



DURATEX

TABLE OF CONTENTS

Assets	54
Liabilities and Stockholders' Equity	55
Income Statement	56
Changes in Stockholders' Equity Statement	57
Changes in Financial Position	58
Cash Flow Statement	59
Added Value Statement	60
Explanatory Notes to Financial Statements	61
Independent Auditor's Report	79

Balance Sheets at December 31

(In thousands of Reais)

Assets

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
CURRENT ASSETS	478,694	430,906	621,564	526,588
Cash and banks/financial investments	43,369	44,187	105,091	101,041
Accounts receivable	249,525	205,475	274,947	192,785
Inventories	152,486	152,485	194,678	190,888
Other accounts receivable	6,132	2,665	9,749	8,061
Tax credits	11,746	12,212	20,628	19,133
ICMS on property, plant and equipment - Supplementary Law 102/00	12,181	11,514	12,787	11,925
Other Credits	3,255	2,368	3,684	2,755
LONG-TERM ASSETS	54,841	58,013	33,658	37,381
Subsidiaries	30,231	29,633	-	-
Restricted deposits	7,548	4,181	13,712	8,755
Other accounts receivable	3,270	6,870	4,935	10,559
ICMS on property, plant and equipment - Supplementary Law 102/00	13,792	17,329	15,011	18,067
PERMANENT ASSETS	1,156,726	1,104,823	1,156,684	1,104,146
Investments	300,080	269,618	585	1,855
Property, plant and equipment	843,938	821,640	1,054,622	1,000,926
Timberland	-	-	88,769	87,800
Deferred charges	12,708	13,565	12,708	13,565
TOTAL ASSETS	1,690,261	1,593,742	1,811,906	1,668,115

The accompanying notes are an integral part of these financial statements.

Liabilities and Stockholders' Equity

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
CURRENT LIABILITIES	255,855	233,944	345,157	295,083
Accounts payable	29,322	36,483	30,833	35,965
Personnel	33,023	31,833	38,395	37,338
Other accounts payable	15,913	12,253	36,209	23,171
Taxes and contributions	24,401	10,436	28,444	13,379
Financial institutions	114,064	120,911	172,131	157,958
Debenture	2,952	990	2,952	990
"Fundação Duratex" (Duratex Foundation)	-	3,414	-	8,654
Dividends and statutory Participations	36,180	17,624	36,193	17,628
LONG-TERM LIABILITIES	439,328	418,206	464,673	425,427
Subsidiaries	25,615	99,291	-	-
Financial Institutions	139,393	172,665	142,610	223,220
Debenture	200,000	70,000	200,000	70,000
Contingencies	74,320	76,250	122,063	132,207
MINORITY INTEREST			11,640	11,014
STOCKHOLDERS' EQUITY	995,078	941,592	990,436	936,591
Capital stock	325,000	271,709	325,000	271,709
Capital reserves	271,616	270,965	271,616	270,965
Revaluation reserves	135,674	139,491	135,674	139,491
Revenue reserves	262,788	259,427	258,146	254,426
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,690,261	1,593,742	1,811,906	1,668,115

The accompanying notes are an integral part of these financial statements.

Income as of December 31

(In thousands of Reais)

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
GROSS REVENUES	1,482,469	1,078,309	1,580,608	1,254,660
Taxes and contributions on revenues	(381,716)	(237,387)	(392,382)	(265,057)
NET REVENUES	1,100,753	840,922	1,188,226	989,603
Cost of products sold	(704,128)	(559,278)	(725,656)	(629,530)
GROSS PROFIT	396,625	281,644	462,570	360,073
Operating income (expenses)				
Selling expenses	(129,606)	(111,165)	(163,180)	(142,383)
General and administrative expenses	(41,563)	(35,009)	(49,470)	(44,446)
Other operating expenses	(12,333)	(6,609)	(12,725)	(7,363)
OPERATING PROFIT BEFORE FINANCIAL RESULTS	213,123	128,781	237,195	165,881
Net financial result	(39,709)	(42,851)	(46,842)	(51,553)
Taxes on financial operations	(6,316)	(7,827)	(8,275)	(11,729)
Equity in the results of subsidiaries	22,080	18,533	-	-
OPERATING INCOME	189,178	96,636	182,078	102,599
Non-operating income (expenses)	(8,197)	(5,680)	9,386	(38)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	180,981	90,956	191,464	102,561
Income tax and social contribution	(40,701)	(19,326)	(50,182)	(29,285)
Statutory participations	(15,346)	(9,061)	(15,346)	(9,061)
Minority interest	-	-	(643)	(198)
NET INCOME FOR THE YEAR	124,934	62,569	125,293	64,017
Net income per thousand shares - R\$	10,60	5,31		
Equity value per thousand shares - R\$	84,45	79,91		

The accompanying notes are an integral part of these financial statements.

