



DURATEX

Financial Statements 2005 »

Financial Statements 2005 » Duratex S.A.

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Management Report »

Years ended December 31

SCENARIO AND MARKET

The year of 2005 was marked by a strict monetary policy conducted by the Central Bank. In the period, the increase in the basic interest rates provoked a decrease in the economic activity. By the end of the third quarter, with the reduction of the inflation rates, it became possible to relax the monetary crunch through successive decreases in the interest rates, which put the economic activity recovery in gear by the end of the period.

The appreciation of the Real versus the Dollar produced a decrease in the export competitiveness of industrialized products. Even so, the trade balance presented a historic surplus, boasted by the price of commodities in the international markets, which favored the good performance of these exports.

STRATEGIC MANAGEMENT AND PERFORMANCE

Net consolidated revenues reached R\$1,270.6 million, with a performance 7% higher than 2004. Exports accounted for US\$62.5 million, or 9% above what was reported in 2004. Operating cash generation, according to the EBITDA concept, amounted to R\$362.6 million, equivalent to an EBITDA margin of 28.5%, 13% higher than the previous year. Net income totaled R\$137.1 million, which represents an increase of 9% when compared with 2004 figures. This result is equivalent to a return on equity (ROE) of 13% for the year.

This performance was driven by operating cost reduction measures, and by the improvement of the product mix, since the shipped volumes on the Deca and Wood Divisions suffered retraction. The improved supply management had positive results in the working capital and operating cash generation, which totaled R\$312.6 million, 63% above the result of the previous year.

By the end of 2005, Duratex's net debt amounted to R\$357.1 million, 8% below the level registered in September of the same year. The net debt corresponded to 34% of shareholder's net equity and the EBITDA / net debt ratio was of 0.98, reflecting the Company's low leverage.

During the year 2005, after conducting several studies and supported by an extern consulting company, six Committees were created, with the participation of executives from the industrial companies of the Itaúsa Group – Duratex, Itautec and Elekeiroz. These Committees – Corporate Intelligence, Risks and Ethics, Corporate Governance, Talent Management, Operating Excellence and Commercial Excellence – aim at promoting the best practices adopted by the industrial companies of the Group, promoting the capture of synergies, reducing costs and generating value for shareholders.

OPERATIONS

Wood Division

The Wood Division had a 1% decrease in shipped volumes, in comparison to the previous year. Brazilian currency appreciation versus the Dollar hurts the profitability of the area, since 20% of the income originate from foreign markets. Therefore, although the net income was increased by 7%, totaling R\$860 million, through the improvement of product mix and prices, the operating performance measured by EBITDA was increased by 4%, totaling R\$267.1 million. The EBITDA / net income ratio remained stable when compared to the previous year, at 31%.

Exports reached US\$56.2 million during the period. From this total, fiberboard exports amounted to US\$41.3 million, beating the 2004 mark of US\$36.1 million.

Throughout the year, 84 patterns and finishing accessories were launched, reinforcing our commitment to innovating and meeting the demands of the market. The Wood Division received several relevant awards, such as *Prêmio Qualidade Exportação 2005* (Export Quality Award 2005), the most expressive decoration of incentive to foreign market sales in the forest, furniture, wood, paper and cellulose industrial segment, in addition to the *Pini and Top Marcas* (Top Brands) awards received by Durafloor, in acknowledgement for its differentials in the market.

SHIPMEMTS (in m³)	2004	2005	Change %
STANDARD	698,514	695,997	-0.3
COATED	352,239	344,366	-2.2
TOTAL	1,050,753	1,040,363	-1.0
NET REVENUES (in millions of Reais)	2004	2005	Change %
DOMESTIC MARKET	609.3	687.3	12.8
FOREIGN MARKETS	197.9	172.7	-12.7
TOTAL	807.2	860.0	6.5

Deca Division

Although the Deca Division displayed shipped volumes 7% inferior in comparison to 2004, the internal measures for cost and operating expenses reduction and product repositioning allowed for a strong evolution in the operating results, with a 47% increase in the EBITDA, totaling R\$95.5 million by the end of 2005. The EBITDA / net income ratio reached 23%, against 17% in 2004. This is an expressive result in face of the 8% increase in the net income, which totaled R\$410.6 in the year.

Exports increased 36%, to US\$6.4 million, notably with foreign sales of sanitary vitreous chinaware, which totaled US\$4.7 million. As part of our strategy to make the Deca brand known in foreign markets, we highlight our participation in the main trade shows in the segment, especially *Kitchen & Bath*, in Las Vegas. To meet the demands of this market, 35 specific products were developed, and the sales base was expanded. In the second half-year, the Company signed an agreement with a major company to supply vitreous chinaware in the OEM system (Order for Engineering Manufacturing). This agreement, which has a duration of two years and may be extended, aims at retailing vitreous chinaware in the North American market, confirming our competitiveness in the sector. This agreement should generate sales of approximately US\$3.6 million in 2006, reaching US\$6.8 million annual sales from 2007 on.

Throughout the year, 115 sanitary metal and 24 vitreous chinaware products were launched. Deca received several relevant awards, such as *Prêmio Pini and Prêmio Anamaco*, in the sanitary metal fittings and vitreous chinaware categories, *Prêmio Top Marcas (Top Brands) and Prêmio Melhor Produto do Ano (Best Product of the Year)* by *Revenda & Construção Magazine*, for the Vogue Line in vitreous chinaware and Hydra flushing valves in metal fittings.

SHIPMENTS (in thousands of items)	2004	2005	Change %
BASIC PRODUCTS	6,649	6,484	-2.5
FINISHING PRODUCTS	7,098	6,341	-10.7
TOTAL	13,747	12,825	-6.7

NET REVENUES (in millions of Reais)	2004	2005	Change %
DOMESTIC MARKET	352.4	378.4	7.4
FOREIGN MARKETS	28.6	32.2	12.6
TOTAL	381.0	410.6	7.8

CAPITAL EXPENDITURES PLAN

Capital expenditures during the year amounted to R\$139.3 million, of which R\$108.4 million for the acquisition of fixed assets, especially for the capacity expansion, industrial modernization and acquisition of land and forests to provide additional feedstock for recently expanded capacities. The main projects involved:

- Acquisition of Complementary Equipment for the MDF/HDF/SDF line, and Equipment for improving the board painting line in Botucatu (SP).
- Completion of the expansion of the Cerâmica II unit in Jundiaí (SP).
- Completion of the Finished Products Expedition Area in Itapetininga (SP).
- Construction of the Deca Product Development Center in Jundiaí (SP).
- Acquisition of Forest Management Equipment.

