

## Q3 2013 Earnings Call

### Company Participants

- Alvaro Penteado de Castro, Executive Director

### Other Participants

- Augusto Ensiki, Analyst
- Eduardo Coto, Analyst
- John Brandt, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen and welcome to the audio conference of Duratex, thank you for standing by.

(Operator's Instructions)

I would now like to turn the conference over to Mr. Alvaro Penteado de Castro, Executive Financial and IR Manager. Please sir, go ahead.

#### **Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Hello. Good morning to all of you in the US and good afternoon to all of you in Europe. It is a pleasure to conduct our quarterly conference call on the results we released the day before yesterday. Just for you to notice, yesterday after the market closed we conducted the Portuguese speaking conference call. It was conducted by the CFO, Flavio Donatelli and it was done during our yearly (inaudible) presentation.

So what I am going to do during this English speaking conference call is use the same material that we used yesterday. It is a long one, I will go faster in some topics that are of minor importance with regard to results and you might consult the material later or if you have specific questions about some other issues you may address during the Q & A session.

Starting on slide number two, we bring the highlights for the period ending September 2013, I see the first bullet, Investment is of great importance. The company concluded during the Third Quarter a major investment. Named a new plant of MDF and an important debottleneckment in an MDP productivity. Altogether we are adding something around 150,000 cubic meters worth of extra capacity for (Banos) being 520 in MDF and 230 in MDP.

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We also completed an important project in ceramics, adding about 25% capacity to this segment and in total we invested BRL425 million.

It is important to note that all these investments, they did not generate much revenues during the Third Quarter. We experienced mostly cost given the ramp up period. So from the Fourth Quarter on wards, what we will have is improvement and top line operating results and even on returns on average.

With regard to volume we experienced great momentum in Deca. Volume increased by 12.2% during the year, reaching 21.5 million items during the period. Of course that within this number we have the total of operations that we acquired last year and the beginning of this year from (inaudible). If we disregard these acquisitions, organic growth would have been close to 4%.

Wood, in the Wood segment volume increased by 0.3% during the year, reaching 1.9 cubic meters. It is important to notice that in the Wood division, specifically, the comparison base from January to September 2012 was very strong. The year of 2012 was a record in terms of shipment and the Third Quarter, specifically in that year, was a fantastic quarter.

During this year, 2013, unfortunately we had a set back during the month of July. Our reading is that because of those street protests that took place in the second half of June, they impacted the inventory replenishment during the month of July, effecting our revenues. So when we compare a strong Third Quarter this year with the strong comparison data of 2012, we have this misalignment in terms of performance.

Moving forward let me talk about EBITDA, fantastic results there. In Deca we reached almost BRL250 million. Nearly an increase of 17% and margins reaching 24%.

In the Wood segment almost BRL650 million worth of EBITDA, we are talking about recurrent in adjusted EBITDA. A yearly growth of almost 27% and margin about 35%.

The recurring net income with these operating results reached BRL443 million which represents almost 43% in year-over-year. And these result in the equivalent return on equity of 14.1% during the first nine months of 2013. If we compare to 2012 there is a major increase in returns, ROE, in that year was 10.9%. If we disregard all the financial costs included in the investments, that I mentioned in the beginning of this call, ROE's would have been 100 basis points above what they were for the year. So instead of 14.1% we would have 15.1%.

Moving forward, slide number three, we bring a brief highlight about the major important event in doing the evolution or history of Duratex. You'll note that we were established in the 1950's as a publicly traded company, already. In the 1970's, specifically 1972, we merged with Deca getting this current configuration.

We have with (Banos) and Deca under the same company it is important to notice that this company that we have today is a major effort of three (inaudible), very (inaudible) families

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named (de Lella) when they established Duratex as a panel making in the 1950's. The Setubal's that even before the 1950's started up Deca and (inaudible) that were the former owners of (inaudible) and now they are part of the controlling block along with de Souza families, represented by Setubal's and de Lella.

In the 1990's a major event took place, the (Sego) family required Ligna, in 1997 they decided to expand the operation in Uberada and they also acquired a major mass of land 51,000 hectares of continuous land. In 1997, in Duratex we started up the first MDF line in Brazil. In between 1998 and 1999, major investments in Duratex (inaudible) a new plant of MDF in Botucatu, a new plant of MDP in Itapetininga, a new line of MDF in Agudos.

We also started to acquire companies in the surrounding segment. In the year 2008 we acquired Ideal Standard and CMC.

On the Satipel front they engages into the IPO, listed their shares in Novo Mercado, built a new plant of MDF, so major investments started in that period.

In 2009 there was the big association between Duratex and Satipel, first runners and second runners in the panel making segment. Creating the biggest company, panel makers, in the Southern Hemisphere. Duratex listed shares Novo Mercado, so major improvements in the corporate governance of the company.