Changes in Stockholders' Equity Statement

(In thousands of Reais)

	CAPITAL STOCK	CAPITAL RESERVES	REVALUATION RESERVES	REVENUE RESERVES	RETAINED EARNINGS	TOTAL
CLOSING BALANCE AT DECEMBER 31, 2002	256,314	270,571	142,851	241,774	-	911,510
Partial merger of Duratex Coml. e Exp. on March 31, 2003	78	91	32	80		281
Capitalization of reserves	15,317			(15,317)		
Treasury stock				(6,220)		(6,220)
Realization of reserves			(3,392)		2,241	(1,151)
Investment subsidies		169				169
Fiscal incentives		134				134
Net income for the year					62,569	62,569
Legal reserve				3,128	(3,128)	
Interest on capital					(25,700)	(25,700)
Revenue reserve				35,982	(35,982)	
CLOSING BALANCE AT DECEMBER 31, 2003	271,709	270,965	139,491	259,427	-	941,592
Capitalization of reserves 31, 2003	53,291			(53,291)		-
Treasury stock				(12,761)		(12,761)
Realization of reserves			(3,817)		2,589	(1,228)
Investment subsidies		295				295
Fiscal incentives		356				356
Net income for the year					124,934	124,934
Legal reserve				6,247	(6,247)	-
Interest on capital					(58,110)	(58,110)
Revenue reserve				63,166	(63,166)	-
CLOSING BALANCE AT DECEMBER 31, 2004	325,000	271,616	135,674	262,788	-	995,078

Changes in Financial Position as of December 31

(In thousands of Reais)

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
SOURCES	190,285	178,521	256,361	141,097
From Operations	159,317	91,601	212,741	138,884
Net income for the year	124,934	62,569	125,293	64,017
Items not Affecting the Working Capital	34,383	29,032	87,448	74,867
Depreciation, amortization and depletion	54,411	41,611	74,165	58,781
Equity in the results of subsidiaries	(22,080)	(18,533)		
Exchange variation of permanent assets			613	546
Realization of permanent assets	2,052	5,954	12,027	15,342
Minority interest			643	198
From Stockholders	-	85,120	-	-
Increase through merger	-	85,120	-	-
From Third Parties	30,968	1,800	43,620	2,213
Increase in long-term liabilities	21,122	-	39,246	-
Decrease in long-term receivables	3,172	-	3,723	1,910
Dividends received	6,023	1,497	-	-
Investment subsidies	295	169	295	169
Fiscal incentives	356	134	356	134
FINANCIAL RESOURCES WERE USED FOR	164,408	188,657	211,459	214,932
Increase long-term receivables	-	20,789	-	-
Investments	15,000	-	-	63
Property, plant and equipment	76,259	106,455	119,458	148,795
Timberland	-	-	18,835	15,091
Deferred charges	1,050	8,723	1,050	8,901
Decrease in long-term liabilities	-	19,619	-	8,936
Interest on capital	58,110	25,700	58,110	25,700
Treasury stock	12,761	6,220	12,761	6,220
Realization of revaluation reserve	1,228	1,151	1,228	1,151
Minority interest			17	75
CHANGE IN WORKING CAPITAL	25,877	(10,136)	44,902	(73,835)
Current assets	47,788	18,641	94,976	(115,135)
Current liabilities	21,911	28,777	50,074	(41,300)

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement - as of December 31

(In thousands of Reais)

Appendix I

	2004	2003
Net Income for the Year	125,293	64,017
Depreciation/amortization/depletion	74,165	58,781
Interest and exchange variation on accrual basis	39,211	37,412
Provisions, write-off of assets	27,440	24,601
Investments in Working Capital	(81,973)	(69,072)
Increase (decrease) in assets		
Accounts receivable	82,162	21,166
Inventories	3,790	35,546
Other assets	1,251	(4,747)
Increase (decrease) in liabilities		
Accounts payable	(5,132)	(10,921)
Personnel	1,057	4,757
Other accounts payable	12,839	(9,893)
Taxes and contributions	5,120	15,525
Other liabilities	(8,654)	(16,575)
Cash Generated by Operations	184,136	115,739
Interest, exchange rate variation and other financial result	8,012	(30,387)
Operating Net Cash	192,148	85,352
Investments in permanent assets	(136,832)	(172,850)
Dividends and statutory participations	(54,909)	(35,887)
Treasury stock and other	(13,337)	(7,199)
Subtotal	(12,930)	(130,584)
Financing		
New Debt	152,777	209,663
Debt amortization	(239,377)	(216,112)
Debenture	103,580	7,102
Property, plant and equipment suppliers	-	(39,212)
Change in Cash	4,050	(169,143)
Opening Balance	101,041	270,184
Closing Balance	105,091	101,041

