

FINANCIAL STATEMENTS

Duratex S.A. and Subsidiaries
Management Report and
Financial Statements at
December 31, 2008 and 2007
and Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

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

- 1 We have audited the accompanying balance sheets of Duratex S.A. ("the Company") and the consolidated balance sheet of Duratex S.A. and its subsidiaries at December 31, 2008 and the related statements of income, of changes in stockholders' equity, of cash flows and of value added of the Company and the related consolidated statements of income, of cash flows and of value added for the year 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 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 Company, (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, 2008, and the results of operations, the changes in stockholders' equity, the cash flows and the value added of the Company, as well as the consolidated results of operations, cash flows and value added of the Company and its subsidiaries, for the year then ended, in accordance with accounting practices adopted in Brazil.
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- 1 We previously audited the financial statements for the year ended December 31, 2007, comprising the balance sheet of Duratex S.A. and the consolidated balance sheet of Duratex S.A. and its subsidiaries at December 31, 2007, the statements of income, of changes in stockholders' equity and of changes in financial position of the Company and the related consolidated statements of income and of changes in financial position of the Company and its subsidiaries for the year then ended, as well as the supplementary information comprising the statements of cash flows and of value added of the Parent Company and consolidated, on which we issued an unqualified opinion dated February 13, 2008. As mentioned in Note 2, the accounting practices adopted in Brazil were modified effective January 1, 2008. The financial statements for the year ended December 31, 2007, presented together with the financial statements for 2008, were prepared in accordance with the accounting practices adopted in Brazil in effect until December 31, 2007 and, as allowed by Technical Pronouncement No. 13 of the Brazilian Accounting Pronouncement Committee (CPC) - "Initial Adoption of Law No. 11638/07 and Provisional Measure No. 449/08", have not been restated to facilitate comparison between the years; however, they have been adjusted in relation to those originally presented, as described in Note 2.

São Paulo, February 18, 2009

PricewaterhouseCoopers

Auditores Independentes
CRC 2SP000160/O-5

Valdir Renato Coscodai

Contador CRC 1SP165875/O-6

DURATEX S.A. AND SUBSIDIARIES

Balance Sheets at December 31 In thousands of reais

(A free translation of the original in Portuguese)

ASSETS

	Parent Company		Consolidated	
	2008	2007	2008	2007
Current assets				
Cash & cash equivalents (Note 5)	358,082	570,227	598,125	752,699
Clients (Note 6)	313,307	316,202	338,560	335,964
Inventories (Note 7)	222,027	175,786	275,155	217,086
Accounts receivable	32,673	15,249	9,897	10,508
Tax credits (Note 8)	68,686	27,738	97,127	36,893
Other credits	2,126	1,990	2,950	2,726
	996,901	1,107,192	1,321,814	1,355,876
Non-current assets				
Long-term receivables				
Subsidiaries (Note 9)	32,104			
Restricted deposits	6,888	5,297	9,743	7,324
Accounts receivable	31,449	2,471	34,398	4,641
Tax credits (Note 8)	88,120	41,919	100,292	52,510
	158,561	49,687	144,433	64,475
Investments in subsidiaries (Note 10)	692,131	427,904		
Other investments	111	111	585	585
Property, plant and equipment (Note 11)	1,162,781	845,069	1,692,758	1,192,712
Forest reserves (Note 11)			182,184	130,679
Intangible assets (Note 12)	31,598	6,108	31,673	6,130
	2,045,182	1,328,879	2,051,633	1,394,581
Total assets	3,042,083	2,436,071	3,373,447	2,750,457

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	Parent Company		Consolidated	
	2008	2007	2008	2007
Current liabilities				
Suppliers	176,747	51,851	118,856	51,074
Personnel	63,835	56,252	71,383	65,181
Accounts payable	56,027	35,432	127,510	76,393
Subsidiaries (Note 9)	55,947	23,642		
Taxes and contributions	13,860	45,583	19,822	69,017
Loans and financing (Note 13)	155,643	101,237	435,073	246,155
Dividends and profit sharing (Note 16(d))	58,828	55,311	60,146	55,480
	580,887	369,308	832,790	563,300
Non-current liabilities				
Subsidiaries (Note 9)	5,488	9,089		
Loans and financing (Note 13)	618,069	344,176	649,358	424,581
Provision for contingencies (Note 15)	79,376	72,651	128,714	118,499
Accounts payable - "swap"		74,294		74,350
Other accounts payable	26,688	9,987	30,395	12,593
	729,621	510,197	808,467	630,023
Minority interest			647	609
Stockholders' equity (Note 16)				
Capital	943,626	943,626	943,626	943,626
Capital reserves	236,744	200,505	236,744	200,505
Revaluation reserve	106,550	110,830	106,550	110,830
Cumulative translation adjustments	775		775	
Revenue reserves	443,880	301,605	443,848	301,564
	1,731,575	1,556,566	1,731,543	1,556,525
Total liabilities and stockholders' equity	3,042,083	2,436,071	3,373,447	2,750,457

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

DURATEX S.A. AND SUBSIDIARIES

Statements of Income

Years Ended December 31

In thousands of reais, except net income per share

(A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2008	2007	2008	2007
Gross sales	2,419,600	2,133,751	2,554,765	2,226,200
Taxes and contributions on sales	(633,535)	(549,912)	(641,161)	(555,649)
Net sales	1,786,065	1,583,839	1,913,604	1,670,551
Cost of sales	(1,145,450)	(958,505)	(1,144,088)	(918,821)
Gross profit	640,615	625,334	769,516	751,730
Selling expenses	(189,457)	(164,266)	(216,888)	(190,890)
General and administrative expenses	(65,495)	(57,929)	(73,388)	(63,857)
Management fees	(15,190)	(11,997)	(16,840)	(17,098)
Other operating expenses	(3,267)	(5,162)	33,838	(8,018)
Operating profit before financial result	367,206	385,980	496,238	471,867
Financial income	53,601	64,906	128,580	63,693
Financial expenses	(122,083)	(65,670)	(178,506)	(74,058)
Equity in the results (Note 10)	117,101	42,701		
Operating profit before income tax and social contribution	415,825	427,917	446,312	461,502
Income tax and social contribution (Note 14)	(52,686)	(80,712)	(80,732)	(111,523)
Profit sharing	(49,334)	(28,559)	(51,293)	(30,723)
Minority interest			(474)	(389)
Net income for the year	313,805	318,646	313,813	318,867
Net income per share at the end of the year – R\$	2.42	2.46		
Book value per share – R\$	13.35	12.00		

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

DURATEX S.A.

Statement of Changes in Stockholders' Equity In thousands of reais

(A free translation of the original in Portuguese)

	Capital	Capital reserves	Revaluation reserve	Cumulative translation adjustments conversion	Revenue reserves	Retained earnings	Total
At January 1, 2007	916,084	200,505	128,599		150,861		1,396,049
Prior year adjustments			(9,447)		30,133		20,686
Treasury shares					(48,896)		(48,896)
Capital increase							
With stock issuing	27,542						27,542
Realization of reserves			(8,322)			5,429	(2,893)
Net income for the year						318,646	318,646
Legal reserve					15,932	(15,932)	
Interest on own capital/dividends						(154,568)	(154,568)
Revenue reserves					153,575	(153,575)	
At December 31, 2007	943,626	200,505	110,830		301,605		1,556,566
Adjustments from transition of accounting practices:							
Options granted (Note 2(d))		16,046				(16,046)	
Adjustment to market value – derivatives (Note 2(g))					(1,860)		(1,860)
Options granted		20,193					20,193
Treasury shares					(48,282)		(48,282)
Realization of reserves			(4,280)			4,242	(38)
Exchange variation in subsidiaries				775			775
Net income for the year						313,805	313,805
Legal reserve					15,690	(15,690)	
Interest on own capital/dividends						(109,584)	(109,584)
Revenue reserves					176,727	(176,727)	
At December 31, 2008	943,626	236,744	106,550	775	443,880		1,731,575