In 2010 and 2012 another important moment for this new company. We stated up a new resin plant, integrating the manufacturing of this important raw material for panel making in the state of Sao Paulo. All plants in Sao Paulo state are kept by this resin plant.

And we also began another investment cycle. We acquire land to meet the investment that we made in MDF in Itapetininga, we acquired another ceramics producer, Elizabeth. We acquired a major stake in Tablemac a panel maker in Columbia. And we also acquired Thermosystem and Mipel.

And during the year of 2013 and 2014 we concluded the investments besides electing a new CEO for the company. The former one (inaudible) retired by age and he was conducted to the Board. So he is now is the tenth Board member of Duratex.

The new CEO joining our team comes from inside Duratex. He has a long history with Duratex. He was the former manager and director of the Timberland side of the business. Later on he was promoted to CEO of the Wood Division and later on CEO of the whole company.

Slide number five. Some information with regard to our corporate governance. So as I said before, the controlling block is composed by Ligna and Itausa. Ligna with a 20% stake and Itausa with 40%. It is important that you notice that by the shareholding agreement, minimum free float is to be 40%. So both of these two controller blocks they cannot increase their participation above the existing levels.

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Again, we only have common shares, one share, one vote. Tag along rights for all share holders are 100% and minimum dividend policy of 30%. It is important to note that by the Brazilian law the minimum dividend is to be 25% so we are above the minimum requirements extending to all shareholders the minimum of 30%. And we established some Board committee composed and run headed by either independent Board members or ,specially, as in this case of Audit and Risk management. But these four committees here they back the Board of Directors in these specific issues.

Following that on slide number 7, there are four important points information here with regard to the market environment in Brazil. Which is (inaudible) or supporting the growth and the performance of the company.

The first one that we will make note is the low level of the unemployment rate, so employed people means consumers, okay. These individuals are still consuming our products. Minimum wage increases, this gives us a mass of funds to keep up with history of consumable goods. You can see that between 2012 and 2013 there was a compounded annual growth rate of minimum wage above 12%.

Interest rate, although, it has been increasing in the last month, reaching 9.5% a year during August, it is still below historical levels when we align the years of 2010 and 2011. So we believe that with the current level, this should not change much the current levels of performance we are posting.

And lastly, the consumer confidence index, that reached a minimum during the peak of the protests during the end of June, the beginning of July. And after that posting some (re-preparation), it was very visible in our numbers when we analyzed our performance of the company on a monthly basis. So July's revenues were disappointing from our point of view but August to September posting considerable re-preparation and expansion.

Slide number nine, we now enter the financial highlights per se for Duratex. In this case we are talking about net revenues, so we can see that on a quarterly basis we have an increase of almost 6%, quarter-on-quarter or almost 14% year-on-year. And when we analyze the collective data for nine months you can see a growth above 17%, showing consistency in the numbers.

It is important to notice that gross margin on a quarter basis, second and Third Quarter 2013, increased considerably from 36.8% Second Quarter to 38.4% Third Quarter 2013. Cumulative data 38.2%, much above the 2012 level.

With regard to the composition of these revenues, the Wood Division accounted for 64% and Deca the remaining 36% stake. And with regard to the origin of these revenues, the domestic market is nature representing 96% stake.

On slide number 10 we bring the reconciliation of the EBITDA and there is a lot of information here, but we tend to be very transparent on how to get to Duratex operating (inaudible) EBITDA (inaudible). So starting from net income on the Third Quarter, we had

BRL170 million representing a 30% increase over Second Quarter, 35% increase over a year ago. Cumulative data almost BRL450 million, representing 45% increase over 2012.

Then when we are now live, the Third Quarter (inaudible) we add back income tax and social charges and it is considered an actual result to be EBIT. Then we add back depreciation and the depletion tranches of the biological assets and we get to EBITDA according to the CVM instruction number 527, released in the year of 2012. That according to these instructions, EBITDA for Duratex should have been close to BRL400 million for the quarter.

But of course that we have some specifications with this number which is not cash based. Named the fair value of the biological assets, that in this case, with this considered, they added for the CVM 527 EBITDA, almost R\$74 million. So we are adjusted by taking it off from this number. Another result that added to CVM 527 is the employee benefit that comes from the surpluses of the deposits of our pension fund. So we take that off.

We have some other adjustments of BRL200,000 and we take off the benefit we got from the discontinued operations of BRL4.1 million, basically from revenues of fixed assets in Argentina. We are discontinuing that operation as everybody knows. We released all the market communication in the beginning of the year.

So according to IFRS, we have to take all of the effect of this operation, Deca Piazza from the results, the numbers, and here we are taking off this positive number that we recognized and added for the CVM 527, EBITDA. So in the end, we have got these recurrent adjusted EBITDA of BRL310 million, which is much more close to the cash generation for the company for the quarter.