Consolidated Added Value Statements - as of December 31

(In thousands of Reais)

Appendix II

	2004	2003
Revenues	1,580,608	1,254,660
Allowance for doubtful accounts	743	(5,735)
Inputs purchased from third parties	(646,713)	(495,383)
Gross Added Value	934,638	753,542
Depreciation, amortization and depletion	(72,340)	(58,781)
Depreciation of revalued assets	3,490	3,937
Net Added Value	865,788	698,698
Other Operating and non-operating results	(104,709)	(40,368)
Added value to be distributed	761,079	658,330

Work compensation	217,981	196,974
Government compensation	326,088	255,616
Stockholders compensation	58,110	25,700
Financing compensation	91,074	141,525
Reinvestment of profits	67,826	38,515
Total distributed added value	761,079	658,330

Notes to Financial Statements at December 31, 2004 and 2003

(All amounts in thousands of reais unless otherwise indicated)

Explanatory Notes

NOTE 1_ OPERATIONS

Duratex, headquartered in São Paulo, State of São Paulo, is a subsidiary of the Itaúsa Group and currently has eight industrial units in Brazil and one in Argentina, with branches in the main Brazilian cities and commercial subsidiaries in the United States of America and Europe.

The main activity of the Company and its subsidiaries is the production of wood panels, ceramics and metal sanitary fittings.

The Wood Division operates with four industrial units in Brazil, responsible for the production of fiber and agglomerate wood sheets, MaDeFibra panels — MDF, HDF, SDF, laminate flooring and products for wall and roof covering.

The Deca Division operates with four industrial units in Brazil and one in Argentina, responsible for the production of ceramics and metal sanitary fittings, under the trademarks Deca, Hydra and Deca Piazza (in Argentina).

NOTE 2_ PRESENTATION AND PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of Duratex S.A. and the consolidated financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil, based on the dispositions of Brazilian Corporate Law and the rules established by the Brazilian Securities and Exchange Commission (CVM), consistent with those used in the prior year.

In the preparation of the financial statements, accounting

estimates determined by management were used, when necessary, due to the objective factors related to the useful lives of fixed assets, provisions necessary for contingent liabilities and allowance for doubtful accounts and others.

Significant Accounting Practices

(I) Determination of results of operations

Income and expenses are recognized in accordance with the accrual basis of accounting.

(II) Current Assets and Long-term Receivables

Financial investments are recorded at cost plus accrued earnings up to the balance sheet date, which is lower than the market value.

The allowance for doubtful accounts was constituted at an amount considered sufficient to cover probable losses on the realization of trade accounts receivable.

Inventories are stated at the average cost of purchase or production, which is lower than replacement cost or realizable amounts and, when applicable, reduced by a provision for obsolescence. Imports in transit are stated at the accumulated cost of each import.

Other assets are stated at realization values including, when applicable, accrued earnings and monetary and exchange variations.

(III) Permanent assets

Investments in subsidiaries are recorded on the equity method and other investments at cost of acquisition. Goodwill recorded on the acquisition of companies is based on the market value of fixed assets and is amortized upon realization through depreciation in subsidiaries.

Property, plant and equipment is recorded at cost of acquisition, formation or construction (including interest and other financial charges), monetarily restated up to December 31, 1995, plus a spontaneous revaluation based on the evaluation carried out by independent experts. Depreciation is calculated on the straight-line basis, at variable rates, in accordance with the useful lives of assets, as mentioned in Note 9.

Forest reserves are depleted based on the volume of wood extracted in the period.

Deferred charges are amortized over a ten-year period, as from the date benefits start to be generated.

(IV) Current and Long-term Liabilities

These liabilities are stated at known or estimated amounts including, when applicable, accrued charges.

(V) Income Tax and Social Contribution

Income tax, social contribution, tax credits, and other taxes are calculated in accordance with current legislation.

Explanatory Notes

NOTE 3_ CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil and the rules established by the Brazilian Securities and Exchange Commission (CVM) for consolidation purposes, and include the financial statements of the Company and its subsidiaries, in which it has direct or indirect shareholding control.

The financial statements of the foreign subsidiaries were translated into reais based on the exchange rate on the closing date of the balance sheet and adapted to the accounting practices adopted in Brazil.

The consolidated financial statements include: Duratex S.A. and its direct subsidiaries: Duraflora S.A., Duratex Empreendimentos Ltda., Duratex Comercial Exportadora S.A. and its indirect subsidiaries: Duratex Overseas, Duratex North America Inc., Duratex Europe and Deca Piazza S.A. Intercompany investments between the consolidated companies were eliminated, in proportion to the interest in capital, as well as assets and liabilities, income and expenses and unrealized profits.