CAPITAL MARKETS AND CORPORATE GOVERNANCE

During the year of 2005, Duratex preferred shares were traded on all the days the São Paulo Stock Exchange (Bovespa) was open for business and appreciated by 20% as the Ibovespa (São Paulo Stock Exchange index) appreciated by 28%. During the period, 6,797 cash transactions were registered in the market, involving approximately 14.1 million shares worth R\$339.8 million, representing a daily negotiation average of R\$1.4 million. Share appreciation was more expressive during the second half-year, with a 52% evolution, while the Ibovespa appreciated 34%, with an expressive increase in daily liquidity to R\$2.2 million during the fourth quarter, against R\$0.8 million registered in the previous quarter.

In May, Duratex entered Bovespa's Level 1 of Differentiated Practices of Corporate Governance, after which its shares began integrating the respective negotiation index. In June, the Company concluded the stock split-in-reverse of 200 shares per 1 share. Therefore, listed prices of shares became unitary, and the value of the minimum lot became more accessible to non-institutional investors.

These measures line up with a few others, such as the extension of 80% tag-along rights for preferred shares, minimum dividend of 30% of adjusted net income, and the extinguishment of the beneficiary parts, preserving minority shareholder rights. As a recognition by the market, Duratex was awarded the honorary mention for best evolution in Investor Relations by IR Magazine.

Relationship actions, such as roadshows, conference calls and web conferences for disclosing quarterly financial information reached more than 670 analysts and investors in the capital markets. Duratex's corporate website was completely remodeled during the year, in order to bring new information and navigation tools, in a more user-friendly and modern way, receiving more than 205,000 hits, which represented a 39% increase over 2004.

DIVIDENDS

The Board of Directors proposed the distribution of R\$21.4 million to shareholders as interest on equity capital, equivalent to R\$0.36 per share. This value is added to the amount paid in August 2005, resulting in a gross value of R\$46.3 million for the year, or 35% of the net income, and an approximate value of R\$0.79 per share.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

By the end of the year, the Company had 5,890 employees, for whom it aims at providing and stimulating a positive working environment, where they can improve themselves both professionally and personally. Several Trainee and Development Programs are directed at Company employees, as well as sales and technical support professionals, cabinetmakers and plumbers, having totaled in 2005 approximately 25 thousand trained professionals, with an investment of R\$1.5 million.

The total payroll reached R\$140.2 million, aside from R\$77.8 payroll overhead and R\$24.1 million in differentiated fringe benefits, such as health care plans, transportation and food assistance, and complementary welfare. In addition, the Company adopts a variable remuneration policy, including recognition actions and a Profit Sharing Program (PPR), extensive to all employees, which has distributed R\$11.7 million in the period.

In September 2005, the Itaúsa Industrial Foundation concluded with great success a voluntary migration program for participants in the former Duratex Defined Benefit Plans (BD) to Defined Contribution Plans (CD), with an adhesion to the new plan of 97%. By the end of the year, the Foundation's assets totaled R\$994.5 million.

In community relations, we can highlight: The Tide Setúbal Cabinetmaking School, run in partnership with Senai (National Service for Industrial Training) and the city of Agudos Municipality (SP), aiming at training cabinetmakers and developing the local furniture manufacturing sector, having formed 32 professionals in the period; the Piatan Environmental Experience Area, also located in Agudos (SP), which aims at preserving the local fauna and flora and promoting environmental education and awareness to the local communities, having been visited by more than 6,600 people in 2005; the Get Onboard Voluntary Program, which in 2005 aimed at reducing the illiteracy index in Brazil through the Solidary Alphabetizing Program. With this program, Duratex supported the town of Messias, in the State of Alagoas, and its employees supported other towns, totaling an assisted population of 536 students; the Planet Water, Atlantic Rainforest and Landscapes Program, an awareness program aimed at children from 8 to 12 years old. This itinerant project reached more than 11 thousand children in 7 different cities; donation to the Rebuilding Ties Project, which aims at contributing to the policies to prevent and control sexual and domestic violence against children and adolescents. This partnership was established with WCF Brazil, the São José dos Campos Municipality and Casa Hope in São Paulo. Aside from these initiatives, Duratex has been involved in other social and cultural projects, such as the restoration and revitalization of Estação da Luz (the most important historic train station in the city of São Paulo), the *Bem-Querer* Project, made viable by the Conselho Municipal dos Direitos da Criança e do Adolescente (CMDCA – Municipal Council for Child and Adolescent Rights), the *Meu Amigo Meio Ambiente* (My Friend the Environment) Cultural Contest, and the sponsorship of the *6ª Bienal de Arquitetura* (6th Biannual Architecture Exhibition). These initiatives represented an approximate investment of R\$1.8 million.

Environmental actions consumed R\$9.4 million, and the highlights are: the certification and recertification of forest areas and the acquisition of filters and equipment for controlling atmospheric emissions, as well as residue disposal and material recycling. The Company owns approximately 90 thousand hectares of pinus and eucalyptus forestlands, in order to guarantee self-sufficiency and sustainability in the supply of wood. For that, Duratex relies on the ISO 14001 certification and the Green Seal, granted by the Forest Stewardship Council (FSC), which has been granted to the Company for ten years in a row in 2005.

ADDED VALUE

Added value represents the difference between the income of R\$1,706.4 million and costs related to the acquisition of raw materials, services, depreciation, amortization and other operating and non-operating results of R\$841.0 million, totaling R\$865.3 million in 2005.

Of this total, R\$361.8 million, equivalent to 21% of income and 41.8% of the total added value, were distributed to federal, state and municipal governments as taxes and charges.