End the end the EBITDA margin reached 30.2%, in line with what we have been saying since the beginning of the year, that given the price increases that we were successful to implement in the beginning of the year, they were done, there were no more adjustments in terms of prices during the course of the year. But on the other way around we had some cost pressure and the cost to start up new plants consuming EBITDA margin since the beginning of the year -- reaching a consolidated margin of 30.2%.

For the year cumulative data, nine months, EBITDA margin is at 31.3% above the 29.6% posted in the year of 2012.

Following that on the next page, we have information about net income. Again, we start from R\$170 million in the Third Quarter, we consider the benefit from discontinuing operations. Again, a positive result from the revenue of fixed assets. Recurring net income of BRL166 million, equivalent to our ROE of 15.9%, if we take into account net income as is. But 15.5% if we take into consideration the recurring net income. For the year 14.1%

At the bottom we have the (inaudible) of the equity capital, increasing from BRL3.9 million September 2012 to BRL4.4 billion September 2013. Then the (inaudible) of the ROEs. And

a footnote showing that, again, if we disregard financial costs of all the investments that we just inaugurated, we have an improvement of 100 basis points on the ROE level.

Following that we start discussing on page 12, the performance of the divisions per se. This first slide shows the performance of the wood panel segment in Brazil. This is actual demand for panels. In the domestic market we can see that MDF is still posting a much better performance than MDP. One possible explanation for that is because of those protests and the adjustments on the inventory level in the chain.

Of course, those retailers that were effected had to carry more mid to low income furniture and these types of furniture uses more MDP than MDF. So this is a possible explanation why we saw deceleration in the numbers of MDP during the performance of second and Third Quarter and Third Quarter 2012. And even a slight decrease in shipments in the cumulative data September 2012 and 2013.

But the positive news is, on the MDF front, where we are adding the most of the capacity. Again Duratex is bringing to the market 520,000 cubic meters in a new facility located in Itapetininga that just went through the technical phase of the ramp up process and from the Fourth Quarter onwards it will be fully operational to produce and sell actually the products manufactured in that facility.

At the bottom of this slide we have a table showing the capacities, just to level the information. Here we disclose three capacities. They are the same, just the analysis is a little different. When we talk about nominal capacity, this is the capacity given by the supplier of the equipment and this capacity is measured by running the equipment 100% of the time with a fixed mix without changing and running 24 hours a day, seven days a week. Then after a few years running this condition, we have the performance of the equipment and normally the less payment for the acceptance of this equipment. When you analyze this capacity you have the normal capacity.

Of course doing the normal course of the operation, you do not run under these conditions, you change mix, you stop plant for maintenance, there are some misproduction, so we make an adjustment to get to the effective capacity. Effective is that one where you can reach 100% occupancy rate if the plant are fixed to run under that capacity. Sometimes you have to have some complement that has to be addressed with minor CapEx and then you have the available capacity. Okey. Available is affected with bottlenecks.

So moving forward, now we have the performance of Duratex. So we can see that if we average the performance in the previous page for the whole industry, we will see that for the year, the industry demand for panels grew around 4% and in the wood division in Duratex, demand increased by almost 100 basis points, reaching 1.9 million cubic meters of panels shipped.

So we are running a little behind the market for the year, but when we analyze the performance on a quarterly basis, Second Quarter and Third Quarter we can see that Duratex increased shipment by 6.5% as the industry increased shipments below 3%.

So doing this analysis we (can't) imply that Duratex recuperated already some market share during the Third Quarter as we believe competitors reached their full capacity utilization in this period that we are analyzing.

So looking forward, I can say that the company is very well positioned in terms of availability of capacity to meet future demand growth.

On the bottom we have a table of slide 13 showing the occupancy rate over the available capacity. One comment here is that we did not consider the new plant of MDF in these capacities. We will add this plant during the Fourth Quarter because the plant was not operational on a commercial basis during the period.

Likewise, in MDP we did not close the gap between effective and available capacity for the same reason. We finished the debottleneck investment during the month of September so, commercially speaking, the debottleneckment will be available only from the Fourth Quarter onwards when we should start closing this gap between effective and available capacity.

But in the end we ran about 90% occupancy rate on average, when we consider the level of shipments during the Third Quarter and these capacities available here.

Moving forward we have revenues, gross margin, and recurring EBITDA for the Wood Division. Of course the highlight here is this 500 basis points worth of gross margin improvement, nine months 2013 -- reaching 37.6% and almost 15% growth of revenues.

On a quarterly basis gross margin reached almost 38%. At the bottom we have EBITDA, cumulative EBITDA almost BRL650 million, almost 30% increase year-on-year -- reaching the margin for the year of 35.4%. And when we analyze on a quarterly basis, reduction of margins from 36% to 33%, expected. A little news here, Fourth Quarter will probably see the stabilization of this margin, in a way that we might finish the year if the market will not change the current conditions. We might see stabilization of margins and even possibly a slight increase when we compare to the consolidated margins that we ended 2012.