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

DURATEX S.A. AND SUBSIDIARIES

Statements of Cash Flows Years Ended December 31 In thousands of reais

(A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2008	2007	2008	2007
Operating activities				
Net income for the year	313,805	318,646	313,813	318,867
Items not affecting cash				
Depreciation, amortization and depletion	64,986	59,869	87,286	82,754
Interest, foreign exchange and monetary variations, net	142,582	5,400	236,305	2,748
Provisions, disposal of assets	54,668	20,727	42,913	32,161
Equity in the results	(117,101)	(42,701)		
Investments in working capital				
(Increase) decrease in assets				
Clients	2,895	(4,001)	1,101	(7,096)
Inventories	(46,241)	(36,842)	(51,245)	(48,032)
Other assets	(115,206)	(11,893)	(131,221)	5,772
Increase (decrease) in liabilities				
Suppliers	124,896	4,093	62,948	12,345
Personnel liabilities	4,821	9,885	3,216	15,567
Accounts payable	(36,998)	55,126	(6,101)	75,923
Subsidiaries	32,305	(40,216)		
Taxes and contributions	(31,723)	(3,587)	(49,590)	7,768
Other liabilities	6,725	918	10,215	2,609
Cash provided by operating activities	400,414	335,424	519,640	501,386
Investing activities				
Investments in fixed and intangible assets	(387,074)	(57,810)	(673,448)	(222,281)
Capital increase in subsidiaries	(91,914)			
Advance for future capital increase in subsidiaries	(37,620)			
Acquisition of companies	(78,138)			
Dividends received	17,807	1,043		
Cash used in investing activities	(576,939)	(56,767)	(673,448)	(222,281)
Financing activities				
Financing	295,547	243,235	509,881	456,699
Amortization of financing	(111,274)	(72,265)	(339,665)	(180,837)
Issue of shares		27,542		27,542
Loans from subsidiaries	(34,261)	30,219		
Debentures		(224,012)		(224,012)
Dividends and profit sharing	(135,913)	(165,358)	(134,765)	(165,597)
Treasury shares and others	(49,719)	(51,789)	(49,840)	(45,324)
Cash used in financing activities	(35,620)	(212,428)	(14,389)	(131,529)
Exchange variation on cash and cash equivalents			13,623	(7,326)
Increase (decrease) in cash for the year			(154,574)	140,250
Opening balance	570,227	503,998	752,699	612,449
Closing balance	358,082	570,227	598,125	752,699
Supplementary information to cash flows				
Taxes and contributions paid	53,810	61,814	109,356	66,510
Interest paid	15,550	35,892	24,399	43,828

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

DURATEX S.A. AND SUBSIDIARIES

Statements of Value Added Years Ended December 31 In thousands of reais

(A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2008	2007	2008	2007
Income	2,433,265	2,135,866	2,604,501	2,228,865
Gross income	2,419,600	2,133,751	2,554,765	2,226,200
Other income	17,999	5,601	55,735	6,426
Allowance for doubtful accounts	(4,334)	(3,486)	(5,999)	(3,761)
Inputs acquired from third parties	(1,361,283)	(1,114,437)	(1,360,193)	(1,073,187)
Cost of sales	(1,172,916)	(955,938)	(1,143,002)	(883,773)
Materials, energy, outsourced services and others	(188,367)	(158,499)	(217,191)	(189,414)
Gross value added	1,071,982	1,021,429	1,244,308	1,155,678
Depreciation, amortization and depletion	(64,986)	(59,869)	(87,286)	(82,754)
Net value added	1,006,996	961,560	1,157,022	1,072,924
Value added received through transfer	170,702	107,607	128,580	63,693
Equity in the results	117,101	42,701		
Financial income	53,601	64,906	128,580	63,693
Value added to be distributed	1,177,698	1,069,167	1,285,602	1,136,617
Distribution of value added				
Work compensation	308,678	257,538	351,581	287,711
Direct compensation	264,727	218,758	296,220	242,332
Benefits	25,836	23,140	34,724	28,560
Severance Indemnity Fund (FGTS)	16,245	14,421	18,691	15,568
Other	1,870	1,219	1,946	1,251
Government compensation	438,218	437,208	447,186	467,417
Federal	360,449	360,277	367,626	389,925
State	77,469	76,458	78,097	76,504
Municipal	300	473	1,463	988
Financing remuneration	116,997	55,775	172,548	62,233
Shareholders' remuneration	313,805	318,646	314,287	319,256
Interest on own capital	87,227	78,527	87,227	78,527
Dividends	22,357	76,041	22,357	76,041
Retained earnings	204,221	164,078	204,703	164,688
Total value added distributed	1,177,698	1,069,167	1,285,602	1,136,617

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

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

1 Operations

Headquartered in São Paulo, State of São Paulo, Duratex S.A. is a subsidiary of the Itaúsa Group and currently has eleven industrial units in Brazil and one in Argentina, with branches in the main Brazilian cities and commercial subsidiaries in the United States 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 four industrial units in Brazil, responsible for the production of fiber sheets, medium density particle board (MDP), medium, high and super density fiberboard (MDF, HDF, SDF) and Durafloor laminate flooring.

The Deca Division operates seven 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).

2 Presentation and Preparation of the Financial Statements

The financial statements of Duratex S.A. and the consolidated financial statements, which were approved by the Company's Board of Directors on February 13, 2008, have been prepared and are presented in accordance with accounting practices adopted in Brazil, based on the provisions of Brazilian Corporation Law and the rules established by the Brazilian Securities Commission (CVM).

In the preparation of the financial statements, accounting estimates based on objective factors were used by management to determine the useful lives of property, plant and equipment, provisions for contingent liabilities, the allowance for doubtful accounts and other similar provisions, when necessary.

Law No. 11638 was enacted on December 28, 2007, and amended by Provisional Measure (MP) No. 449 dated December 3, 2008, amending and introducing new provisions to Brazilian Corporation Law. The main objective of this Law and MP was to update the Brazilian corporate legislation to make possible the process of convergence of the accounting practices adopted in Brazil with those included in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The adoption of the Law and MP is mandatory for the annual financial statements for years beginning on or after January 1, 2008.

The main impacts on the Company's financial statements due to these changes are as follows:

(a) Derivative financial instruments

In compliance with CVM Deliberation 566 of December 17, 2008, which approved pronouncement 14 of the Brazilian Accounting Pronouncements Committee (CPC), the Company's derivatives are recognized at their fair value at the date when contracted and are subsequently remeasured to their fair value, with the variations recorded in results, except when the derivative is designated as a cash flow hedge instrument.

(b) Revaluation reserve

The Company management opted to maintain the revaluation reserve of its assets, and its realization is recorded through depreciation and/or upon the sale of the revalued assets.

(c) Investments in foreign subsidiaries

In compliance with CVM Deliberation 534 of January 29, 2008, that approved CPC 02, the effect arising from exchange variations on the investments in the indirect subsidiaries Duratex North America Inc., Duratex Europe N.V. and Deca Piazza S.A. started to be recorded in the "Cumulative translation adjustments" account in stockholders' equity. The exchange variation from Advance on Export Contract, used as a hedge instrument of foreign investments has also been transferred to the same account in stockholders' equity.

(d) Tax incentives

In compliance with CVM Deliberation 555 of November 12, 2008, that approved CPC 07, the amount related to the tax incentive accrued as from the effectiveness of the law was recorded in the result for the year, as a reduction of sales tax expenses with a contra-entry to the Revenue Reserve for Tax Incentives.

(e) Share-based remuneration

In compliance with CVM Deliberation 562 of December 17, 2008, that approved CPC 10, which addresses payments based on shares to employees or third parties, the Company calculated the value of outstanding options amount at December 31, 2008, with a charge to the results for 2008 or to stockholders' equity based on the vesting period.

To determine their values, the binomial model was used, based on the parameters described in Note 20.

(f) Reclassifications

In compliance with Provisional Measure 449 of December 3, 2008, the pre-operating expenses related to the preparation of machinery and equipment for use, in the amount of R\$ 6,387, were transferred to property, plant and equipment and the balance of the account "Non operating results" was transferred to other operating income and expenses. The goodwill based on future profitability was transferred to the account "Intangible assets".

(g) Adjustments for the initial adoption of Law 11638/07

As permitted by CPC Pronouncement 13 - "First time adoption of Law 11638/07 and the Provisional Measure 449/08", the Company management opted to prepare the transition balance sheet at January 1, 2008. Accordingly, all the impacts on the results from the adoption of the law and provisional measure were made against retained earnings at the transition date, according to art. 186 of Law 6404/76.