INDEPENDENT AUDITORS

Pursuant to CVM Instruction 381 of January 14 2003, and official circular CVM/SEP/SNC 02/2003 of March 20, Duratex and its subsidiaries declare that the PricewaterhouseCoopers Auditores Independentes undertook the financial evaluation of the Company. For this, the auditing company received the amount of R\$82 thousand, equivalent to approximately 25% of the total annual fees paid for auditing services.

ACKNOWLEDGEMENTS

The results reported in 2005 reflect the constant search for improvement and value creation, which have been possible with the support of the shareholders, the dedication and commitment of our employees, the partnership with our suppliers and the trust placed in us by customers and final consumers.

The Management

Balance Sheet »

at December 31 – In thousands of reais

Assets	Parent company		Consolidated	
	2005	2004	2005	2004
Current assets				
Cash, banks and financial investments	186,116	43,369	233,973	105,091
Trade accounts receivable	256,304	249,525	253,544	274,947
Inventories	131,623	152,486	180,711	194,678
Accounts receivable	5,397	6,132	20,614	9,749
Tax credits	15,860	11,746	24,670	20,628
ICMS on property, plant and equipment – Supplementary Law 102/00	9,199	12,181	9,914	12,787
Other receivables	2,794	3,255	3,308	3,684
	<u>607,293</u>	<u>478,694</u>	<u>726,734</u>	<u>621,564</u>
Long-term receivables				
Subsidiaries	14,809	30,231		
Judicial escrow deposits	9,215	7,548	16,295	13,712
Accounts receivable	2,293	3,270	8,075	4,935
Tax credits	5,370	2,839	5,768	3,072
ICMS on property, plant and equipment – Supplementary Law 102/00	7,943	10,953	8,913	11,939
	<u>39,630</u>	<u>54,841</u>	<u>39,051</u>	<u>33,658</u>
Permanent assets				
Investments	341,639	300,080	705	585
Property, plant and equipment	859,924	843,938	1,071,728	1,054,622
Forests			98,011	88,769
Deferred charges	10,808	12,708	10,827	12,708
	<u>1,212,371</u>	<u>1,156,726</u>	<u>1,181,271</u>	<u>1,156,684</u>
Total assets	<u>1,859,294</u>	<u>1,690,261</u>	<u>1,947,056</u>	<u>1,811,906</u>

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

Balance Sheet »

at December 31 – In thousands of reais

Liabilities and shareholders' equity	Parent company		Consolidated	
	2005	2004	2005	2004
Current liabilities				
Suppliers	33,139	29,322	33,684	30,833
Salary and payroll costs	37,306	33,023	40,852	38,395
Accounts payable	61,429	15,913	29,864	36,209
Taxes and contributions	28,847	24,401	33,517	28,444
Loans and financings	73,459	114,064	148,368	172,131
Debentures	3,057	2,952	3,057	2,952
Dividends and profit sharing	29,343	36,180	29,352	36,193
	<u>266,580</u>	<u>255,855</u>	<u>318,694</u>	<u>345,157</u>
Long-term liabilities				
Subsidiaries	25,966	25,615		
Loans and financings	237,153	139,393	239,611	142,610
Debentures	200,000	200,000	200,000	200,000
Provision for contingencies	75,811	74,320	125,843	122,063
	<u>538,930</u>	<u>439,328</u>	<u>565,454</u>	<u>464,673</u>
Minority interest			12,036	11,640
Shareholders' equity				
Capital	325,000	325,000	325,000	325,000
Capital reserves	272,578	271,616	272,578	271,616
Revaluation reserve	131,743	135,674	131,743	135,674
Revenue reserves	324,463	262,788	321,551	258,146
	<u>1,053,784</u>	<u>995,078</u>	<u>1,050,872</u>	<u>990,436</u>
Total liabilities and shareholders' equity	<u>1,859,294</u>	<u>1,690,261</u>	<u>1,947,056</u>	<u>1,811,906</u>

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

Statements of Income »

Years Ended December 31 – In thousands of reais, except per share data

	Parent company		Consolidated	
	2005	2004 (Reclassified)	2005	2004 (Reclassified)
Gross sales revenue	1,619,255	1,482,469	1,706,352	1,580,608
Taxes on sales	(426,362)	(381,716)	(435,775)	(392,382)
Net sales revenue	1,192,893	1,100,753	1,270,577	1,188,226
Cost of goods sold	(731,456)	(704,361)	(743,762)	(724,201)
Gross profit	461,437	396,392	526,815	464,025
Selling expenses	(139,933)	(130,256)	(175,254)	(163,869)
General and administrative expenses	(49,969)	(39,735)	(56,004)	(47,856)
Other operating results	(9,920)	(6,167)	(13,327)	(5,834)
Operating profit before financial results and equity earnings	261,615	220,234	282,230	246,466
Financial result	(54,047)	(39,709)	(65,701)	(46,842)
Taxes on financial operations	(7,869)	(6,316)	(8,899)	(8,275)
Equity in the earnings of subsidiaries	9,433	22,080		
Operating profit	209,132	196,289	207,630	191,349
Non-operating result	(905)	(8,197)	11,724	9,386
Income before taxes on income, profit sharing, statutory participations and minority interest	208,227	188,092	219,354	200,735
Income tax and social contribution	(47,401)	(40,701)	(55,351)	(50,182)
Profit sharing – Law No. 10,101/00	(10,686)	(7,111)	(11,745)	(9,271)
Statutory participations	(14,785)	(15,346)	(14,785)	(15,346)
Minority interest			(388)	(643)
Net income for the year	135,355	124,934	137,085	125,293
Net income per share – R\$ (*)	2.30	2.12		
Equity value per share – R\$ (*)	17.89	16.89		

(*) Per share data for 2004 has been conformed to take account of the 2005 reverse share split.
The accompanying notes are an integral part of these financial statements.