The reconciliation between net income for the year and stockholders' equity of the parent company and consolidated are as follows:

	NET INCOME		STOCKHOLDERS' EQUITY	
	2004	2003	2004	2003
PARENT COMPANY	124,934	62,569	995,078	941,592
Unrealized results in inventories, net of tax effects	359	1,448	(4,642)	(5,001)
CONSOLIDATED	125,293	64,017	990,436	936,591

Explanatory Notes

NOTE 4_ CASH AND BANKS/FINANCIAL INVESTMENTS

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Cash	109	128	1,245	1,325
Bank current accounts	2,272	1,373	6,364	1,757
Fixed income funds	40,988	42,686	97,482	97,959
	43,369	44,187	105,091	101,041

The fixed income funds basically comprise local investment funds, remunerated at the CDI (Interbank Deposit Certificates) rate, and foreign investment funds, in U.S. dollars, remunerated at the rates of the securities of the U.S. Treasury Department.

NOTE 5_ ACCOUNTS RECEIVABLE

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Domestic	275,917	232,676	272,146	222,566
Foreign			51,525	45,249
Discounted drafts			(20,417)	(45,249)
Allowance for doubtful accounts	(26,392)	(27,201)	(28,307)	(29,781)
	249,525	205,475	274,947	192,785

Explanatory Notes

NOTE 6_ INVENTORIES

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Finished products	38,326	41,136	76,999	76,404
Work in progress	17,495	17,815	17,503	17,817
Raw materials	45,443	52,394	46,635	53,668
General warehouse	43,079	41,140	45,398	42,999
Advances to suppliers	8,143	-	8,143	-
	152,486	152,485	194,678	190,888

NOTE 7_ RELATED PARTIES

Transactions with related parties, mainly the sale and purchase of products, were carried out at prices and on terms compatible with normal market conditions. These operations are carried out between the parent company

and its subsidiaries, and the balances are eliminated in the consolidation process. Loan agreements are restated based on charges of 12% per annum (p.a.).

Explanatory Notes

Description	PARENT COMPANY		SUBSIDIARIES					
	Duratex Coml. Exportadora		Duraflora		Duratex Empreend.		Deca Piazza	
	2004	2003	2004	2003	2004	2003	2004	2003
Assets								
Accounts receivable	4,264	10,754						
Dividends receivable	2,166		125					
Accounts receivable			31					
Long-term receivables			30,231	29,633				
Liabilities								
Accounts receivable			2,949	5,283			25	69
Advances from customers	2,064							
Long-term liabilities	25,133	99,145			483	146		
Results								
Sales	133,156	113,351	68	64				
Purchases		596	65,764	43,094				
Financial	(6,185)	(7,014)	1,159	1,601	(45)	(12)		

Explanatory Notes

NOTE 8_ INVESTMENTS IN SUBSIDIARIES

	DIRECT				INDIRECT (II)				
	Duratex Coml. Exp.	Duraflora	Duratex Empreend.	Total	Duraflora	Deca Piazza	North America	Duratex Overseas	Duratex Europe
Shares/quotas held (thousand)									
Common	231	101	-	-	-	9,035	500	50	1
Preferred	369	24	-	-	-	-	-	-	-
Quotas	-	-	2,874	-	-	-	-	-	-
Direct and indirect holding (%)	99,94	95,28	100,00	-	-	100,00	100,00	99,99	100,00
Capital	33,437	114,212	2,874	-	114,212	26,048	1,327	133	350
Stockholders' equity	65,459	245,834	3,890	-	245,834	6,432	13,277	40,517	7,743
Net income for the year	9,124	13,503	219	-	13,503	2,536	1,075	9,383	1,916
Movement in investments									
At December 31, 2002	522,813	37,248	3,787	563,848	167,181	3,533	16,001	30,744	5,155
Merger (I)	(480,261)	167,684	-	(312,577)	(167,684)	-	-	-	-
Equity in the results	15,560	3,089	(116)	18,533	503	840	436	9,031	3,291
Foreign exchange variation	-	-	-	-	-	(89)	(2,910)	(5,599)	(33)
Dividends received	-	(25)	-	(25)	-	-	(101)	(144)	(1,522)
Interest on capital	-	(1,472)	-	(1,472)	-	-	-	-	-
At December 31, 2003	58,112	206,524	3,671	268,307	-	4,284	13,426	34,032	6,891
Equity in the results	9,151	12,710	219	22,080	-	2,536	1,031	9,382	1,824
Foreign exchange variation	-	-	-	-	-	(388)	(1,077)	(2,765)	213
Dividends received	(5,898)	(125)	-	(6,023)	-	-	(103)	(133)	(1,185)
Capital increase	-	15,000	-	15,000	-	-	-	-	-
At December 31, 2004	61,365	234,109	3,890	299,364	-	6,432	13,277	40,516	7,743

(I) The Ordinary and Extraordinary General Meeting held on March 31, 2003, approved a corporate reorganization with the merger of the industrial units of agglomerate woods and MDF owned by Duratex Comercial Exportadora S.A. into Duratex S.A. The objectives of this reorganization are to decrease costs and eliminate cascading taxes.