	December 31, 2007	Adjustments of Law 11638/07		Transition date January 1, 2008
		Stock options	Financial instruments	
Stockholders' equity - consolidated				
Capital	943,626	-	-	943,626
Capital reserve	200,505	36,239	-	236,774
Capital reserve	200,505			200,505
Granted options recognized		43,289		43,289
Unappropriated granted options		(7,050)		(7,050)
Revaluation reserve	110,830			110,830
Revenue reserve	301,564			301,564
Retained earnings		(36,239)	(1,860)	(38,099)
	1,556,525		(1,860)	1,554,665

	Parent company		Consolidated	
	Profit	Equity	Profit	Equity
At December 31, 2008, before the effects of Law 11638/07	333.910	1.732.572	333.918	1.732.540
Adjustments for the transition balance sheet				
Share based remuneration for 2007		(16.046)		(16.046)
Capital reserve - granted options recognized		16.046		16.046
Adjustment to market value of the derivative financial instruments for 2007		(1.860)		(1.860)

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

	Parent company		Consolidated	
	Profit	Equity	Profit	Patrimônio
Adjustments to the balance sheet for 2008				
Share based remuneration	(20,193)	(20,193)	(20,193)	(20,193)
Capital reserve – granted options recognized		20,193		20,193
Adjustment to market value of the derivative financial instruments	(411)	(411)	(55)	(55)
"Hedge accounting"	(775)		(775)	
Exchange variation on foreign subsidiaries	(310)		(9,512)	
Exchange variation on debts as hedges	(465)		8,737	
Equity in the results	174	174		
Income tax and social contribution	(15)	(15)	(136)	(136)
Profit sharing	1,115	1,115	1,115	1,115
Minority interest			(61)	(61)
Em 31 de dezembro de 2008, após os efeitos da Lei no. 11.638/07	313,805	1,731,575	313,813	1,731,543

For comparison purposes, we present the consolidated statements of income before and after the adjustments introduced by Law No. 11638/07.

Statements of Income – consolidated

	2008		2007
	Law No. 11638/07	Law No. 6404/76	Law No. 6404/76
Gross sales	2,554,765	2,585,543	2,226,200
Taxes and contributions on sales	(641,161)	(642,312)	(555,649)
Net sales	1,913,604	1,943,231	1,670,551
Cost of sales	(1,144,088)	(1,170,480)	(918,821)
Gross profit	769,516	772,751	751,730
Selling expenses	(216,888)	(219,299)	(190,890)
General and administrative expenses	(73,388)	(73,834)	(63,857)
Management fees	(16,840)	(16,840)	(17,098)
Other operating expenses	33,838	34,461	(8,018)
Operating profit before financial result	496,238	497,239	471,867
Financial income	128,580	136,417	63,693
Financial expenses	(178,506)	(191,099)	(74,058)
Operating profit before income tax and social contribution	446,312	442,557	461,502
Income tax and social contribution	(80,732)	(76,548)	(111,523)
Profit sharing	(51,293)	(31,678)	(30,723)
Minority interest	(474)	(413)	(389)
Net income for the year	313,813	333,918	318,867

(h) Restatement of comparative amounts for 2007

In addition, the following adjustments were made to the financial statements for 2007 originally issued, under the terms of CVM Deliberation 506 of June 19, 2006:

- (i) The swap amounts that were presented under "Cash and cash equivalents" have been reclassified to liabilities under the caption "Accounts payable".
- (ii) The Company reviewed the criterion for recording long-term deferred income tax and social contribution on temporarily non-deductible provisions and revaluation reserve, having made a prior year adjustment of R\$ 20,686.
- (iii) The pre-operating expenses previously recorded in Deferred charges were transferred to property, plant and equipment.

	Parent company			Consolidated		
	Originally disclosed	Reclassification	Restated	Originally disclosed	Reclassification	Restated
Assets						
Current assets						
Cash and cash equivalents/ financial investments	480,439	89,788	570,227	662,855	89,844	752,699
Non current						
Long term receivables						
Tax credits	20,670	21,249	41,919	22,370	30,140	52,510
Investments in subsidiaries	419,131	8,773	427,904	585	(585)	
Other investments		111	111		585	585
Property, plant and equipment	838,912	6,157	845,069	1,186,555	6,157	1,192,712
Intangible assets	4,610	1,498	6,108	4,632	1,498	6,130
Deferred charges	7,655	(7,655)		7,655	(7,655)	
Total adjustments	1,771,417	119,921	1,891,338	1,884,652	119,984	2,004,636
Liabilities						
Current liabilities						
Accounts payable	19,938	15,494	35,432	54,045	22,348	76,393
Non current						
Provision for contingencies	73,191	(540)	72,651	121,645	(3,146)	118,499
Accounts payable - "Swap"		74,294	74,294		74,350	74,350
Other accounts payable		9,987	9,987		12,593	12,593
Minority interest				7,456	(6,847)	609
Stockholders' equity						
Revaluation reserve	120,277	(9,447)	110,830	120,277	(9,447)	110,830
Revenue reserves	271,472	30,133	301,605	271,431	30,133	301,564
Total adjustments	484,878	119,921	604,799	574,854	119,984	694,838

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2008 and 2007

All amounts in thousands of reais unless otherwise indicated

3 Significant Accounting Practices

(a) Current and non current assets

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and short term investments with high liquidity and insignificant risk of change in value.

(ii) Financial Instruments

The Company classifies its financial assets according to the following categories: calculated at market value through results, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets when first recorded.

(iii) Financial assets calculated at fair value through results

These are financial assets held for active and frequent trading. Derivatives are also classified as held for trading, unless they have been designated as hedge instruments. These assets are classified as current assets. Gains or losses arising from the fair value variations of financial assets calculated at fair value through results are recorded in the statement of income in "financial result" in the period they occur, unless the instrument has been contracted in connection with another instrument. In that case, the variations are recognized in the same item of the statement of income affected by this other instrument.

(iv) Loans and receivables

These comprise loans granted and receivables which are non-derivative financial assets with fixed or determinable payments, not quoted in an active market. Loans and receivables are included in current assets, except for those with maturity of more than 12 months after the balance sheet date (these are classified as non-current assets). The Company's loans and receivables comprise trade accounts receivable, other accounts receivable and cash and cash equivalents, excluding short-term investments. Loans and receivables are recorded at amortized cost, based on the effective interest rate method.

(v) Assets held to maturity

These are basically financial assets that cannot be classified as loans and receivables, because they are quoted in an active market. In this case, these financial assets are acquired with the purpose and financial ability of being held in the portfolio up to their maturity. They are evaluated at the acquisition cost, plus accrued earnings with a contra-entry to income for the year, based on the effective interest rate method.

(vi) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative instruments assigned to this category or those which are not classified in any other one. They are included in non-current assets, unless management intends to sell the investment within 12 months after the balance sheet date. Available-for-sale financial assets are recorded at market value. Interest on available-for-sale securities, calculated based on the effective interest rate method, is recognized in the statement of income as financial income. The amount relating to the fair value variation is recorded in stockholders' equity, in Carrying value adjustments, and is realized in net income when the asset is sold or becomes impaired.

(vii) Fair value

For financial assets without an active market or public quotation, the Company determines fair value through valuation techniques, which consist of the use of recent transactions with third parties, reference to other substantially similar instruments, the analysis of discounted cash flows and option pricing models which make the greatest use possible of information from the market and the least use possible of information from Company management.

The Company evaluates, at the balance sheet date, if there is objective evidence that a financial asset or a group of financial assets is overstated (impaired) in relation to its recoverable value. If there is such evidence for available-for-sale financial assets, the cumulative loss - calculated as the difference between the acquisition cost and current market value minus any impairment loss of this financial asset previously recognized in results - is transferred from equity to the statement of income.

(viii) Derivative Instruments and hedge activities

Initially, derivatives are recognized at fair value at the date when the derivative agreement is signed and subsequently recalculated at their fair value, with the fair value variations recorded to results, except when the derivative is recorded as a hedge of cash flows.

(xi) Trade accounts receivable

Trade accounts receivable refer to short term transactions and are adjusted to present value if this adjustment is significant. In the years presented, the adjustment to present value calculated in trade accounts receivable was not considered significant.

The allowance for doubtful accounts was recorded based on the evaluation of risks on the realization of credits, at an amount considered sufficient to cover eventual losses on the realization of accounts receivable.

(x) Inventories

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

(xi) Other assets

The other assets are stated at realizable values, including, when applicable, accrued earnings and monetary and exchange variations.

(xii) Investments

The investments in subsidiaries are recorded and evaluated based on the equity accounting method, recognized in the result for the year as operating income (or expense), and the other investments at acquisition cost. The exchange rate variations on investments in foreign subsidiaries, with functional currency other than that of the parent company, are recognized directly in stockholders' equity in a specific account named "Cumulative translation adjustments" together with the exchange variation of debts designated as hedges.

The financial statements of the companies headquartered abroad were converted into reais through the following procedures:

- Assets and liabilities, converted using the exchange rate at the balance sheet date.
- Initial stockholders' equity, converted using the exchange rate at December 31, 2007.
- Income and expenses, converted by the average exchange rate of each month.