Statements of Changes in Shareholders' Equity »

In thousands of reais

	Capital	Capital reserves	Revaluation reserve	Revenue reserves	Retained earnings	Total
At January 1, 2004	271,709	270,965	139,491	259,427		941,592
Capitalization of reserves	53,291			(53,291)		
Treasury shares				(12,761)		(12,761)
Realization of reserves			(3,817)		2,589	(1,228)
Investment subsidies		295				295
Tax incentives		356				356
Net income for the year					124,934	124,934
Legal reserve				6,247	(6,247)	
Interest on shareholders' equity					(58,110)	(58,110)
Revenue reserves				63,166	(63,166)	
At December 31, 2004	325,000	271,616	135,674	262,788		995,078
Treasury shares				(30,054)		(30,054)
Realization of reserves			(3,931)		2,717	(1,214)
Investment subsidies		225				225
Tax incentives		737				737
Net income for the year					135,355	135,355
Legal reserve				6,768	(6,768)	
Interest on shareholders' equity					(46,343)	(46,343)
Revenue reserves				84,961	(84,961)	
At December 31, 2005	325,000	272,578	131,743	324,463		1,053,784

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

Statements of Changes in Financial Position »

Years Ended December 31 – In thousands of reais

	Parent company		Consolidated	
	2005	2004	2005	2004
Financial resources were provided by				
Operations				
Net income for the year	135,355	124,934	137,085	125,293
Income (expenses) not affecting working capital				
Depreciation, amortization and depletion	58,917	54,411	80,368	74,165
Equity in the earnings of subsidiaries	(9,433)	(22,080)		
Exchange variation of permanent assets			788	613
Permanent asset disposals	746	2,052	2,684	12,027
Minority interest			388	643
	185,585	159,317	221,313	212,741
Third parties				
Increase in long-term liabilities	99,602	21,122	100,781	39,246
Decrease in long-term receivables	15,211	3,172		3,723
Dividends received	315	6,023		
Investment subsidies	225	295	225	295
Tax incentives	737	356	737	356
	116,090	30,968	101,743	43,620
Total funds provided	301,675	190,285	323,056	256,361
Financial resources were used for				
Long-term receivables			5,393	
Permanent assets				
Investments	32,509	15,000	120	
Property, plant and equipment	73,681	76,259	84,852	119,458
Forests			23,437	18,835
Deferred charges		1,050	18	1,050
Interest on shareholders' equity	46,343	58,110	46,343	58,110
Treasury shares	30,054	12,761	30,054	12,761
Income tax on realization of revaluation reserve	1,214	1,228	1,214	1,228
Minority interest			(8)	17
Total funds used	183,801	164,408	191,423	211,459
Current assets	128,599	47,788	105,170	94,976
Current liabilities	10,725	21,911	(26,463)	50,074
Changes in working capital	117,874	25,877	131,633	44,902

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

Notes to the Financial Statements »

at December 31, 2005 and 2004 – Amounts in thousands of reais unless otherwise indicated

1. OPERATIONS

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

The main activities of Duratex S.A. (the “Company”) and its subsidiaries are the production and sale of wood panels and vitreous china and metal bathroom fixtures.

The Wood Division operates four industrial plants in Brazil, in which it produces particle boards, MaDeFibra panels – MDF, HDF and SDF fiberboards, Durafloor and Durawall rolled floor and wood panels and finishing panels for ceilings and walls.

The Deca Division operates with four industrial plants in Brazil and one in Argentina, in which it produces vitreous china and metal bathroom fittings, under the trademarks Deca, Hydra and Deca Piazza (in Argentina).

2. PRESENTATION AND PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of Duratex S.A. and the consolidated financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil as determined by the Brazilian Corporate Law and the regulations of the Brazilian Securities Commission (the “CVM”).

The preparation of financial statements requires management to make estimates and assumptions. Estimates are used for the selection of the useful lives of property, plant and equipment, provisions for contingent liabilities, allowance for doubtful accounts and other similar provisions.

3. SIGNIFICANT ACCOUNTING PRACTICES

(a) Determination of results of operations

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

(b) Current assets and long-term receivables

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

The allowance for doubtful accounts was recorded at an amount considered sufficient to cover expected 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 values 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 realizable values including, when applicable, accrued earnings and monetary and exchange variations.

(c) Permanent assets

Investments in subsidiaries are recorded on the equity method and other investments at cost of acquisition. The goodwill recorded on the acquisition of companies is justified based on the market value of property, plant and equipment and is amortized upon realization through depreciation, in the subsidiaries.

Property, plant and equipment is recorded at cost of acquisition, formation or construction (including interest and other financial charges), inflation-indexed up to December 31, 1995 in addition to a revaluation in 1989. Depreciation is calculated on the straight-line basis in accordance with the useful lives of assets (Note 10).

Depletion of forest reserves is computed using the unit-of-production method, based on the volume harvested in each period.

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

(d) Current and long-term liabilities

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

(e) Income tax and social contribution

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

(f) Accounting reclassification

During 2005 the Company reviewed the criteria for classification of the expenses inherent to its operations and made certain reclassifications to the 2004 presentation which are shown below:

Description	Parent company			Consolidated		
	Previous	Reclassification	Current	Previous	Reclassification	Current
Cost of sales	(704,128)	(233)	(704,361)	(725,656)	1,455	(724,201)
Selling expenses	(129,606)	(650)	(130,256)	(163,180)	(689)	(163,869)
General and administrative expenses	(41,563)	1,828	(39,735)	(49,470)	1,614	(47,856)
Other operating income (expenses)	(6,874)	6,166	(708)	(3,750)	6,891	3,141
Profit sharing – Law 10,101/00		(7,111)	(7,111)		(9,271)	(9,271)
	(882,171)		(882,171)	(942,056)		(942,056)

4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the consolidation criteria in accounting practices adopted in Brazil and the rules established by the CVM, and include the financial statements of the Duratex S.A. and its subsidiaries, in which it has direct or indirect control.

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

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, Conex – Concellos Exp. e Imp. and Deca Piazza S.A.

Intercompany investments among the consolidated companies were eliminated in proportion to the interest in capital, as well as intercompany assets and liabilities, income and expenses and unrealized profits.