Just remember last year of the Wood Division were close to 33% and margins cumulative for this year running around 35%. So almost 200 basis points above the levels that we closed the year of 2012.

Moving on, we start now talking about the building material industry which is more related to Deca. Here in slide 15 we have the performance of the Abramat Index, which measures how the revenues of the building material industry is doing when compared to the previous period. We can see here that in the year of 2012, revenues for the building material industry increased by 1.5% over 2011 revenues. September 2013 over September 2012 we have an increase of 4.3%.

Of course, this performance is much below the performance posted by Deca, which posted, just to remind, a revenue growth of 22%. Of course, that within the 22% we have

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the acquisitions we made, contributing to this performance. And even if we disregard the revenues from (inaudible), we have revenues organically in for Deca growing around 12%, so (threefold) the performance of the building material industry as a whole. For the year it is estimated a growth year-on-year of 4%, so slightly below what this industry posted so far.

Slide 16, here is the performance of volume. This information here it is not in the same analysis of the previous one. The previous is revenues and here is volume. But again, volume growing for Deca 12%, considering acquisitions, just considering them, we have a growth more close to 4%, and on a quarterly basis an increase of almost 10% and quarter-on-quarter about 3%.

When we analyze the capacities and level occupancy rate, one comment here is with regard to the sanitary ware, the (inaudible) (shine) of the ceramic segment. We added already the full nominal capacity of the plant of Queimados, that is in the beginning of the ramp up process. So that is the reason why the occupancy rate drops considerably to the 70% level. But if we disregard the entrance of this plant, that should reach full capacity only by second half of 2016, ceramics in the other plants are running above the 90% level.

Next slide, revenues, gross margin and EBITDA for Deca. So the performance here is comparable to the performance that I just mentioned a couple of slides back. Gross margin, pretty much stable on the 39% level, expansion of revenue is 22%. I talked about that already. On a quarterly basis we can see even improvement on gross margin, just below 100 basis points and a better performance even on a yearly comparison.

Recurring EBITDA reaching almost BRL250 million a margin of 24%. We have to remind you that between (January and September 2013 and 2012), in 2013 we have both Mipel and Thermosystem, both with lower margin than the numbers that we compare with in 2012. So even by adding this company that we are running already with better than they were previously, the margins did not (inaudible) much.

We had only 100 basis points reduction on the margin side during the cumulative data and nine months 2013. On a quarterly basis the margin in the same level of Third Quarter 2012 and 150 basis points above what we posted in the Second Quarter, very good performance of Deca. Already showing recuperation of margins. The product mix improvement mostly.

Following that we will start talking about the investments, July 19, 2013, I commented about them in the beginning of this conversation but here we have some pictures of these investments, so Queimados already producing, again, it added already 2.4 million items a year worth of capacity. Itapetininga of MDF, adding 520,000 cubic meters. And the expansion of the debottleneck plant in Taquari adding 230,000 cubic meters to the available capacity.

On the right hand side we have review of CapEx. This year CapEx will be lower than what we posted last year. Probably we will reach the BRL600 million level toward the end of the year. We think what is due to be done here is the conclusion of a tendered offer that is

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going on in Columbia. We are bidding for a minimum stake of 15% in that Colombian operation. We hope that we might finish this deal in November, but we still need to wait and see if the price we are offering this stock is accepted by the Columbia shareholders. So we are still bending some aspects of this deal to have more information to transmit to the market.

It is important to note that if we conclude this tendered offer, we might in the minimum of 15% acquisition of stake in this Colombian acquisition. We might have to recognize a negative advance of about BRL22 million in the results of the company. Because when we bought 37% stake left here in this operation we pay for that BRL12 and now we are bidding in this tendered offer, BRL8.60.

So there is an accounting impact, there is a non-cash impact possible in the results of the company about this magnitude if we are successful in this deal. The positive news is that if we are successful we will be able to start consolidating, tabulating our numbers in the Fourth Quarter already.

Following that, slide number 20, we have some evolution, some history, some background about how the capacities evolved during this period. Major highlights on the MDF front that in 2007 we had 550,000 cubic meters worth of capacity and right now we have almost 2.2 million effective capacity in this panel segment.

MDP since it is growing MDF, evolved less of course, this panel loss a lot of ground to the MDF segment and it is growing more close to two times GDP during this period.

On the Deca front, considerable increase in capacities. In metals we went up from 14.4 million items per year in 2007 to 24.6 million items in 2013. And ceramics, big highlight here from 3.8 million items a year to 12.2 million items a year and basically organic growth and acquisitions of three players in this segment named Ideal Standard, CMC, and Elizabeth.

In metals the growth was basically organic until 2012 and then after that what contributed to that was these two acquisitions Thermosystem and Mipel.

