its forestry management model: genetic improvement, modern silvicultural working practices and the conservation of the native vegetation. Duratex has agreements with universities as a partner in more than one hundred applied research experiments. The Company is a participant in the Genome Project, which has successfully identified the genetic sequencing of the eucalyptus tree, paving the way for new technological and environmental advances.

The operations in the forestry area and the industrial units are designed to preserve and improve the environment as well as the sustainability of the businesses through the use of technology and innovative processes which exceed the legal requirements.

During the year, more than a million eucalyptus seedlings were donated to communities in the vicinity of the plantations. The idea is to encourage planting by small farmers as well as contribute to reforestation as a way of recovering degraded areas.

Industrial

The Environmental Management system allows the performance of each industrial unit in the treatment of effluent and the treatment and disposal of solid waste to be monitored. The Deca Division operates a system for reusing water and the reworking of part of the solid waste both for reuse in the manufacturing process and for sale as a byproduct. The industrial areas are also responsible for the control of their own environmental documentation.

Recovery of materials

In 2004, the Deca Division introduced a concept at the Jundiaí and São Paulo units already in use at the São Leopoldo (RS) facility: namely the transformation of the Effluent Treatment Plants (ETEs) into Material Recovery Areas (ARMs). Already planned since the conception of the ETEs, this transformation has been made possible through the gradual installation of new equipment.

As a result, the Vitreous China Unit in Jundiaí achieved an average of 40% in the reuse of water during the year,

rising to 60% in December. Reused water is employed for sanitary purposes, refrigeration of the factory units and for washing floors and equipment.

Waste and emissions

In 2004, the Ceramics Units recycled 20% of the fire clay used in the manufacture of vitreous china sanitary ware and the intention is to increase this to 35% in 2005.

The Metal Fixtures Unit in São Paulo has been generating an income from the sale of what was previously industrial waste. Following treatment, industrial waste is separated into byproducts of commercial value such as nickel hydroxide used in the galvanization of metal bathroom fixtures. The Wood Division sells thick wood pulp and wood bark as byproducts to vineyards while fiber rejects, bark and saw mill waste are all used as fuel for generating electricity.

A Company committee is responsible for ratifying service providers to ensure the correct and safe disposal of waste.

Deca's kilns and boilers, with the exception of one of the two kilns at the São Leopoldo unit, are now all natural gas-fired. In addition to the more efficient generation of energy, natural gas-powered kilns have significantly reduced emissions compared to the oil-fired equivalent.

BOARD OF DIRECTORS**Chairman**

Olavo Egydio Setúbal

Vice Chairmen

Laerte Setúbal Filho

Maria de Lourdes Egydio Villela

Paulo Setúbal

Board Members

Alfredo Egydio Arruda Villela Filho

Jairo Cupertino

José Carlos Moraes Abreu

Olavo Egydio Setúbal Jr.

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Paulo Setúbal

Executive Vice President

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Plínio do Amaral Pinheiro *

Raul Penteadó

** Investors Relation Director*

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Mário Colombelli Filho

Directors

Antonio Joaquim de Oliveira

Antonio Massinelli

Flávio Dias Soares

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Paulo Ricardo Moraes Amaral

Councilors

Iran Siqueira Lima

Wilton de Medeiros Daher

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