The reconciliations between net income and shareholders' equity of the parent company and consolidated are as follows:

	Net income		Shareholders' equity	
	2005	2004	2005	2004
Parent company	135,355	124,934	1,053,784	995,078
Unrealized results in inventories, net of tax effects	1,730	359	(2,912)	(4,642)
Consolidated	137,085	125,293	1,050,872	990,436

The financial statements of the subsidiaries were audited or reviewed by independent auditors.

5. CASH, BANKS AND FINANCIAL INVESTMENTS

	Parent company		Consolidated	
	2005	2004	2005	2004
Cash	122	109	531	1,245
Bank current accounts	2,789	2,272	2,861	6,364
Fixed income funds	183,205	40,988	230,581	97,482
	186,116	43,369	233,973	105,091

The financial investment balances 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 equivalent to the U.S. Treasury Bills.

6. TRADE ACCOUNTS RECEIVABLE

	Parent company		Consolidated	
	2005	2004	2005	2004
Domestic	286,986	275,917	284,829	272,146
Export			48,667	51,525
Discounted drafts			(48,202)	(20,417)
Allowance for doubtful accounts	(30,682)	(26,392)	(31,750)	(28,307)
	<u>256,304</u>	<u>249,525</u>	<u>253,544</u>	<u>274,947</u>

7. INVENTORIES

	Parent company		Consolidated	
	2005	2004	2005	2004
Finished products	34,095	38,326	79,390	76,999
Work in progress	17,186	17,495	17,186	17,503
Raw materials	28,177	45,443	29,368	46,635
Storeroom	44,981	43,079	47,583	45,398
Advances to suppliers	7,184	8,143	7,184	8,143
	<u>131,623</u>	<u>152,486</u>	<u>180,711</u>	<u>194,678</u>

8. RELATED PARTIES

Transactions between related parties, mainly the purchase and sale of products, were carried out at prices and on terms compatible with market conditions. These transactions 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 the variation of the SELIC rate.

Description – parent company	Duratex Coml. Exportadora		Duraflora		Duratex Empreend.		Subsidiaries Deca Piazza	
	2005	2004	2005	2004	2005	2004	2005	2004
Assets								
Trade accounts receivable	2,634	4,264						
Dividends receivable	226	2,166	89	125				
Accounts receivable	7		37	31				
Long-term receivables								
Advance for future capital increase			11,000	24,500				
Loan			3,809	5,731				
Liabilities								
Suppliers			5,046	2,949			22	25
Accounts payable	45,508	2,064						
Long-term liabilities	25,255	25,133			711	482		
Results								
Sales	121,928	133,156	9	68				
Purchases			92,464	65,764				
Financial income (expenses), net	(4,318)	(6,185)	980	1,159	(105)	(45)		

9. INVESTMENTS IN SUBSIDIARIES

	Direct								Indirect (i)
	Duratex Coml. Exp.	Duraflora	Duratex Empreend.	Total	Deca Piazza	North America	Duratex Overseas	Duratex Europe	Conex Exp. Imp.
Shares/quotas held (thousand)									
Common	231	115			10,446	500	50	1	
Preferred	369	28							
Quotas			2,874						80
Holding – %	99.94	95.83	100.00		100.00	100.00	99.99	100.00	80.00
Capital	33,437	146,712	2,874		8,054	1,170	117	268	100
Shareholders' equity	66,186	287,405	4,102		6,048	11,549	45,425	7,372	100
Net income (loss) for the year	953	9,291	212		2,542	(41)	8,450	2,352	
Change in investment balances									
At December 31, 2003	58,112	206,524	3,671	268,307	4,284	13,426	34,032	6,891	
Capital increase		15,000		15,000					
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)	
At December 31, 2004	61,365	234,109	3,890	299,364	6,432	13,277	40,516	7,743	
Capital increase		32,500		32,500					
Purchase of shares/quotas	1	8		9					80
Capital decrease					(2,053)				
Equity in the results	469	8,752	212	9,433	2,542	(72)	9,812	2,208	
Foreign exchange variation					(873)	(1,570)	(4,788)	(1,819)	
Dividends received	(226)	(89)		(315)		(86)	(117)	(760)	
At December 31, 2005	61,609	275,280	4,102	340,991	6,048	11,549	45,423	7,372	80

(i) Investments in indirect subsidiaries are carried out through the subsidiary Duratex Comercial Exportadora S.A.

10. PROPERTY, PLANT AND EQUIPMENT AND FORESTS

	Parent company				Consolidated				Annual depreciation rates – %
	2005		2004		2005		2004		
	Cost	Accumulated depreciation	Residual value	Residual value	Cost	Accumulated depreciation	Residual value	Residual value	
Lands	58,419		58,419	58,419	245,702		245,702	243,953	
Buildings and improvements	291,794	(138,824)	152,970	137,934	295,545	(140,758)	154,787	139,949	4
Machinery, equipment and installations	958,641	(399,874)	558,767	566,274	997,209	(422,026)	575,183	584,053	5 to 10
Construction in progress	59,761		59,761	53,514	60,288		60,288	54,753	
Furniture and fixtures	18,284	(14,185)	4,099	4,394	19,372	(14,890)	4,482	4,743	10
IT equipment/software	26,534	(20,003)	6,531	6,864	27,417	(20,674)	6,743	7,067	20
Vehicles	9,360	(5,179)	4,181	3,419	23,719	(14,667)	9,052	6,781	20 and 25
Other assets	26,449	(11,253)	15,196	13,120	27,669	(12,178)	15,491	13,323	10 to 20
	1,449,242	(589,318)	859,924	843,938	1,696,921	(625,193)	1,071,728	1,054,622	
Forests					98,011		98,011	88,769	
	1,449,242	(589,318)	859,924	843,938	1,794,932	(625,193)	1,169,739	1,143,391	

11. LOANS AND FINANCINGS

Loans and financings denominated in foreign currency are adjusted for foreign exchange variations through the balance sheet dates. Loans and financings in Reais are adjusted by the corresponding index and contractual charges.