Some additional information, back in 2007, with regard to market shares. According to our number, we had in panels something around 25% market share effective capacity. And after the merger with (Project Del) and the investments made we have 40%, so achieved the M&A in organic growth.

On Deca, metals we had back in 2007 we had something around 35% or 36% market share and now something around 40%; and sanitary ware something around 15% to 18% and now 40%, so major growth, major market positioning to capture growth looking forward.

With regard to that on slide number 22, still the capital structure still very well balanced to take advantage of any possibilities of M&A and organic growth. We have some projects

under study on the organic front. We might give some more color towards the end of the year but of course that we are in a unique situation given increasing news that we are generating in our plantations to feed up to two new plants in the future. Of course, we are talking about long run, we are not taking about next year or a couple of years ahead.

We are talking about adding new capacity in the next six or seven years. The company is very well positioned to do that, no need to buy more land in the southeast region of Brazil. The third plantation that we have is good to fuel this desire to keep growing organically in this business. That where the company is we believe to be a benchmark in the market.

With regard to net debt to equity, 35% stable quarter-on-quarter and year-on-year. And net debt to EBITDA, last 12 months, stable quarter-on-quarter and below that level of debt 2012.

If we consider the debt maturing in the Fourth Quarter and the full year of 2014, which will reach BRL730 million to BRL740 million, we have enough cash to reach this requirement, no problem, so the cash position is very comfortable right now. The amortization schedule, also very comfortable. When we take and look at the origin of that domestic denominated debt, it represents almost 80% and the foreign denominated debt is representing 20% is fully hatched. So our currency is Real, no exposure to FX what-so-ever here and on the bottom we provide more information about the debt indexes of our debt.

CDI which is the interbank rate representing 53% of the index of our debt. TJLP almost 30%. CDI is currently at 9.5% and TJLP is currently running at 5% a year. 12% of our debt is linked to inflation, neither IPCA or IGPM, minor tranche 4% is fixed rate and almost 2% via currency basket mostly BNDF debt.

Now moving forward, this is additional information that we presented yesterday. This was more of a bigger event but I will comment very fast here about what contributes for the success or the differentiation of the debt.

First is the diversity of the products sold here, what division we can say we have a complete line of products plus laminate flooring where we are leaders in the market. This segment is posting or contributing to enrich, considerably, the sales mix in the company. We are seeing a great degree in revenues happening or increase because of the low income segment that adopted this product to improve their homes. And it is very fast to install laminate flooring. In less than a day you can put this floor board in the whole home of this kind of public.

And the other product that competes with us of course, is tiles for example requires some type of remodeling. Takes more time for you to install so people are preferring to use laminated flooring.

We also take advantage of the effect in 2014 of LVT which is a luxury vinyl tile made of PVC. This is for high income mansions, the reading of ours is that the product is very

successful taking advantage of the trend of the Duraflor brand. On the Deca (25) also diversity of products, we have a complete line for high, medium, and low income segments.

And we are on washers, sinks, tanks, toilet bowls, washers, faucets, mixers, flushing valves, (inaudible) and more recently the product mix was enriched with the acquisition of Thermosystem that added electronic showers and solar heaters to our product mix.

Following that virtual integration is another important differentiation of Duratex. We have about 230,000 hectares of land that provides us with almost a self sufficiency status for the whole company. If you analyze, separately, only in the south part of Brazil, you will depend more on third party wood. In the southeast we are completely self sufficient and in this region this is where we have the bulk of our operating capacities. In access of 90%.

140,000 hectares of this land is planted with mostly (inaudible). The harvesting cycle is between six or several years which provides to us a great competitive advantage against players in the north and (inaudible) where the harvesting cycle is in excess of 30 years. This is just another important differentiation of Duratex. We have the shortest distance between wood supply and mills and of course, mills and consuming markets.

And the continuing productivity that is reflected below in this graph. In the years in the 1960's we were generating in our land around 20 cubic meters per hectare per year worth of yield, in terms of plantation. Right now or after 2012 we started to harvest 52 cubic meters per hectare per year. So this shift in yield is the one who is going to provide excess wood looking forward to supply new mills.

So having that in mind, of course, returns over the existing assets we will increase as we are implementing this investment plan.

On the right and side we have the resin plants. Inaugurated for commission in 2010 which provides self sufficiency in the supply of this raw material to the Sao Paulo plant.

Slide 27 brings the geographic diversification which is very important in the ceramic segment. You can see that we via acquisition established our selves in the northeast region of Brazil. Recently commissioned a new in plant in Rio de Janeiro. Concentration of operation still in the Sao Paulo state but also with plants in Santa Catarina, Thermosystems and Rio Grande do Sul, ceramics.