(II) The investments in indirect subsidiaries are carried out through the subsidiary Duratex Comercial Exportadora S.A.

(III) The Company has other investments, recorded at cost, amounting to R\$ 716 at December 31, 2004 (R\$ 1,311 in 2003).

Explanatory Notes

NOTE 9_ PROPERTY, PLANT AND EQUIPMENT

	Annual Depreciation Rates - %	PARENT COMPANY				CONSOLIDATED			
		Cost	Accumulated Depreciation	Residual Value	Residual Value	Cost	Accumulated Depreciation	Residual Value	Residual Value
Land	-	58,419		58,419	58,731	243,953		243,953	215,789
Buildings and improvements	4	266,763	(128,829)	137,934	129,019	270,909	(130,960)	139,949	131,055
Machinery, equipment and installations	5 to 10	932,224	(362,855)	569,369	535,980	969,741	(382,593)	587,148	552,019
Construction in progress	-	61,830		61,830	81,007	63,069		63,069	81,570
Furniture and fixtures	10	18,050	(13,656)	4,394	3,987	19,101	(14,358)	4,743	4,366
IT equipment/software	20	24,193	(17,329)	6,864	8,188	25,069	(18,002)	7,067	8,439
Vehicles	20 and 25	7,929	(4,510)	3,419	3,284	19,792	(13,011)	6,781	5,959
Other assets	10 to 20	1,959	(250)	1,709	1,444	2,162	(250)	1,912	1,729
		1,371,367	(527,429)	843,938	821,640	1,613,796	(559,174)	1,054,622	1,000,926
Timberland								88,769	87,800
		1,371,367	(527,429)	843,938	821,640	1,613,796	(559,174)	1,143,391	1,088,726

Explanatory Notes

NOTE 10_ FINANCIAL INSTITUTIONS

Financing subject to foreign exchange variation is restated based on the corresponding exchange rate at the last business day of the year. Other financing is monetarily

restated, when applicable, by the corresponding contractual charges.

Loans and financing have the following characteristics:

Type	Charges	Amortization	Collateral	2004		2003	
				Short-term	Long-term	Short-term	Long-term
BNDES	TJLP + 3.5% p.a.	Monthly and quarterly	Mortgage and surety	37,093	97,118	33,863	112,438
Rural credit	TR + 13% p.a.	One installment	Promissory note			19,662	
FINAME	TJLP + 4.0% p.a.	Monthly and quarterly	Chattel mortgage and promissory note	3,140	2,878	2,944	5,308
"COMPROR"	106% CDI	One installment	Promissory note	24,350			
	Local currency			64,583	99,996	56,469	117,746
International Finance Corporation	US\$ + Libor + 2.7% p.a.	Semi-annual	Surety	10,540	18,202	45,467	30,956
BNDES	Currency Basket + 3.5% p.a.	Monthly and quarterly	Surety	4,927	19,372	4,849	19,598
Import financing	US\$ + 3.2% p.a.	One installment	Promissory note	31,817		11,732	
BNDES	US\$ + Libor + 3.4% p.a.	Monthly	Mortgage and surety	2,197	1,823	2,394	4,365
	Foreign currency			49,481	39,397	64,442	54,919
	Parent company			114,064	139,393	120,911	172,665
BNDES - foreign trade financing (EXIM)	TJLP + 4.0% p.a.	Up to May 2005	Promissory note	28,537		120	50,297
A.C.C.	US\$ + 2.8% p.a.	Up to April 2005	-	28,508		36,616	
FINAME	TJLP + 4.0% p.a.	Monthly and quarterly	Chattel mortgage and promissory note	1,022	3,217	311	258
	Other companies			58,067	3,217	37,047	50,555
	Consolidated			172,131	142,610	157,958	223,220

BNDES - National Bank for Economic Development
 FINAME - Government Agency for Machinery and Equipment Financing
 "COMPROR" - Financing of accounts payable to suppliers

A.C.C. - Advances on export contracts
 TJLP - Long-term interest rate index
 TR - Referencial rate