Loans and financing have the following characteristics:

Type	Annual charges	Repayment terms	Guarantees	2005		2004	
				Short-term	Long-term	Short-term	Long-term
BNDES	TJLP + 3.6%	Monthly and quarterly	Mortgage and surety	42,797	83,356	37,093	97,118
Commercial bank resolution (2,770) swapped for Reais	105.9% of CDI	2008 to 2010	Promissory note	3,092	140,442		
FINAME	TJLP + 4.1%	Monthly and quarterly	Mortgage and promissory note	2,049	1,673	3,140	2,878
Rural Promissory Note (NPR)	8.75%	March 2006	Surety	87			
COMPROR	106% of CDI	Single installment	Promissory note			24,350	
Local currency				48,025	225,471	64,583	99,996
International Finance Corporation	US\$ + LIBOR + 2.7%	Semi-annual	Surety	16,288		10,540	18,202
BNDES	Currency basket + 3.5%	Monthly and quarterly	Surety	5,642		4,927	19,372
BNDES	US\$ + LIBOR + 3.5%	Monthly	Mortgage and surety	1,613	11,682	2,197	1,823
Import financing	US\$ + 3.5%	Single installment	Promissory note	1,891		31,817	
Foreign currency				25,434	11,682	49,481	39,397
Duratex S.A.				73,459	237,153	114,064	139,393
BNDES – foreign trade financing (EXIM)	TJLP + 4.0%	Through May 2005	Promissory note			28,537	
BNDES – EXIM	TJLP + 3.7%	Through December 2006	Promissory note	51,380			
BNDES – EXIM	US\$ + 11.5%	Through December 2006	Promissory note	11,757			
FINAME	TJLP + 4.0%	Monthly and quarterly	Mortgage and promissory note	1,040	2,458	1,022	3,217
Advances against future exports (A.C.C.)	US\$ + 2.8%	Through April 2005				28,508	
A.C.C.	US\$ + 3.5%	Through October 2006		10,732			
Other companies				74,909	2,458	58,067	3,217
Consolidated				148,368	239,611	172,131	142,610

Long-term maturity

Parent company

Year	2007	2008	2009	2010	2011	2012	Other	Total
Local currency	23,711	51,190	76,847	59,721	837	2,925	10,240	225,471
Foreign currency	3,750	3,585	3,585	762				11,682
	27,461	54,775	80,432	60,483	837	2,925	10,240	237,153

Long-term maturity

Consolidated

Year	2007	2008	2009	2010	2011	2012	Other	Total
Local currency	24,735	52,214	77,193	59,785	837	2,925	10,240	227,929
Foreign currency	3,750	3,585	3,585	762				11,682
	28,485	55,799	80,778	60,547	837	2,925	10,240	239,611

12. DEBENTURES

On November 6, 2002, the Board of Directors approved the issue of 20,000 non-convertible debentures without guarantee in a single series, with a par value of R\$10,000.

These debentures have a maturity term of five years, are redeemable on December 1, 2007 and were fully subscribed in 2004, upon raising R\$137,254.

From December 1, 2002 to December 1, 2004, the debentures accrued interest based on the nominal unit amount and the average rate of Interbank Deposits (DI) of one day, ("over extra group") expressed as a percentage per annum, for 252 days as per the Clearing House for the Custody and Financial Settlement of Securities (CETIP), plus a spread of 1.30% per annum due semi-annually from June 1, 2003.

From December 1, 2004 to December 1, 2006, the debentures accrued interest on the nominal unit based on the average rate of Interbank Deposits (DI) of one day, ("over extra group") expressed as a percentage per annum, for 252 days as per the CETIP, plus a spread of 0.70% per annum, basis 252 days due semi-annually.

13. INCOME TAX AND SOCIAL CONTRIBUTION

(a) Income tax and social contribution reconciliations:

	Parent company		Consolidated	
	2005	2004	2005	2004
Income before taxes on income, profit sharing, statutory participations and minority interest	208,227	188,092	219,354	200,735
Income tax and social contribution on results at the rates of 25% and 9%, respectively	(70,797)	(63,951)	(74,580)	(68,250)
Adjustments to calculate the effective expense:				
Non-deductible/taxable provisions	(3,830)	(66)	(4,621)	1,704
Foreign investment			(1,416)	(790)
Deductible statutory profit sharing and founders' shares	1,331	1,381	1,331	1,381
Benefit from interest on shareholders' equity	17,912	10,352	17,912	10,352
Equity in earnings	3,207	7,507		
Other items	4,776	4,076	6,023	5,421
Income tax and social contribution expenses	(47,401)	(40,701)	(55,351)	(50,182)

(b) The Company recognizes tax credits arising from temporary differences, income tax and social contribution losses based on the probable utilization of these credits.

Deferred taxes on temporary differences are:

	Parent company		Consolidated	
	2005	2004	2005	2004
Assets				
Net operating losses			704	601
Provisions temporarily non-deductible	10,773	9,983	11,217	10,372
Provisions for sundry labor charges	3,945	3,223	4,241	3,464
Allowance for doubtful accounts	3,111	2,251	3,111	2,251
Provision for equipment maintenance	1,193	627	1,193	627
Provision for adjustment of assets to market value	1,241	2,582	1,388	2,730
Provision for commissions payable	649	571	649	571
Other	634	729	635	729
Total tax credits (*)	10,773	9,983	11,921	10,973
Liabilities			985	85
Income tax on long-term sales			985	85

(*) These balances are included in Tax credits in current assets.

14. PROVISION FOR 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.

Provisions for contingencies are set up based on estimates of losses determined by the Company's legal advisors and, when necessary, judicial deposits are made.

Based on the advice of its legal counsel, management believes that the provisions for contingencies are sufficient to cover probable losses, as follows:

Lawsuits	Parent company		Consolidated	
	2005	2004	2005	2004
Tax	65,891	66,267	112,784	110,986
Labor	4,391	3,515	7,442	6,181
Civil	5,529	4,538	5,617	4,896
	75,811	74,320	125,843	122,063

Tax contingencies mainly refer to the Summer Plan ("Plano Verão") and the PIS social contribution credit – Semi-annual basis.

15. SHAREHOLDERS' EQUITY

(a) Capital

The Extraordinary and Annual General Meeting held on April 29, 2005 approved the reverse split of shares at the ratio of 200 shares in exchange for one share of the same type.