Next page, the location of the plants in the Wood Division, concentration of course in the southeast region, both the states, Sao Paulo and Minas Gerais. And in the Rio Grande do Sul state a small tranche of our capacity, just to name in the south we have MDP with a plant of 700,000 cubic meters of effective capacity.

And in Colombia our investment in Tabemac, currently this operation is being recognized under the equity methodology. And if we are successful we will start consolidating it in the Fourth Quarter.

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Just on ability. Everything that we do, of course, and we are successful in doing, financially, there is a great degree of (inaudible) of this operation. And it is recognized by the markets. July 30 brings some information about the Dow Jones sustainability and since we were included in the emerging markets index for the second time running.

This year, though, we were included in the Paper and Forest products. Last year we were under Building Material. A slight change here still Duratex is gaining a lot of visibility because there are only 800 companies in emerging markets that competed to enter this index. And 81 only selected, of which 17 from Brazil.

Slide 31, a number of recognitions, corporate recognitions. The first one from Isto 'e Dinheiro, best building materials and decoration segment for the seventh year in a row. Epoca Empresa Verde, another sustainability award. Epoca Negocios, the best company in Corporate Governance, Abrasca gave us for the second year running Duratex won in the category of Best Case of Value Creation between 2009 and 2012 in the Paper, Soap and Wood segments, and another award in value EBITDA from Capital Aberto, as the Best Companies for Shareholders in 2013.

Slide 32 a number of other awards won by the divisions which the highlight is the Top Marcas, the brands, the most recognized brands in the building material industry. Both Duratex and Deca have the winning Top Marcas award for a number of years.

We released this year our sustainability platform for the next three year period, which includes Dialogue & Relationships, Management & Environmental Performance, and Transparency & Accountability in Business. Then we have how we are distributing what we are going to do under this big highlight. So under Dialogue & Relationship there are People and Staff, Employees, Leadership and Top Management, Quality of Relationships, Suppliers, Clients, Community, Experts. All of these public included under Dialogue & Relationships.

We performed this year in October, end of October, beginning of September, the second specialist encounter where outsiders came to discuss with top management, Board members, and Directors, sustainability issues. Aspects that bother them, aspects that they highlight as good approaches that the company takes in to account in sustainability. Aspects of the business, so a very enriching discussion, that we will provide more information in the annual report, sustainability annual report looking forward. Not that we will not do it, but we will go deeper in the discussion.

Share performance represents all of that, on slide 35. Ibovespa for the year between 5% and Duratex shares gaining value almost 20%.

Well that is it, I will put myself now available for the questions that you may have.

## Questions And Answers

### Operator

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Ladies and gentlemen we will now begin the question and answer session. (Operator's Instructions). Our first question comes from John Brandt with HSBC.

**Q - John Brandt {BIO 18264726 <GO>}**

Hello. Good morning Alvaro. Congratulations on the good results, especially in a very difficult economical environment for you. I just wanted to ask you a couple of questions. First of all on prices, it seems like what you are saying is that some of the new capacities that you have brought on in the Third Quarter, a lot of those sales volumes haven't really hit and should only have an impact in the Fourth Quarter.

So I am wondering what your expectation is on prices maybe in the Fourth Quarter and the First Quarter, are you expecting some price decreases? Have you seen anything like that from some of your competitors? So if you could comment a little bit on prices.

And the second question I had was on ROE and the expectations going forward. A very good quarter, 15.5% ROE was above expectations. And now that you have increased the capacity you should, in effect, see that hitting the financial statements in the Fourth Quarter and the First Quarter. So what should we expect for ROEs going forward? Should we assume that the ROEs of the new projects that you are doing are above what you are doing currently? If you could help quantify that, it would be much appreciated, thank you.

**A - Alvaro Penteado de Castro {BIO 5537843 <GO>}**

Alright Jonathon, thank you for the question. Apologies for the extension of the call. It was a line with a better corporate governance, but because it is the same material that we used yesterday.

Following your question with regards to prices. We are working currently, with the scenario of stabilization of prices for the Fourth Quarter. You know that despite being the leader with the bulk of the capacity we are not leading when bringing prices down. We don't intend to do that. The way we see the market is still very good eyes, performance so far is posting growth month-by-month. October should be a record in terms of volumes when we compare to the previous month for the year. And there is nothing in horizon showing that November we decelerate.

The only question mark is with regard to the seasonality of the business. You know that after the 15th of December or around that time until mid-February the activity cools down considerably. For no other reason, normally the players concentrate their stoppages during this period so as to balance the output of panels in the market, given that the more soft period of time.

So it is difficult to say what competitors will do during this more weak part of the year, during the second half of December until the first half of February it is difficult to say. What we see is that passing this more weak month we see growth next year. It is difficult to say after this point if the macro conditions will change considerably.

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If they do not, if we still have the same conditions applied during this year, we might have another growth and demand or around 400,000 cubic meters or 500,000 cubic meters which is something around 6% demand growth, 14% against 13%. It is difficult to say. But using those multipliers, that correlation between two and three times GDP, we believe that, that might be a best case scenario for next year.