The goodwill calculated in the acquisition of companies, the basis of which is the market value of their fixed assets, is being amortized through the realization, either through depreciation or sale of the related assets. In the consolidated, this goodwill was added to the assets that originated it.

(xiii) Property, plant and equipment

Property, plant and equipment are recorded at acquisition, formation or construction cost (including interest and other financial charges) plus the spontaneous revaluation made in 1989 and monetary restatement up to 1995. Depreciation of machinery, equipment and facilities is based on the method of units produced taking into consideration the useful life of the assets. For other items of property, plant and equipment, the straight-line method of depreciation is being used. Depletion of forest reserves is based on the volume of wood extracted in the period.

(xiv) Intangible assets

Intangible assets comprise trademarks, patents, rights to use software and goodwill based on the expectation of future profitability of acquired companies. This goodwill was amortized up to December 31, 2008 according to projections of results and will have its recoverability tested annually.

(xv) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed to identify evidence of unrecoverable losses annually, and also whenever events or alterations in the circumstances indicate that the book value may not be recoverable. In this case, the recoverable value is calculated to verify if there is any loss. In the event of loss, it is recognized at the amount by which the book value of the asset exceeds its recoverable value, which is the higher between the net sales price and the value in use of the asset. For evaluation purposes, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(b) Current and long term liabilities

(i) Provisions

Provisions are recognized when the Company has a legal or informal present obligation as a result of past events, it is probable that a cash outflow is necessary to settle the obligation, and a reliable estimate of the amount can be made.

(ii) Borrowings

Borrowings are initially recognized at fair value, upon the receipt of funds, net of transaction costs. Subsequently, the borrowings are presented at amortized cost, i.e., plus charges and interest in proportion to the period incurred (pro rata temporis).

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(iii) **Deferred income tax and social contribution**

Deferred tax assets are recognized to the extent that it is probable sufficient future taxable profit will be available to be offset by temporary differences and/or tax losses, considering projections of future income based on internal assumptions and future economic scenarios which may, therefore, suffer changes.

(iv) **Transition Tax Regime**

The Company and its direct subsidiaries shall elect the Transition Tax Regime (RTT) according to the Provisional Measure 449/08 and will manifest their election in the Corporate Annual Income Tax Return for 2009.

(c) Benefits to employees

(i) **Private pension plan**

The Company offers to all employees a defined contribution plan managed by Fundação Itaúsa Industrial. The effective plan regulation establishes the sponsors contributions between 50% and 100% of the amount provided by the employees.

(ii) **Profit sharing**

The Company remunerates its coworkers through profit sharing if the performance targets established are attained.

(iii) **Share-based remuneration**

The Company offers to the executives, duly approved by the Options Committee, a stock option plan according to which it receives their services in return for to the options to purchase shares. The fair value of these options, calculated at the grant date, is recognized as expense with a contra-entry to stockholders' equity during the vesting period.

(d) Determination of results of operations

Income and expenses are recognized on the accrual basis of accounting. Revenue from sales and cost of sales are taken to income when the related risks and benefits are transferred to the buyer.

4 Consolidated Financial Statements

The consolidated financial statements were prepared in conformity with the accounting practices adopted in Brazil and the rules issued by the Brazilian Securities Commission (CVM) and comprise the financial statements of the Company and those subsidiaries where it has direct or indirect control.

The consolidated financial statements include the companies: Duratex S.A. and its direct subsidiaries: Duraflora S.A., Duratex Empreendimentos Ltda., Duratex Comercial Exportadora S.A., Deca Indústria e Comércio de Materiais Sanitários Ltda., Cerâmica Monte Carlo S.A. and DRI - Resinas Industriais S.A.; and its indirect subsidiaries Duratex Overseas, Duratex North America Inc., Duratex Europe N.V., TCI Trading S.A. and Deca Piazza S.A.

Intercompany investments between the consolidated companies, in proportion to their equity interests, as well as intercompany assets, liabilities, income, expenses and unrealized profits, have been eliminated.

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

	Net Income		Stockholders' equity	
	2008	2007	2008	2007
Parent company	313,805	318,646	1,731,575	1,556,566
Unrealized results on inventories, net of tax effects	8	221	(32)	(41)
Consolidated	313,813	318,867	1,731,543	1,556,525

5 Cash and Cash Equivalents

	Parent company		Consolidated	
	2008	2007	2008	2007
Cash	179	172	385	175
Bank current accounts	5,891	7,338	14,761	10,525
Fixed income funds	72	129,060	52,917	179,818
Bank deposit certificates	199,506	137,859	377,628	266,383
Investments in foreign currency securities	152,434	295,798	152,434	295,798
	358,082	570,227	598,125	752,699

In Brazil, the balance of financial investments is comprised of investment funds and bank deposit certificates, remunerated in accordance with the variation of the Interbank Deposit Certificate (CDI). Abroad, it is comprised of investment funds in reais and US dollars, which are remunerated based on the CDI and interest rates, respectively.

The Bank Deposit Certificates, although maturing in the long term, may be redeemed at any time without affecting the remuneration.

6 Clients

	Parent company		Consolidated	
	2008	2007	2008	2007
Local	349,241	355,808	364,426	355,614
Foreign	-	-	35,874	27,896
Discounted drafts	-	-	(21,869)	(7,185)
Allowance for doubtful accounts	(35,934)	(39,606)	(39,871)	(40,361)
	313,307	316,202	338,560	335,964

7 Inventories

	Parent company		Consolidated	
	2008	2007	2008	2007
Finished products	90,121	61,049	132,180	96,310
Work in progress	30,640	26,779	31,466	26,788
Raw materials	57,803	44,417	66,738	49,614
General warehouse	42,319	41,431	43,611	42,264
Advances to suppliers	1,144	2,110	1,160	2,110
	222,027	175,786	275,155	217,086

8 Tax Credits

	Parent company		Consolidated	
	2008	2007	2008	2007
Short term				
Deferred income tax and social contribution	25,424	18,846	35,023	20,387
Income tax and social contribution recoverable	16,754	-	23,102	6,209
ICMS/PIS/COFINS on acquisition of property, plant and equipment	26,189	8,844	27,968	10,249
COFINS to offset	-	-	8,264	-
PIS to offset	-	-	227	-
ICMS and IPI recoverable	-	-	2,224	-
Other credits	319	48	319	48
	68,686	27,738	97,127	36,893
Long term				
Deferred income tax and social contribution	31,661	28,677	41,828	37,568
ICMS/PIS/COFINS on acquisition of property, plant and equipment	56,459	13,242	58,464	14,942
	88,120	41,919	100,292	52,510

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9 Related Parties

(a) Transactions with subsidiaries

Transactions between subsidiaries, mainly purchases and sales of products, were carried out at prices and under terms and conditions compatible with those of the market. These transactions are carried out between the parent company and its subsidiaries, and the balances are eliminated upon consolidation.

Parent company	Duratex Coml. Exportadora		Duraflora		TCI Trading	
	2008	2007	2008	2007	2008	2007
Assets						
Clients	2	2,624	2	15	-	-
Dividends receivable	10,054	573	19,034	9,234	-	-
Accounts receivable	-	7	66	65	5	2
Subsidiaries	8,497	-	23,607	-	-	-
Liabilities						
Suppliers	-	-	30,756	10,759	85,262	2,726
Accounts payable	55,947	23,642	-	-	-	-
Subsidiaries	-	2,749	-	5,138	-	-
Results						
Sales	91,772	111,851	126	157	-	-
Purchases	-	1,036	173,803	166,931	289,544	66,036
Financial	(19,909)	9,859	1,004	632	(48,511)	-

(b) Management compensation

The compensation paid or to be paid to the main executives of the Company Management was R\$ 16,840 as fees (R\$ 17,078 in 2007) and R\$ 9,653 as profit sharing (R\$ 10,903 in 2007).

Long term compensation represented by stock options was R\$ 16,121 (R\$ 20,043 in 2007).