Explanatory Notes

LONG-TERM MATURITY

PARENT COMPANY

Year	2006	2007	2008	2009	2010	TOTAL
Local currency	41,004	20,782	19,370	17,242	1,598	99,996
Foreign currency	26,357	4,200	4,006	4,006	828	39,397
	67,361	24,982	23,376	21,248	2,426	139,393

CONSOLIDATED

Year	2006	2007	2008	2009	2010	TOTAL
Local currency	42,041	21,757	20,345	17,472	1,598	103,213
Foreign currency	26,357	4,200	4,006	4,006	828	39,397
	68,398	25,957	24,351	21,478	2,426	142,610

NOTE 11_ DEBENTURE

On November 6, 2002, the Board of Directors approved the issue of 20,000 debentures non-convertible into the Company's shares, without guarantee and preference, in a single serie, with a nominal value of R\$ 10,000.

These debentures, fully subscribed, have a maturity term of five years, and are therefore redeemable on December 1, 2007.

For the first remuneration period, from December 1, 2002 to December 1, 2004, the debentures were remunerated, as from the issue date, with interest on the nominal unit amount and based on the average rate of Interbank Deposits (DI) for one day, "over extra group" expressed as a percentage per annum, basis 252 days, calculated and disclosed by the Clearing House for the Custody and Financial Settlement of Securities (CETIP), plus a spread of 1.30% per annum, basis 252 days, with semi-annual payment as from June 1, 2003.

For the second remuneration period, from December 1, 2004 to December 1, 2006, the debentures will be remunerated as from December 1, 2004, with interest on the nominal unit amount based on the average rate of Interbank Deposits (DI) for one day, "over extra group" expressed as a percentage per annum, basis 252 days, calculated and disclosed by CETIP, plus a spread of 0.70% per annum, basis 252 days, with semi-annual payment.

Explanatory Notes

NOTE 12_ INCOME TAX AND SOCIAL CONTRIBUTION

(a) Income tax and social contribution expenses appropriated to results for the year can be shown as follows:

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Income Before Income Tax and Social Contribution	180,981	90,956	191,464	102,561
Income Tax and Social Contribution on Results at the Rates of 25% and 9%, Respectively	(61,534)	(30,925)	(65,098)	(34,871)
Income tax and social contribution on additions and exclusions in results				
Non-deductible provisions	(66)	(2,911)	1,704	(1,771)
Foreign investment			(790)	(1,759)
Interest on capital	10,352	8,765	10,352	8,765
Statutory profit sharing and founders' shares	1,381	816	1,381	816
Equity in the results	7,507	6,301		
Other additions and exclusions	1,659	(1,372)	2,269	(465)
Income Tax and Social Contribution on Income for the Year	(40,701)	(19,326)	(50,182)	(29,285)

Explanatory Notes

(b) The Company and its subsidiaries adopt the practice of recognizing tax credits arising basically from short-term temporary differences taking into consideration the realization of these credits.

Deferred income tax and social contribution on temporary differences, recognized in the financial statements, are as follows:

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Tax Credits	9,983	8,560	10,973	8,846
Tax Losses and Negative Basis of Social Contribution	-	-	601	-
Provisions Temporarily Non-deductible				
Provisions for sundry labor charges	3,223	2,592	3,464	2,730
Allowance for doubtful accounts	2,251	3,641	2,251	3,641
Provision for equipment maintenance	627	365	627	365
Provision for adjustment of assets to market value	2,582	1,509	2,730	1,657
Provision for commissions payable	571	453	571	453
Sundry provisions	729		729	
Taxes Payable			85	2,832
Results from foreign subsidiaries			-	2,521
Income tax on long-term sales			85	311

Explanatory Notes

NOTE 13_ TAX AND LABOR CONTINGENCIES

The Company and its subsidiaries are parties in administrative and judicial labor, civil and tax lawsuits before several courts and governmental departments, arising from the normal course of its business.

The corresponding provisions for contingencies were constituted based on estimates of losses determined by

the Company's legal advisors and when necessary, judicial deposits were made.

Management, based on the opinion of its legal advisors, believes that the provisions for contingencies are sufficient to cover probable losses, as follows:

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Lawsuits				
Tax	66,267	69,122	110,986	122,368
Labor	3,515	3,313	6,181	5,825
Civil	4,538	3,815	4,896	4,014
	74,320	76,250	122,063	132,207

Tax contingencies mainly refer to the Summer Plan (economic plan) and the PIS social contribution credit - Semi-annual basis.

Explanatory Notes

NOTE 14 STOCKHOLDERS' EQUITY

(a) Capital

Authorized capital comprises 15,000,000,000 shares, of which 5,000,000,000 are common and 10,000,000,000 are preferred shares. Paid-up capital, in the amount of R\$ 325,000, is represented by 11,782,716,987 shares at the nominal amount of R\$ 27.58 per thousand shares, of

which 4,412,058,957 are common and 7,370,658,030 are preferred shares.