Authorized capital comprises 100,000,000 shares, of which 40,000,000 are common and 60,000,000 are preferred. Paid-up capital, in the amount of R\$325,000, is represented by 58,913,584 book-entry shares, with no par value, of which 22,060,294 are common and 36,853,290 are preferred.

(b) Treasury shares

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

	2005	Number 2004 (*)
	Preferred	201,926
Common	24,748	24,105

(*) The number of treasury shares relating has been conformed to take account of the 2005 reverse share split.

Type	Minimum	Maximum	Weighted average	Price
				Last quotation
Preferred	19.40	29.55	20.41	29.70
Common	21.80	21.80	9.13	22.00

Based on quotation on December 29, 2005, the market value of treasury shares was R\$6,542 (R\$520 on December 30, 2004).

(c) Shareholders' equity reserves

Shareholders' equity reserves are as follows:

	Parent company		Consolidated	
	2005	2004	2005	2004
Capital reserves	272,578	271,616	272,578	271,616
Goodwill on subscription of shares	168,487	168,487	168,487	168,487
Tax incentives	15,589	14,627	15,589	14,627
Article 297 – Law 6,404	70,030	70,030	70,030	70,030
Prior to Law 6,404 of 1976	18,426	18,426	18,426	18,426
Option premium – own shares	46	46	46	46
Revaluation reserve	131,743	135,674	131,743	135,674
Revenue reserves	324,463	262,788	321,551	258,146
Legal	44,470	37,702	44,470	37,702
For capital increase	6,153	6,153	6,153	6,153
Special statutory (*)	279,226	219,414	276,314	214,772
Treasury shares	(5,386)	(481)	(5,386)	(481)

The balance appropriated to the special statutory reserve pursuant to Article 15 of the By-laws will be used for the expansion of the Company's business, through capital increases in the investees or in the Company, or for the payment of dividends to shareholders.

During 2005, revenue reserves were realized as a result of the exercise of 1,747,306 share options relating to prior-year grants (Note 20).

(d) Dividends

The Company's Bylaws assure shareholders a minimum mandatory dividend corresponding to 30% of adjusted net income. Pursuant to Law 9,249/95, as proposed by the Board of Directors, the amount of R\$46,343 was appropriated for distribution in the form of dividends of which R\$21,369 refer to distributions made in the second six-month period of 2005, corresponding to R\$0.36 per share.

At December 31, 2005, dividends were calculated as follows:

Net income for the year	135,355
Legal reserve	(6,768)
Realization of revaluation reserve	2,717
Adjusted net income	131,304
Dividends – 30%	39,391
Dividends declared for the year	
Interest on shareholders' equity	46,343
Income tax	(6,952)
Net distribution	39,391

16. NON-OPERATING RESULTS

Non-operating results for the year ended December 31, 2005 of R\$11,724 (R\$9,386 in 2004) arose preliminary from the gain on the sale of property, plant and equipment of the investee Duraflora net of provisions for losses on other assets.

17. INSURANCE

At December 31, 2005, the Company and its subsidiaries had insurance coverage against fire and sundry risks for property, plant and equipment and inventory items at amounts considered sufficient to cover probable losses.

18. FINANCIAL INSTRUMENTS

(a) Credit risks

The Company's sales policy considers the level of credit risk to which the Company is subject during the course of business. The broad base and selection process of customers, the management of the due dates of financed sales and individual credit limits minimize the Company's exposure to credit risks.

(b) Foreign exchange risks

Due to the risk management policy, changes in exchange rates do not significantly affect the Company's results because the Company has derivative instruments to mitigate a substantial part of its exposure to foreign exchange risks.

(c) Financial instruments

As a result of the short term nature and frequent repricing the market values of financial instruments approximated their book values and were substantially represented by financial investments, loans and financings.

19. PRIVATE PENSION PLAN

The Company is a sponsor of the Fundação Itaúsa Industrial, a not-for-profit entity whose Bylaws were approved by the Social Security Ministry (MPAS) Ordinance 862/2001, and whose objective is to manage private pension plans for payments of benefits, supplementary income or similar to complement social security. The Fundação manages a Defined Benefit Plan (BD) and a Defined Contribution Plan (CD).

The Defined Benefit Plan (BD) provided an option to its participants to migrate to the Defined Contribution Plan (CD) during the third quarter of 2005. Participants who transferred to the Defined Contribution Plan represented 97% of total participants and the amount transferred was R\$333,064.

(a) Defined Benefit Plan (BD)

The Defined Benefit Plan is a non-contributable plan, which receives contributions only from the sponsor for the future payment of benefits to the participants.

The plan provides 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 December 31, 2005 it had 582 participants.

The Fundação Itaúsa Industrial benefit plan determines the payments of current and future commitments to the participants through the accumulated resources arising from the sponsors' contributions and the financial resources generated by the fund.

Fundação Itaúsa Industrial presented an actuarial surplus of R\$2,345 at December 31, 2005, based on a report issued by the independent actuary Towers, Perrin, Foster & Crosby Ltda., using the projected credit unit method. This amount includes the transfer of 97% of the participants from the CD plan. The surplus coverage of the retirement plan amounted to R\$109,487 as of December 31, 2004.

Fundação Itaúsa Industrial used the aggregate method for calculation of its reserves, for which there is no actuarial surplus.

The Defined Benefit Plan is as follows:

	2005	2004
Retirement plan		
Present value of the actuarial liability	48,972	225,618
Fair value of the plan assets	51,317	335,105
Surplus	2,345	109,487
	2006	2005
Annual estimated actuarial gains for the next year		
Net cost of current service	(89)	(8,553)
Interest on actuarial liability	(5,020)	(25,141)
Earnings expected on the assets of the plan	7,471	44,501
Actuarial gain	2,362	10,807
Economic assumptions		
Discount rate	10.77% p.a.	11.30% p.a.
Investment rate of return	15.25% p.a.	13.40% p.a.
Salary increase	8.68% p.a.	9.20% p.a.
Benefits adjustment	4.50% p.a.	5.00% p.a.