Again, if we have this situation my guess is that we will start having a more favorable pricing environment to cope with (vacationary) pressures from the Second Quarter onwards. Okay, Second Quarter 2014 onwards.

The stabilization Third Quarter 2013, question mark about First Quarter 2014. The possibility of catching up prior to (inaudible) Second Quarter onwards. But we still need more color, we still need to see the trends more close to year end.

With regard, to ROE, yes our performance was very good, very good performance with regard to ROE during that Third Quarter. Some information as to what contributed to that. Of course, that we have the negatives, via the costs of ramp up and on the positive side there was one specific event that we had to market our biological assets that contributed on a quarter basis with, let me get the number, with BRL40 million, actually 66% of this BRL40 million, okay about BRL30 million, bottom line because of price increase in the wood, with the logs, price percent in our inventory of wood.

So this contributed a little bit for this increase in EBITDA, but on the other way around we are looking at new plants, just to maintain the (inaudible) to see, ceramics and metals. If we use the unitary revenue of these segments that you can get from our numbers you see that there is a considerable potential increase in revenues, in EBITDA, cash generation results stemming from these investments that are ready, are ready and starting to reach the market.

So my guess is that, of course, we turn, we retrieve. We don't have a guidance for ROE, what I have is to pass to you is that the controllers love ROE. So with this respect the company is proceeding improvements in ROE going forward.

**Q - John Brandt** {BIO 18264726 <GO>}

Okay. Thank you very much Alvaro.

**A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Thank you.

**Operator**

Our next question comes from Mr. Eduardo Coto, with Morgan Stanley.

**Q - Eduardo Coto**

Hello. Good morning Alvaro. Good morning, everybody. Just a question, Alvaro, on the wood panels. This year your volumes are pretty much flat and prices are going up significantly. But when we look for next year considering your new capacity additions. Can we see the opposite, an increase in volumes and prices more stable or how do you see the review growth and from next year for wood panels?

### **A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Hello Eduardo, thank you for your question. We are still working on our budget. I don't have a guidance to provide you, but we are looking at the year 2014 with optimism. If we don't have any major changes in credit front, more specifically on the credit for furniture. You know that this is key for a good performance in the business. Right now what we have in the retail, more geared to mid and low income segments, is up to 24 fixed installments, this is very good situation.

Liquidity in this shadow is good as well. We have some governmental efforts to keep boosting consumption in low income segments. The most recent one came from that (inaudible) in October. That (Cash Economica) is providing the BRL5,000 credit line to low income consumers to buy not only furniture but also other buckets of goods and this is of course contributing, we don't know by how much, but of course it is contributing for this good momentum.

Another segment that we see picking up or improving performance when we analyze this year and last year is remodeling. Remodeling last year was a little sideways and this year we see remodeling picking up. And this is good for goth segments Deca and Wood. So the macro environment looks okay from where we see it. Unemployment rate is low, minimum wage and salaries increasing on real terms.

This is contributing to retrofit (inaudible) market in Brazil. And lucky us, our segments have been winners during this movement. First because we have correlation with housing and housing is performing quite well and consumable market, domestic markets of consumable goods where we can't afford the furniture in the constabulary.

So looking forward we see with optimism. Some question marks, of course, because of the macro situation of Brazil as a whole but when we analyze our micro environment we see that we are very well positioned to catch the growth, very well positioned in terms of cost, very well positioned in terms of geographic diversification, proximity to market and very well positioned with a strong grant and a very strong positive service and commercial base very close to our customers.

So this environment if we have a shift it will be worse for the others. We will attempt to be well positioned to capture momentum.

### **Q - Eduardo Coto**

But do you think that you know prices and volumes could end up going up next year?

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**A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Well volumes yes, prices we are not working with the possibility of real price increases. I think we will follow inflation. Okay? Again, we have to wait a little bit to see how the year will start. How the market conditions will be to have more visibility. Right now we are with this speech more careful, of course, what reason by the (inaudible) that inspires some caution. But we see growth (inaudible), prices so far working with nominal pricing increases. No real price increases. Okay. And maybe in that way depend on the momentum that we are successful to pass on this inflationary pressures. We might have some consumption of margins in the beginning of the year.

I think it important to note that next year the performance in the margins will be different that what they were this year. This year the margins started on a very high level and during the course of the year, these margins decreased a little bit quarter-by-quarter but finished the year in a better situation than we finished in 2012.

Next year we will start the other way around probably with margins even lower than what we will post in the Fourth Quarter. This is a possibility, (inaudible) speaking we will have almost two months of soft market because this is very possible to have this economy is so scary in the beginning of the year. Bringing margins down from Fourth Quarter levels. But after that the activity picks up, the margins will come. In a way that we will start the year with lower margins and finish the year with a higher margin environment.