Duratex Empreendimentos		Deca Indústria e Comércio		Cer. Monte Carlo		DRI - Resinas Industriais		Total	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
-	-	177	-	-	-	-	-	181	2,639
-	-	-	-	543	-	-	-	29,631	9,807
-	-	19	-	15	-	267	-	372	74
-	-	-	-	-	-	-	-	32,104	-
-	-	855	-	-	-	-	-	116,873	13,485
-	-	-	-	-	-	-	-	55,947	23,642
5,488	1,202	-	-	-	-	-	-	5,488	9,089
-	-	718	-	-	-	-	-	92,616	112,008
-	-	24,029	-	-	-	-	-	487,376	234,003
(216)	(136)	-	-	-	-	-	-	(67,632)	10,355

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10 Investments in Subsidiaries

Changes

	Duratex Coml. Exp.	Duraflora	Duratex Empreendimentos	Deca Ind. e Comércio
Shares/quotas held (thousand)				
Common	231	130		
Preferred	369	37		
Quotas			2,874	121,569
Holding - %	99.94	100.00	100.00	58.87
Capital	43,000	192,452	2,874	121,569
Stockholders' equity	109,683	446,357	5,565	154,431
Net income (loss) for the period	42,884	79,459	502	5,414
Changes in investments				
At January 1, 2007	65,547	315,483	4,693	
Equity in the results	3,956	38,375	370	
Exchange variation				
Dividends	(573)	(9,234)		
At December 31, 2007	68,930	344,624	5,063	
Prior year adjustments	5,303	3,581		
Goodwill on the acquisition of subsidiaries				
At December 31, 2007	74,233	348,205	5,063	
Acquisition of subsidiaries				16,843
Capital increase		34,740		57,174
Equity in the results	43,192	79,100	502	(8,102)
Reflected equity in the results	313			
Exchange variation				
Dividends/rev. dividends	(10,193)	(27,051)		
Advance for future capital increase		8,620		25,000
At December 31, 2008	107,545	443,614	5,565	90,915
Goodwill on the acquisition of subsidiaries				
At December 31, 2008	107,545	443,614	5,565	90,915

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

The unamortized goodwill related to the appreciation of assets and liabilities, in the amount of R\$ 31,864, was generated due to the acquisition of the companies Ideal Standard do Brasil (present Deca Indústria e Comércio de Materiais Sanitários Ltda.) in April 2008, Cerâmica Monte Carlo S.A. in August 2008 and the subsidiary Duraflora in the amount of R\$ 336 (R\$ 403 in December 2007). The goodwill related to the expectation of profitability is recorded in Intangible assets.

		Direct					Indirect (*)
Cer. Monte Carlo	DRI - Resinas Industriais	Total	Deca Piazza	North America	Duratex Overseas	Duratex Europe	TCI Trading
2,810	25		10,446	500	50	3	1,230
	25						1,230
100.00	99.00	-	100.00	100.00	100.00	100.00	82.00
2,810	50		5,876	886	89	19,904	3,000
12,578	50		11,595	16,534	45,956	38,537	3,233
2,300			(891)	(1,003)	(3,705)	(993)	2,499
		385,723	9,133	12,854	53,346	9,896	2,542
		42,701	3,182	2,685	9,048	4,013	1,766
			(1,772)	(2,118)	(8,256)	(830)	
		(9,807)	(240)	13	(16,190)	(3,159)	(1,759)
		418,617	10,303	13,434	37,948	9,920	2,549
		8,884					
		403					
		427,904					
6,712	50	23,605					2,225
		91,914				18,970	-
2,409		117,101	(154)	(63)	7,939	145	-
		313					-
(543)	-	(37,787)	1,568	3,405	67	9,502	
4,000		37,620	(122)	(242)			(2,123)
			-			-	-
12,578	50	660,670	11,595	16,534	45,954	38,537	2,651
		31,461					
12,578	50	692,131	11,595	16,534	45,954	38,537	2,651

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11 Property, Plant and Equipment and Forest Reserves

	Parent company			Consolidated				Annual depreciation rates – %	
	2008	2007		2008	2007				
	Cost	Depreciation	Net carrying value	Net carrying value	Cost	Depreciation	Net carrying value	Net carrying value	
Land and buildings	58,006		58,006	59,120	469,393		469,393	347,757	
Structures and improvements	299,047	(157,332)	141,715	140,183	347,111	(181,113)	165,998	142,355	4
Machinery, equipment and facilities	1,116,688	(518,060)	598,628	577,514	1,208,855	(581,728)	627,127	593,405	4.92
Construction in progress	327,415		327,415	35,355	381,907		381,907	70,614	
Furniture and fixtures	18,228	(13,400)	4,828	4,662	25,943	(20,133)	5,810	4,922	10
IT equipment	20,387	(15,770)	4,617	4,570	21,267	(16,427)	4,840	4,740	20
Vehicles	12,518	(7,687)	4,831	3,862	26,781	(15,009)	11,772	7,887	20 e 25
Other assets	54,043	(31,302)	22,741	19,803	62,571	(36,660)	25,911	21,032	10 a 20
	1,906,332	(743,551)	1,162,781	845,069	2,543,828	(851,070)	1,692,758	1,192,712	
Forest reserves					182,184		182,184	130,679	
	1,906,332	(743,551)	1,162,781	845,069	2,726,012	(851,070)	1,874,942	1,323,391	

Construction in progress substantially refers to structures and machinery and equipment being installed.

In connection with the Investment Plan (PAR) disclosed on March 12, 2007 and May 7, 2008, the Company signed agreements for the acquisition of various equipment and services totaling approximately R\$ 439 million in commitments assumed.

12 Intangible Assets

	Parent company				Consolidated			
	2008	2007			2008	2007		
	Cust	Amortization	Net carrying value	Net carrying value	Cust	Amortization	Net carrying value	Net carrying value
Softwares	17,344	(9,434)	7,910	4,650	17,554	(9,573)	7,981	4,668
Trademarks and patents	1,534		1,534	1,458	1,538		1,538	1,462
Goodwill from future profitability	22,918	(764)	22,154		22,918	(764)	22,154	
	41,796	(10,198)	31,598	6,108	42,010	(10,337)	31,673	6,130

13 Loans and Financing

Financing subject to foreign exchange variation is restated based on the respective exchange rate in effect on 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	Guarantees	2008		2007	
				Short-term	Long-term	Short-term	Long-term
BNDES	TJLP + 2.7% p.a.	Monthly and quarterly	Surety	23,671	193,533	25,169	121,858
Industrial credit	95.4% CDI	April 2010	Surety	12,610	140,000		
Industrial credit	TR + 10.5% p.a.	February 2009	Surety	22,038		21,823	
Discount - Rural Promissory Note (NPR)	6.75% p.a.	June 2009	Surety	10,000		9,794	
Industrial credit - FAT	TJLP + 2.5% p.a.	September 2008	Surety			4,071	
FINAME	TJLP + 2.8% p.a.	Monthly	Chattel mortgage and promissory note	293	481	591	612
Local currency				68,612	334,014	61,448	122,470
Resolution 2,770	US\$ + 6.6% p.a.	August 2010	Surety	79,824	102,827	611	35,426
Resolution. 2,770 with "swap"	JPY + 1.6% p.a.	August 2010	Surety	3,223	148,618	36,421	176,261
BNDES	Currency basket + 2.3% p.a.	Monthly and quarterly	Surety	3,984	32,610	2,757	10,019
Foreign currency				87,031	284,055	39,789	221,706
Total parent company				155,643	618,069	101,237	344,176
Rural Credit Note	TR + 9.5% p.a.	October 2009	Surety	90,489		1,230	80,000
Rural Credit Note	12.3% p.a.	July 2009	Surety	10,128			
Industrial credit - BNB	14.1% p.a.	Monthly	Surety		4,302		
FUNDAP	1% p.a.	Monthly	Surety	1,959		502	
BNDES	TJLP + 4.0% p.a.	Monthly	Chattel mortgage and promissory note		1,445		
FINAME	TJLP + 4.0% p.a.	Monthly		342	66	940	405
BNDES - EXIM	TJLP + 2.6% p.a.	October 2008	Promissory note			34,399	
Industrial credit - FAT	TJLP + 3.3% p.a.	Monthly	Surety			8,548	
Local currency				102,918	5,813	45,619	80,405
Import financing	US\$ + 4.5% p.a.	Up to May 2010	Promissory note	88,618	25,142	34,958	
ACC	US\$ + 4.7% p.a.	Up to September 2009		87,894		57,169	
BNDES	Currency basket + 4% p.a.	Monthly	Surety		334		
BNDES - EXIM	US\$ +9.8% p.a.	October 2008	Promissory note			7,172	
Foreign currency				176,512	25,476	99,299	
Total other companies				279,430	31,289	144,918	80,405
Total consolidated				435,073	649,358	246,155	424,581

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Sureties for Duratex S.A. loans were provided by Itaúsa S.A. in the amount of R\$ 253,282 (December 2007 - R\$ 157,745) and Duratex Comercial Exportadora S.A. in the amount of R\$ 22,553 (December 2007 - R\$ 37,745).