(b) Treasury Stock

The Company has common and preferred shares in treasury represented as follows:

	NUMBER	
	2004	2003
Preferred	2,300,000	90,250,000
Common	4,820,939	4,820,939

Type	PRICE			
	Minimum	Maximum	Weighted Average	Last Quotation
Preferred	75,00	121,43	84,20	124,00
Common	40,00	44,10	43,96	48,80

Based on the last market quotation on December 30, 2004, the value of treasury shares amounts to R\$ 520 (R\$ 7,726 in December 2003).

Explanatory Notes

(c) Stockholders' Equity Reserves

Stockholders' equity reserves are as follows:

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Capital Reserves	271,616	270,965	271,616	270,965
Goodwill on subscription of shares	168,487	168,487	168,487	168,487
Fiscal incentives	14,627	13,976	14,627	13,976
Article 297 - Law 6404	70,030	70,030	70,030	70,030
Prior to Law 6404	18,426	18,426	18,426	18,426
Option premium own shares	46	46	46	46
Revaluation Reserve	135,674	139,491	135,674	139,491
Revenue Reserves	262,788	259,427	258,146	254,426
Legal	37,702	31,456	37,702	31,456
For capital increase	6,153	6,153	6,153	6,153
Special Statutory (Article 15 of the By-laws)	219,414	228,355	214,772	223,354
Treasury stock	(481)	(6,537)	(481)	(6,537)

The balance appropriated to the special statutory reserve will be used for the expansion of the Company's business, through capital increases of the investees or the Company, or for paying dividends to stockholders.

Explanatory Notes

(d) Dividends

The Company's by-laws assure stockholders a minimum mandatory dividend corresponding to 30% of net income. According to Law 9249/95, as proposed by the Board of Directors, the amount of R\$ 42,803 was appropriated for distribution of dividends, as interest on capital, of which R\$ 27,663 refers to dividends for the second six-month period of 2004, corresponding to R\$ 2.35 per thousand shares.

Additionally, as approved at the Extraordinary General Meeting held on November 12, 2004, the amount of R\$ 15,307 was paid as an extraordinary dividend, totaling R\$ 58,110 in the year.

At December 31, 2004, dividends were calculated as follows:

Dividend Calculation

Net income for the year	124,934
Legal reserve (5%)	(6,247)
Realization of revaluation reserve	2,589
Adjusted net income	121,276
Dividend (30%)	36,383
Dividends Declared in the Year	
Interest on capital	42,803
Income tax	(6,420)
Net Remuneration	36,383

Explanatory Notes

NOTE 15_ NON-OPERATING RESULT

The non-operating result, amounting to R\$ 9,386, consolidated, is mainly represented by the income recorded on the sale of fixed assets of the investee Duraflora, and by provisions for losses of other assets.

NOTE 16_ INSURANCE

At December 31, 2004, the Company and its subsidiaries had insurance coverage against fire and sundry risks for fixed assets and inventory items at amounts considered sufficient to cover probable losses.

NOTE 17_ FINANCIAL INSTRUMENTS

a. Credit Risks

The sales policy is specifically associated to the level of credit risk to which the Companies are subjected during the course of business. The diversification of the receivables portfolio, the selectivity of customers, as well as the follow-up of the due dates of financed sales and individual limits are procedures adopted to minimize defaults or losses on the realization of the "Accounts receivable".

b. Foreign Exchange Risks

Due to the policy for risk management, the changes in the exchange rate do not significantly affect results, since there are hedge instruments that protect a substantial part of the Companies currency exposure.

c. Financial Instruments

The recorded values for financial instruments basically have short-term maturities. When compared to amounts

that could have been obtained in the negotiation in an active market or, in the lack of this, to the net present value of the adjusted future cash flows based on the current interest rate in the market, they approximate their corresponding market values.

NOTE 18_ PRIVATE PENSION PLAN

Duratex S.A. and its subsidiaries, within the benefits policy, have a defined benefit plan for the employees hired up to September 30, 2002 and a defined contribution plan for the employees hired as from October 1, 2002, through the Fundação Itaúsa Industrial (entity that incorporated Fundação Duratex on June 1, 2004).

a. Defined Benefit Plan (BD)

Managed by the Fundação Itaúsa Industrial, a non-profit entity whose by-laws were approved by the Social Security Ministry (MPAS) Ordinance 862/2001, non-contributable, with contributions made exclusively by the sponsors for the constitution of reserves for future payment of benefits to the participants and with no burden to the employees.