Since I don't have the budget yet it is difficult for me to say if we will finish margins above or below in line with whatever we will post in 2013. But the environment is neutral with a positive (inaudible), is my understanding.

**Q - Eduardo Coto**

Very clear, Alvaro, thanks for the answer.

**A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Thank you.

**Operator**

Our next question comes from Mr. Augusto Ensiki from Morgan Stanley.

**Q - Augusto Ensiki** {BIO 15988025 <GO>}

Good morning, Alvaro, this is a follow up to Eduardo's. I would ask the same question for the Deca side of things. The pricing and bond environment that you see going into the rest of the year and then also for your outlook for next year?

And secondly, a second question on your land reserves. We still have a quite a bit of land that is unplanned. How many years do you expect that to, how much of your production do you see that sustaining and for how long and at what point do you begin to look for additional land reserves? Thank you.

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**A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Hello Augusto, thank you for your question. With regard to Deca, I think the same analysis for Wood applies for Deca, okay? With a possibility of because of these improvements on the remodeling segment, we see an improvement in the sales mix, okay? But with regard to pricing per se, I think working with a nominal pricing increase is more prudent up to this point.

You know that the competition in Deca is much more fierceful, it is much more fragmented. There is always a possibility to compete with imported goods. Of course that currently you re so far imported goods have a marginal fraction of the market but there is always the possibility to have an increase on that front.

But like wood, Deca is very well positioned and when we talk about remodeling we have a tremendous advantage because whenever you are going to redo your house, your bathroom, you normally put better stuff. And with this regard, Deca has an enormous advantage against other brands.

And in this specific channel which is retail, of course, that we have a better negotiation key. So margin tends to be better than margins when we sell to third channels, like direct to dealers or whole seller. Our pricing is better, our margins are better. So when we analyze Deca I think this is the bottom line of it. As remodeling picks up we might expect margins in this segment to grow.

Another highlight that was very little commented in the release materials that I read, is the discontinuation of Argentina, okay? If you analyze the numbers, you see that last year in 2012 up to September there is a negative impact on the operating line, BRL4 million. That was how much that operation was running in a loss. Loss that we will not have looking forward. So this will contribute also to improve the performance of Deca.

So there is going to be a combination of probably a better remodeling market along with the positive effect of the discontinuation of this operation and the ramp up of this new investment that we made. Your other question was about?

**Q - Augusto Ensiki** {BIO 15988025 <GO>}

Your land reserves and how much more...will it sustain your production and then when do you start to look for more land?

**A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Yes. Well we have enough land to support too new mills, okay? We are just finishing the (thirty), but one of these mills was announced to the market in 2011. If you go back to our material fact in that year, we released in this material fact that the company was to erect two new mills in India. The first one is this one in Itapetininga that we just started up and the second one in a place to be determined in future communications. We are just finishing the (thirties), we are still finishing the negotiations in the municipality that we will do these investments.

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But if we start investing in this plant, say next year, this plant will be due in two years time. By 2016, end of 2016, probably you will have this second line and most likely given this (pageant) looking forward we will still have room in Itapetininga still have room to feed one more line. That is not even announced, we don't know when this going to come to the market, but we know that the improving news that we are generating. It will enough to fulfill this extra capacity looking forward, six or seven years ahead in time.

On top of that, why? Why are we generating, why do we have this excess wood? Because (it needs improving), again in this specific lands in (Mina General) that came with such a mill. When we took over there was a great degree of five plantations that are being substituted by a (inaudible). And this is one of the reasons why they use their wood around 38 cubic meters per hectare per year. By now we are generating 52 on land with the (inaudible). So is what is going on. No, changing a plantation that we will provide access to in the future.

When we are going to buy more land is difficult to say, we normally first go after long term lease agreement. There is nothing on the horizon so far, showing us when we are going to acquire land but we are always going to lighten the market. If we see an opportunity we will buy it. It is our business. The business is an integrated business. So whenever we analyze or whenever we see an opportunity we may move into that direction.

**Q - Augusto Ensiki** {BIO 15988025 <GO>}

Thank you, so much for the answers.

**A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Okay thank you.

**Operator**

(Operator's Instructions). This concludes today's question and answer session. I would like to invite Mr. Alvaro to proceed with a closing statement. Please go ahead sir.

**A - Alvaro Penteado de Castro** {BIO 5537843 <GO>}

Well thank you all for your questions, for accompanying our conference call. I put myself available for the further questions you may have. I have here with me Catarina which is my second in IR, she is also available for the questions. We have Palermo, also our trainee. Flavio, the CFO also completes the call. We are all available for the questions you may have. Thank you, so much.

**Operator**

That does conclude the Duratex Earnings conference for today. Thank you very much for your participation, have a good day and thank you for using (inaudible).

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