Sureties for loans obtained by subsidiaries were provided by Duratex S.A. in the amount of R\$ 214,423 (December 2007 - R\$ 166,307).

Long-term maturities

Year	2008			
	Parent company		Consolidated	
	Local currency	Foreign currency	Local currency	Foreign currency
2010	163,974	209,482	166,166	234,746
2011	21,049	4,379	22,391	4,500
2012	26,602	51,119	27,762	51,210
2013	30,185	4,379	31,144	4,379
2014	30,145	4,379	30,305	4,379
2015	33,330	5,776	33,330	5,776
2016	27,831	4,189	27,831	4,189
Thereafter	898	352	898	352
	334,014	284,055	339,827	309,531

Year	2007			
	Parent company		Consolidated	
	Local currency	Foreign currency	Local currency	Foreign currency
2009	22,335	45,238	102,675	45,238
2010	13,019	135,149	13,084	135,149
2011	9,793	893	9,793	893
2012	15,333	36,319	15,333	36,319
2013	18,907	893	18,907	893
2014	18,907	893	18,907	893
Thereafter	24,176	2,321	24,176	2,321
	122,470	221,706	202,875	221,706

14 Income Tax and Social Contribution

(a) Reconciliation of income tax and social contribution

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

	Parent company		Consolidated	
	2008	2007	2008	2007
Income before income tax, social contribution and profit sharing	415,825	427,917	446,312	461,502
Income tax and social contribution on net income at the rates of 25% and 9%, respectively	(141,381)	(145,492)	(151,746)	(156,911)
Income tax and social contribution on additions and deductions in results				
Non-deductible provisions	399	(986)	2,616	(3,067)
Foreign investment			2,639	(2,254)
Interest on own capital – paid	27,632	33,666	27,632	33,666
Shareholdings	869	945	869	981
Equity in the results	39,814	14,518		
Yield of foreign securities	10,588	7,372	10,588	7,372
Other additions and deductions	9,393	9,265	26,670	8,690
Income tax and social contribution on net income for the year	(52,686)	(80,712)	(80,732)	(111,523)

(b) Tax credits arising from temporary differences

	Parent company		Consolidated	
	2008	2007	2008	2007
Income tax and social contribution losses			3,686	420
Temporarily non-deductible provisions	57,085	47,523	73,165	57,535
Provisions for sundry labor charges	11,208	9,140	12,765	10,349
Tax provisions	20,268	17,506	27,409	24,078
Allowance for doubtful accounts	3,543	3,227	4,517	3,381
Provision for commissions payable	818	748	818	748
Swap result (cash vs accrual basis)	16,580	30,489	16,580	30,489
Deferred exchange variation expense		(18,767)		(18,767)
Sundry provisions	4,668	5,180	11,076	7,257
Total tax credits (*)	57,085	47,523	76,851	57,955
Tax liabilities	(23,488)	(9,987)	(27,197)	(12,593)
Income tax and social contribution on revaluation reserve	(8,377)	(9,447)	(8,377)	(9,447)
Deferred income tax and social contribution ("swap")	(11,813)		(11,813)	
Deferred income tax and social contribution (depreciation/credit 25% social contribution)	(3,298)	(540)	(7,007)	(3,146)

(*) These amounts are recorded as short- and long-term tax credits, in "deferred income tax and social contributions", in Note 8.

15 Contingencies

The Company and its subsidiaries are parties to judicial and administrative labor, civil and tax lawsuits in several courts and governmental departments, arising from the normal course of its activities. The analysis of the balance, net of judicial deposits, is stated below.

The corresponding provisions for contingencies were recorded considering the estimates of losses by the Company's legal advisors and are backed by judicial deposits, when necessary.

The Company's management, based on the opinion of its legal advisors, believes that these provisions are sufficient to cover losses on judicial processes, as follows:

(a) Analysis

	Parent company		Consolidated	
	2008	2007	2008	2007
Lawsuits				
Tax	68,025	65,076	114,862	109,248
Labor	5,572	1,526	8,073	3,077
Civil	5,779	6,049	5,779	6,174
Total	79,376	72,651	128,714	118,499

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(b) Changes

	Parent company							
	Tax		Labor		Civil		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Opening balance at January 1	65,076	63,756	1,526	2,493	6,049	5,865	72,651	72,114
Monetary restatement and interest	3,696	3,961	1,709	552	1,156	717	6,561	5,230
Appropriation	336	6,514	5,559		167	623	6,062	7,137
Reversal	(63)	(2,104)	(2,415)	(1,121)	(1,422)	(991)	(3,900)	(4,216)
Payment	(668)	(3,326)	(1,061)	(637)	(220)	(274)	(1,949)	(4,237)
Judicial deposits	(352)	(3,725)	254	239	49	109	(49)	(3,377)
Closing balance at December 31	68,025	65,076	5,572	1,526	5,779	6,049	79,376	72,651

	Consolidated							
	Tax		Labor		Civil		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Opening balance at January 1	109,248	107,577	3,077	3,903	6,174	5,981	118,499	117,461
Monetary restatement and interest	5,818	6,240	2,438	949	1,160	724	9,416	7,913
Appropriation	5,801	7,297	7,197		167	625	13,165	7,922
Reversal	(6,836)	(2,637)	(4,074)	(1,353)	(1,551)	(991)	(12,461)	(4,981)
Payment	(668)	(3,646)	(1,248)	(820)	(220)	(274)	(2,136)	(4,740)
Judicial deposits	1,499	(5,583)	683	398	49	109	2,231	(5,076)
Closing balance at December 31	114,862	109,248	8,073	3,077	5,779	6,174	128,714	118,499

Tax contingencies mainly refer to legal discussions regarding the Summer Plan ("Plano Verão") and the semi-annual PIS credit calculation.

(i) Summer Plan ("Plano Verão")

Refers to a legal measure aimed at obtaining the recognition of the right to monetarily restate the balance sheet for 1989 through the full application of the Consumer Price Index (IPC) (gross rate) of 70.28%, thus avoiding the distortions caused by the non-recognition of inflation on the Company's balance sheet and, consequently, on taxation of results. The Company obtained an injunction recognizing its right to restate the balance sheet at the rate of 42.72%. Although the Company is still awaiting the decision of the Federal Regional Court (TRF), after the injunction was obtained, it started to offset these tax credits within the limits established by the decision of the first instance court. At December 31, 2008, the Company maintained a provision of R\$ 44,460 (December 31, 2007 - R\$ 42,876) for the offsets made against income tax and social contribution on net income.

(ii) PIS - Semi-annual basis

Refers to a declaratory action aimed at recognizing the right to pay PIS under the terms of Supplementary Law 7/70. Such action was deemed valid and was finally ruled in 1997, which is the reason that led the Company to offset the amounts related to the credits estimated in accordance with an internal procedure. However, the Company has been discussing, at the judicial level, the suspension of the time limit for the offset of credits, which is also subject to approval by the tax authorities. In view of this discussion, the Company is provisioning the income tax, social contribution, IPI, PIS and COFINS amounts already offset, which totaled R\$ 52,366 at December 31, 2008 (December 31, 2007 - R\$ 49,135).

Furthermore, the Company and its subsidiaries are parties to other tax, labor and civil lawsuits, amounting to R\$ 29,740 (December 31, 2007 - R\$ 30,945) and, since an unfavorable outcome is regarded only possible by the legal advisors, no provisions are being recorded for them.

(c) Contingent assets

The Company and its subsidiaries are discussing, at the judicial level, the reimbursement of PIS and Income Tax on Net Income (ILL) credits, totaling R\$ 11,600 (December 31, 2007 - R\$ 31,933), and a favorable outcome is regarded as probable in the opinion of legal advisors.

The Company and its subsidiaries do not record such contingent assets, as the claims do not meet the accounting requirements set out in NPC 22 (CVM Resolution 489 of October 3, 2005).

16 Stockholders' Equity

(a) Capital

Duratex S.A.'s authorized capital comprises 200,000,000 (two hundred million) shares, of which 80,000,000 are common and 120,000,000 are preferred shares.

The paid-up capital in the amount of R\$ 943,626, comprises 129,695,415 book shares with no par value, of which 53,555,963 are common shares and 76,139,452 are preferred shares.

(b) Treasury shares

The Company has preferred shares in treasury as follows:

	Number	
	2008	2007
Preferred	2,620,000	550,000

Type	Price			
	Minimum	Maximum	Average weighted	Last quotation
Preferred	12.30	60.30	28.81	14.39

Based on the most recent market quotation on December 30, 2008, the value of treasury shares is R\$ 37,702 (December 31, 2007 - R\$ 23,925).