(b) Defined Contribution Plan (CD-PAI)

The Defined Contribution Plan is managed by Fundação Itaúsa Industrial, a not-for-profit entity, whose Bylaws were approved by the MPAS Ordinance 862/2001 and is offered to all employees. At December 31, 2005, it had 4,951 participants.

The Defined Contribution Plan (Individual Retirement Plan) has no actuarial risk and the investment risk is borne by the plan's participants. The current regulation requires the sponsor to match 50% of the amount paid by the employees.

20. STOCK OPTION PLAN

The Company's stock option plan is designed to obtain and retain the services of executives and certain employees and their commitment to the Company's medium and long-term development.

The exercise price for the share option through 2004 was based on the average price of the Duratex shares on the São Paulo Stock Exchange over a period ranging from one month to 12 months prior to the date of grant. Since 2005, the exercise price is calculated based on the average price in the five trading sessions and up to 60 trading sessions prior to the date of grant. An upward or downward adjustment of 20% of this price may apply. The price is adjusted by the General Price Index (IGP-M) or in its absence by another index to be determined by the Duratex Share Option Committee.

Once exercised, the options are reflected in the accounting records. From January to December 2005, 1,747,306 share options related to prior years were exercised. During this period, 1,330,000 share options were granted.

21. STATEMENT OF CASH FLOWS

	Parent company		Consolidated	
	2005	2004	2005	2004
Cash flows from operating activities				
Net income for the year	135,355	124,934	137,085	125,293
Depreciation/amortization/depletion	58,917	54,411	80,368	74,165
Financial results	61,916	46,025	74,600	55,117
Provisions and asset disposals	15,676	17,860	18,002	27,440
Equity in the results of subsidiaries	(9,433)	(22,080)		
Working Capital				
Decrease (increase) in assets				
Trade accounts receivable	(6,779)	(44,050)	21,403	(82,162)
Inventories	20,863	(1)	13,967	(3,790)
Other receivables	24,353	(785)	(17,051)	(1,251)
Increase (decrease) in liabilities				
Suppliers	3,817	(7,161)	2,851	(5,132)
Salary and payroll costs	4,283	1,190	2,457	1,057
Accounts payable	45,516	3,660	(6,345)	12,839
Taxes and contributions	4,446	13,965	5,073	15,065
Fundação Duratex		(3,414)		(8,654)
Other liabilities	1,491	(1,930)	3,780	(9,945)
Cash generated by operations before financial results	360,421	182,624	336,190	200,042
Monetary variation and interest	(10,136)	5,788	(23,573)	(7,894)
Cash provided by operating activities	350,285	188,412	312,617	192,148
Cash flows from investing activities				
Acquisition of property, plan and equipment	(73,375)	(69,813)	(108,427)	(136,832)
Cash used in investing activities	(73,375)	(69,813)	(108,427)	(136,832)
Cash flows from financing activities				
Debt issuances	231,778	80,082	404,014	152,777
Debt repayments	(182,849)	(139,408)	(343,008)	(239,377)
Debentures issuances		137,254		137,254
Debentures – interest payments	(37,902)	(33,674)	(37,902)	(33,674)
Treasury shares and other	(30,306)	(13,338)	(30,298)	(13,337)
Dividends and profit sharing	(68,110)	(54,900)	(68,114)	(54,909)
Loans from subsidiaries	(46,774)	(95,433)		
Cash used in financing activities	(134,163)	(119,417)	(75,308)	(51,266)
Cash, banks and financial investments – Change in the year	142,747	(818)	128,882	4,050
Cash, banks and financial investments – Opening balance	43,369	44,187	105,091	101,041
Cash, banks and financial investments – Closing balance	186,116	43,369	233,973	105,091

22. EBITDA CALCULATION

	Parent company		Consolidated	
	2005	2004	2005	2004
Operating profit before financial results	261,615	220,234	282,230	246,466
Depreciation, amortization and depletion	58,917	54,411	80,368	74,165
EBITDA	320,532	274,645	362,598	320,631

Appendix I – Statement of Added Value – Consolidated »

Years Ended December 31 – In thousands of reais

	2005	2004
Gross sales revenues	1,706,352	1,580,608
Allowance for doubtful accounts	(4,268)	743
Inputs purchased from third parties	(663,198)	(646,713)
Gross added value	1,038,886	934,638
Depreciation/amortization/depletion	(83,829)	(72,340)
Depreciation of revalued assets	3,461	3,490
Net added value	958,518	865,788
Operating and non-operating results	(93,173)	(104,709)
Added value to be distributed	865,345	761,079
Distribution of added value		
Contributions to workforce	240,295	217,981
Contributions to government	361,563	326,088
Contributions to shareholders	46,343	58,110
Contributions to financing agents	126,014	91,074
Reinvestment of profits	91,130	67,826
Total distributed added value	865,345	761,079

Report of Independent Auditors »

To the Board of Directors and Shareholders
Duratex S.A.

- 1 We have audited the accompanying balance sheets of Duratex S.A. and the consolidated balance sheets of Duratex S.A. and its subsidiaries as of December 31, 2005 and 2004 and the related statements of income, of changes in shareholders' 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 years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audits 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 audits 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, 2005 and 2004, and their results of operations, changes in shareholders' equity and changes in financial position of Duratex S.A., as well as the consolidated results of operations and of changes in financial position, for the years then ended, in accordance with accounting practices adopted in Brazil.
- 4 Our audits were conducted for the purpose of forming an opinion on the primary financial statements, taken as a whole. The statement of cash flows and the EBITDA calculation ("Earnings before interest, tax, depreciation and amortization"), and the statement of added value, included in Notes 21 and 22, and in Appendix I, respectively, are presented for purposes of additional analysis and are not part of the primary financial statements. This supplemental information for the years ended December 31, 2005 and 2004 has been subjected to the same auditing procedures applied to the primary financial statements and, in our opinion, is fairly presented in all material respects in relation to the consolidated financial statements taken as a whole.

São Paulo, February 3, 2006

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

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Accountant CRC 1RSo46957/O-3 "S" SP

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