The Plan comprises the following benefits: Supplementation of the retirement pension based on years of service, special situations, old age, disability, lifetime monthly income, retirement premium, death benefit, supplementation of the annual allowance and supplementation to former participants. At the end of December 2004 there were 569 participants.

The calculation is developed based on the benefit plan of Fundação Itaúsa Industrial, so as to make possible the payment of current and future commitments to participants of the plan through the accumulated resources arising from the sponsors contributions and the financial management of the fund.

As required by CVM Resolution 371, Fundação Itaúsa Industrial had an actuarial surplus of R\$ 109,487 at December 31, 2004, based on a Report issued by the independent actuary Towers, Perrin, Foster & Crosby Ltda., using the projected credit unit method. At December 31, 2003, management calculated actuarial reserves, recording a surplus in the coverage of the retirement plan amounting to R\$ 77,232.

It should be pointed out that the Fundação Itaúsa Industrial used the aggregate method for calculation of its reserves, for which there is no actuarial surplus.

Explanatory Notes

The defined benefit plan is as follows:

Retirement Plan	2004	2003
Present value of the actuarial liability	225,618	197,642
Fair value of the plan assets	335,105	274,874
Surplus coverage	109,487	77,232

Annual Estimated Actuarial Gains	2005	2004
Net cost of current service	(8,553)	(7,592)
Interest on actuarial liability	(25,141)	(19,891)
Earnings expected on the assets of the plan	44,501	36,369
Actuarial gain	10,807	8,886

Economic Assumptions		
Discount rate	11.30% p.a.	10.25% p.a.
Investment return rate	13.40% p.a.	13.40% p.a.
Salary increase	9.20% p.a.	9.20% p.a.
Benefits adjustment	INPC	INPC

Explanatory Notes

b. Defined Contribution Plan (cd-pai)

The Plan is managed by Fundação Itaúsa Industrial, a non-profit entity, whose by-laws were approved by the MPAS Ordinance 862/2001. This plan is offered to the employees hired as from October 1, 2002 and at December 31, 2004 it had 642 participants.

The CD-PAI plan (Individual Retirement Plan) has no actuarial risk and the investment risk is borne by the plan's participants. The current regulation establishes the sponsors' contributions at 50% of the amount paid by the employees.

NOTE 19_ STOCK OPTION PLAN

The objective of the Plan is to integrate executives in the Company's development process in the medium and long-term, granting them the option to participate in the valuations that their work and dedication brought to the Company's shares.

The fixed price of the share option for the year is based on the average price of the Duratex shares on the São Paulo Stock Exchange, for a minimum period of one month and maximum of 12 months prior to the date of issue. An adjustment is also possible, at the criteria of the Duratex Option Committee, of the average price of up to a 50% increase or decrease in the amount.

The accounting recognition occurs at the time of the option is exercised by the beneficiary.

In the period from January to December 2004, 263,500 thousand share options were granted and 391,250 thousand share options related to prior years were exercised.

NOTE 20_ EBITDA CALCULATION STATEMENT

	PARENT COMPANY		CONSOLIDATED	
	2004	2003	2004	2003
Operating Profit Before Financial Result	213,123	128,781	237,195	165,881
Depreciation, amortization and depletion	54,411	41,611	74,165	58,781
EBITDA	267,534	170,392	311,360	224,662

Independent Auditor' Report

To the Board of Directors and Stockholders
Duratex S.A. and Subsidiaries

1- We have audited the accompanying balance sheet of Duratex S.A. and the consolidated balance sheet of Duratex S.A. and its subsidiaries as of December 31, 2004, and the related statements of income, of changes in stockholders' equity and of changes in financial position of Duratex S.A., as well as the related consolidated statements of income and of changes in financial position, for the year then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements.

2- We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Companies, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c)

assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3- In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Duratex S.A. and of Duratex S.A. and its subsidiaries at December 31, 2004, and the results of operations, the changes in stockholders' equity and the changes in financial position of Duratex S.A., as well as the consolidated results of operations and of changes in financial position, for the year then ended, in accordance with accounting practices adopted in Brazil.

4- Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The statement of cash flows and the statement of added value, included in Appendix I and II, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information for the year ended December 31, 2004 has been subjected to the auditing procedures applied in the audit of the

basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

5- The audit of the financial statements for the year ended December 31, 2003, presented for comparison purposes, was conducted by other independent auditors who issued an unqualified opinion thereon dated February 6, 2004.

São Paulo, February 11, 2005.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/0-5

Estela Maris Vieira de Souza
Accountant CRC 1RS046957/0-3 "S" SP

Credits

Coordination

Investor Relations Department

Editorial Project

Editora Contadino

Revision

CorpGroup | Comunicação Corporativa

Editora Contadino

Photographs

Duratex Library

Image Bank

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.