During the year, the Company repurchased a total of 2,070,000 preferred shares, which will be used to cover the exercise of options under its stock option program (Note 20).

(c) Stockholders' equity reserves

Stockholders' equity reserves are as follows:

	Parent company		Consolidated	
	2008	2007	2008	2007
Capital reserves	236,744	200,505	236,744	200,505
Premium on subscription of shares	168,487	168,487	168,487	168,487
Fiscal incentives	13,592	13,592	13,592	13,592
Prior to Law 6404	18,426	18,426	18,426	18,426
Options granted	43,289		43,289	
Options granted to be appropriated	(7,050)		(7,050)	
Revaluation reserve	106,550	110,830	106,550	110,830
Revenue reserves	443,880	301,605	443,848	301,564
Legal	45,411	29,721	45,411	29,721
Special statutory (Article 16 of the by-laws)	473,964	299,094	473,932	299,053
Treasury shares	(75,495)	(27,210)	(75,495)	(27,210)
Cumulative translation adjustments	775		775	

The balance appropriated to the "Special statutory reserve" will be used for the expansion of the Company's businesses, through capital increases in the investees or the Company itself, or for the payment of dividends to stockholders.

The amounts related to Options Granted, in Capital reserves, refer to the recognition of the fair value of the options at the date of granting.

The cumulative translation adjustments refer to the effects arising from exchange variation on the investments in foreign indirect subsidiaries and the exchange variation of debts in foreign currency used as hedges of these investments.

(d) Dividends

The Company's by-laws assure stockholders of a minimum mandatory dividend corresponding to 30% of adjusted net income. According to Law 9249/95, as proposed by the Board of Directors, the amount of R\$ 109,584 was appropriated for the distribution of dividends, comprising R\$ 87,227 of interest on own capital and R\$ 22,357 of dividends, of which R\$ 54,256 refers to the second half of the year, corresponding to R\$ 0.43 per share in the year (R\$ 0.86 in 2008).

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Net income for the year	313,805
Legal reserve	15,690
Realization of revaluation reserve	4,242
Adjusted net income	302,357
Mandatory minimum dividends (30%)	90,707
Dividends declared for the year	
Dividends	22,357
Interest on own capital	87,227
(-) Income tax	13,084
Net remuneration	96,500
Composition of gross remuneration of dividends for the year	
Dividends	22,357
Interest on own capital	87,227
Gross remuneration for the year	109,584

17 Insurance Coverage

At December 31, 2007, the Company and its subsidiaries had insurance coverage against fire and sundry risks for property, plant and equipment and inventories in the amount of R\$ 178 million.

18 Financial Instruments

Duratex and its subsidiaries are exposed to market risks related to oscillation of interest rates, exchange rates and credit variations. The Company has policies and procedures to manage these situations and may use hedge instruments to decrease the impacts of these risks. Such policies and procedures include the monitoring of the exposure level to each market risk, besides establishing limits for the related decision taking. All the hedge instruments utilized by the Company aim at protecting its debts and investments, and it does not and did not carry out any transaction with leveraged financial derivatives that has negatively affected the result of different companies.

(a) Identification and valuation of financial instruments

The Company utilizes several financial instruments, especially cash and cash equivalents, financial investments, trade notes receivable, accounts payable to suppliers and loans and financing. In addition, the Company also utilizes with derivative financial instruments, especially swap transactions

(b) Liquidity risk

This is the risk of the company not having sufficient net resources to honor its financial commitments, due to the mismatching of term or volume between the receipts and payments.

To manage the liquidity in local and foreign currency, disbursement assumptions and future receipts are established monitored daily by Treasury.

(c) Credit risks

The sales policy is closely associated with the level of credit risk the Company is willing to take in the course of its businesses. The diversification of the receivables portfolio, the selectivity of customers, and the monitoring of the due dates of financed sales and individual limits are procedures adopted to mitigate default or losses on the realization of its accounts receivable.

As regards its financial investments and other investments, the Company policy is to work with first-rate institutions and not have investments concentrated in a single economic group.

(d) Interest rate risk

This is the risk of the Company having economic losses due to adverse changes in these rates. This risk is continuously monitored with the objective of evaluating the possible need to contract derivative transactions to protect against their volatility.

Table of the instruments with swap of indices:

Operation	Original index	New index	Base amount
Investment Spanish Government Note	Fixed rate in reais of 9.54% p.a.	77.15% of CDI (*)	42,450
Rural loan – Banco do Brasil	T.R. + 9.55% p. a.	96.60% of CDI	80,000

(*) Rate exempt from IR+CSLL, equivalent to 116.89% of CDI.

(e) Exchange rate risk

This risk corresponds to the reduction in the value of the Company's assets or the increase in its liabilities due to changes in the exchange rate. The Company maintains a risk policy that establishes the amount in foreign currency to which it may be exposed to variations in relation to the local currency, with the objective that the exchange rate variations do not significantly affect the Company results.

As part of the policy for risk management, the Company periodically monitors its net exposure in foreign currency ("natural hedge") and contracts hedge instruments to protect a substantial part of its currency exposure.

Table of the transactions in foreign currency subject to exchange rate variation:

Assets in foreign currency		Liabilities in foreign currency	
Imports in progress	55,465	BNDES	36,938
Foreign trade accounts receivable	27,157	Resolution 2,770	334,492
Duratex Overseas	40,592	Financing of imports	113,760
"Swap"/NDF/Yen/US\$/Eur x CDI	461,048	Advance on export contracts	55,733
		Suppliers	49,337
Total assets + financial instruments	584,262	Total liabilities	590,260
Foreign exchange coverage (exposure)	(5,998)		

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I Transactions with derivatives

In the transactions with derivatives there are no verifications, monthly settlements or margin calls, and the contract is settled upon maturity, being recorded at fair value, considering the market conditions, as regards terms and interest rates.

1 - Swap contract TR + interest vs. % of CDI

The Company has one contract of this modality, the notional value of which is R\$ 80,000, with a single maturity on October 20, 2009, a receiving position in TR + interest and a paying position at a percentage of CDI.

The Company contracted this transaction with the objective of transforming a debt in TR into a debt indexed to a percentage of CDI.

2 - Swap contract % of CDI vs. fixed rate

The Company has one contract of this modality, the added notional value of which is R\$ 42,450, falling due on April 14, 2009 with a receiving position at a percentage of CDI and a paying position at a fixed rate.

The Company contracted this transaction with the objective of transforming the return on an investment with a fixed rate to one indexed to a percentage of CDI.

3 - NDF Contracts (Non Deliverable Forward) US\$/R\$

The Company has three contracts of this modality, the notional value of which is US\$ 63,000,000, falling due on January 30, 2009 and a call position in US\$.

The Company contracted these transactions with the objective of changing liabilities in US dollars to reais.

The contracts are settled on their respective maturities, considering the difference between the forward exchange rate (NDF) and the spot exchange rate (PTA0800).

4 - Swap contracts US\$ vs. CDI

The Company has six contracts of this modality, the added notional value of which is US\$ 48,000,000 with different maturities up to July 20, 2010, with an asset position (call) in US dollar and liability position (put) in CDI.

The Company contracted these transactions with the objective of changing debts in US dollars to debts indexed to CDI.

5 - Swap contract YEN vs. CDI

The Company has one contract of this modality, the added notional value of which is R\$ 100,000,000 falling due on August 13, 2010, with an asset position (call) in Japanese yen and liability position (put) in CDI.

The Company contracted this transaction with the objective of changing a debt in Japanese yen to a debt indexed to CDI.

6 - Swap contract EUR vs. CDI

The Company has one contract in this modality, the added notional value of which is EUR 8,930,000 falling due on April 22, 2009, with an asset position (call) in Euros and liability position (put) in CDI.

The Company contracted this transaction with the objective of changing a debt in Euros to a debt indexed to CDI.

II - Calculation of fair value of the positions

The fair value of the financial instruments was calculated using the pricing made through the present value estimated in an independent manner for both the asset and liability positions, such that the difference between them represents the market value of the swap.

Table of the consolidated position of derivative financial instruments:

Description	Reference value (notional)		Fair value		Amount receivable received	Amount payable paid
	2008	2007	2008	2007		
Swap contracts						
Call position						
Rates (ITR)	80,000	80,000	90,105	86,056		
Indices (CDI)	42,450		45,047	42,180	41	
Foreign currency	238,238	214,038	316,948	209,933	38,379	
Put position						
Indices (CDI)	(80,000)	(80,000)	(90,724)	(87,751)		619
Rates (Fixed)	(42,450)		(45,007)	(41,915)		
Indices (CDI)	(238,238)	(214,038)	(324,686)	(290,494)		46,116
Forward contracts (NDF)						
Purchase commitment						
Foreign currency	148,382		(4,346)			4,346
					38,420	51,081

The losses on the instruments listed in the table were offset against gains in interest and foreign currency positions, assets and liabilities, the effects of which are already expressed in the financial statements.

The balance of derivatives is recorded in assets and liabilities (short and long term accounts payable and receivable) with a contra-entry to financial result.

Sensitivity Analysis

The table below presents the sensitivity analysis of the financial instruments, which describes the risks that may generate significant losses for the Company, with one Probable Scenario (Base Scenario) and two more scenarios in accordance with CVM Instruction 475/08, to describe the 25% and 50% deterioration of the risk variable.

For the rates of risk variables used in the Probable Scenario, the BMF&BOVESPA/Bloomberg quotations were used for the related maturity dates.

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Instrument/operation	Risk	Description	Rates	Probable scenario	Possible scenario	Remote scenario
"Swap - TR/CDI	Interest rate	Increase CDI	11.9%	1,072	(938)	(2,937)
Swap - CDI/fixed	Interest rate	Decrease CDI	11.9%	(92)	(363)	(638)
Swap - US\$/CDI	Exchange	Decrease US\$	R\$ 2.44	(6,638)	(43,476)	(84,771)
Object "hedged" by foreign currency loan (US\$)	Exchange	(Increase US\$)	R\$ 2.44	6,638	43,476	84,771
Net effect				Null	Null	Null
Swap - JPY/CDI		Decrease Yen	R\$ 0.03	(458)	(44,372)	(77,308)
Object "hedged" by foreign currency loan (Yen)	Exchange	(Increase Yen)	R\$ 0.03	458	44,372	77,308
Net effect				Null	Null	Null
Swap - Eur/CDI		Decrease Euro	R\$ 3.00	(3,186)	(10,061)	(16,936)
Object "hedged" by foreign currency loan (Euro)	Exchange	(Increase Euro)	R\$ 3.00	3,896	10,594	17,291
Net effect				710	533	355
NDF - US\$		Decrease US\$	R\$ 2.30	(1,970)	(37,845)	(73,720)
Object "hedged" by foreign currency loan (US\$)	Exchange	(Increase US\$)	R\$ 2.30	1,242	37,117	72,992
Net effect				(728)	(728)	(728)
				962	(1,496)	(3,948)

The sensitivity analysis presented above considers changes relating to the variances of risks assumed, maintaining unchanged all other variables.

19 Private Pension Plan

Duratex S.A. and its subsidiaries are the sponsors of Fundação Itaúsa Industrial, a not-for-profit entity whose by-laws were approved by Ordinance 144/2004 of the Social Security Ministry (MPAS), and the purpose of which is to manage private pension plans for the concession of bonus benefits or supplementary income or benefits similar to those of Social Security. Fundação Itaúsa manages a Defined Benefit Plan and a Defined Contribution Plan.

(a) Defined benefit plan

The main purpose of this plan is to provide a lifetime monthly income, in order to supplement benefits paid by the government social security system, in accordance with its by-laws. This plan is being phased out and accepts no new participants.

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 and death benefit.

As required by CVM Resolution 371, following the combination of the plans, the independent actuary, Towers, Perrin, Foster & Crosby Ltda., calculated that Fundação Itaúsa Industrial had an overall actuarial surplus of R\$ 42,389 at December 31, 2008 (December 2007 - R\$ 47,288), under the projected unit credit method.

The defined benefit plan funding status is as follows, after combination of the plans:

	2008	2007
Retirement plan		
Current value of the actuarial liability	62,705	56,656
Fair value of the plan assets	105,094	103,944
Surplus coverage	42,389	47,288
Annual estimated actuarial gains		
Net cost of current service	(118)	(118)
Interest on actuarial liability	(5,523)	(4,983)
Earnings expected on the plan assets	11,288	10,156
Actuarial gain	5,647	5,055
Economic assumptions		
Discount rate	9.20% p.a.	9.20% p.a.
Investment return rate	11.02% p.a.	10.01% p.a.
Salary increase	7.12% p.a.	7.12% p.a.
Benefits adjustment	4.00% p.a.	4.00% p.a.
Inflation	4.00% p.a.	4.00% p.a.
Capacity factor		
Salaries	100.00%	100.00%
Benefits	100.00%	100.00%
Demographic assumptions		
Mortality table	AT-2000	AT-1983
Mortality table of disabled persons	RRB-1983	RRB-1983
Inception of disability table	RRB-1944	RRB-1944

Actuarial surplus

The actuarial surplus of the Defined Benefit Plan is primarily attributable to the appreciation of assets above the actuarial target, as well as the employee turnover of the sponsors. Such surplus is being used to offset the sponsors' contributions.

The present value of the Plan's future costs, calculated on the projected unit credit (PUC) methods, totals R\$ 1,135 (December 2007 - R\$ 1,208) for all Duratex companies.

(b) Defined Contribution Plan - CD - PAI

This plan is offered to all employees and had 5,139 participants at December 31, 2008 (December 31, 2007 - 5,077).

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% to 100% of the amount paid by the employees.

Pension Plan Fund ("Fundo Programa Previdencial")

The contributions of the sponsors which remained in the plan as a result of redemption or early retirement of participants were used to form the "Fundo Programa Previdencial". In accordance with its rules, these resources are used to offset the sponsors' contributions.

The present value of regular future contributions to the Plan calculated on the PUC method totals R\$ 26,444 at December 31, 2008 (December 2007 - R\$ 24,562).

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20 Stock Option Plan

The objective of the Stock Option 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 have brought to the Company's shares.

Stock options may be granted only in years with sufficient profit so as to permit the distribution of the mandatory dividend to the stockholders and in an amount that does not exceed the limit of 2.5% of total shares owned by the stockholders at the balance sheet date.

The Options Committee is entitled to define the total shares to be granted, the executives to whom they shall be granted, the quantity addressed to each one, the effective term of the series of option, vesting period and conditions and the "blackout" periods for exercising the options.

The option price is calculated taking as a basis a minimum of 5 and a maximum of 60 trading sessions prior to the date of the options issue, with a 20% upward or downward adjustment. This price is readjusted up to the month prior to the option exercise by the IGP-M or, if not available, by another index determined by the Options Committee.

Assumptions and calculation of fair value of the options granted

Assumptions

	2006	2007	2008
Total stock options granted	1,045,000	1,095,250	1,052,750
Exercise price at the grant date	28.41	30.08	39.04
Fair value at the grant date	24.92	22.61	18.48
Deadline for the exercise	10 years	10 years	10 years
Vesting period	1.5 years	1.5 years	1.5 years

The Company recognizes, in the result, during the period of services rendering (vesting period), the cost of the remuneration to the executives based on the fair value of the options at the grant date, using the binomial model for pricing the options at fair value.

To determine this amount the following assumptions were used:

	2006	2007	2008
Volatility of the stock price	34.8	36.6	36.6
Dividend yield – %	2.00	2.00	2.00
Risk-free return rate (*) – %	8.90	7.60	7.20
Effective exercise rate – %	96.63	96.63	96.63

The Company settles this benefit plan by delivering issued shares that it is maintaining in Treasury up to the effective exercise of the options by the executives.

(*) IGP-M coupon.

Statement of value and appropriation of granted options

Grant date	Number granted	Maturity	Deadline for the exercise	Price on grant date	Balance to be exercised		Exercise	Total value	Period of accrual		
					2007	2008			2007	2008	2009
03.30.06	1,045,000	01.07.07	Up to 31.12.16	28.41	23,500	23,500	24.92	586	586		
01.31.07	1,095,250	01.07.08	Up to 31.12.17	30.08	1,095,250	1,095,250	22.61	24,758	16,020	8,738	
02.13.08	1,052,750	01.07.09	Up to 31.12.18	39.04		1,052,750	18.48	19,456		12,160	7,296
	3,193,000				1,118,750	2,171,500		44,800	16,606	20,898	7,296
Effectiveness of exercise %								96.63%	96.63%	96.63%	96.63%
Amount accrued								43,289	16,046 (i)	20,193 (ii)	7,050 (iii)

(i) Amount recorded in retained earnings in the transition balance sheet.

(ii) Amount recorded in results for 2008

(iii) Amount to be appropriated.

At December 31, 2008, the Company owns 2,620,000 shares in treasury that may be used to meet the possible exercise of options.

In 2008, options for 1,052,750 shares were granted, and there was no exercise nor cancellation of options.

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