

Y 2011 Earnings Call

Company Participants

- Alvaro Penteado de Castro, Executive Manager, Investor Relations
- Fabio Schvartsman, Chief Executive Officer of Klabin

Other Participants

- Analyst
- Augusto Ensiki
- Josh Milberg
- Lucas Ferreira

Presentation

Operator

Good afternoon ladies and gentlemen, and welcome to the Duratex Audio Conference Call. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions to participate will be given at that time. [Operator Instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Alvaro Penteado de Castro, Investor Relations Manager. Please go ahead sir.

Alvaro Penteado de Castro {BIO 5537843 <GO>}

Thank you. Good afternoon to all of you who are accompanying Duratex 2011 conference call. I'd like to start with slide number two addressing the shareholder structure and the corporate governance of the company has been -- and improving.

When we talk about the shareholding structure, highlighted here are the participation of the controlling groups with our -- vessels to be over close to 60% of the total -- results and foreigners that have 25%. With regards to corporate governance, the highlights here are the -- of four board committees composed only by Board members and presided by Independent Board members. If you notice, to note that one of these committees -- for the evaluation of transactions with related parties, was created in 2011 and is composed only by Independent Board members.

Another highlights with that, one-third of our Board of Directors is made of independent members. And their names are here, Álvaro Antonio Cardoso de Souza, former Citibank

CEO in Brazil; Fabio Schvartsman, current CEO of Klabin and Alcides Lopes Tápias, a former CEO of Brazil --

On the following page, number three. We have some highlights in how the business developed during the years of 2010 and 2011? In 2010 as you well remember, it was a very positive year, since we were overcoming the 2009 crisis. So volumes grew on strong basis and the wood -- volumes increased by close to 20% and in Deca around 9%. We were successful in addressing the recovery of the price base that we lost in 2009 and the cost was in balance, given the low level of activity abroad.

In 2011 however, we entered the year with some cost pressure in the season and the Central Bank action to cope up this pressure. In the end, with the adoption of lots of probation measures that address interest rate increases, increases in reserve requirement and increase in the -- financial operation.

Together these measures follows of course the -- down in the local economy. In the beginning of the year, there were some expectations that GDP would have grown in 2011 around 4.5%, but in fact with -- to be probably around close to 2.7%. And this result was that our good expectations for the year in the beginning of '11 were not -- fulfilled because volume came below of what we expected specifically in the wood division as you can see ship volumes decreased by 1.9%. But we managed to improve net revenues as we adopted a strategy to try to compensate for pressures year prices giving away some market share. We will see further in this presentation probably next slide that the industry was able to grow 3.6% during the year as we decreased 1.9 in terms of volume.

But on top of that we experience results of some cost pressure some of it -- some cost as an what we would see in the end of 2010 and beginning of '11 and some of them were related to the commodities such as resins in the wood segment and metals in the Deca segment.

In the end the highlight or the positive highlight is in Deca in terms of shipped volumes that increased by 6.9% and net revenues increased by 20%. Of course that within these numbers we have the contribution of Elizabeth a company that we acquired in 2011 February. And if we disregard the volume and revenues of Elizabeth even though shipped volumes would have been something around 10% organic growth and net revenue would have grown organically by something around 14%.

point is that the continued cost pressure that we experienced during the whole year of 2011 in the where we were able to increase prices but the start up of a kiln in Recife and acquisition of Elizabeth in the beginning they had a lower product mix that contributed to bring margins a little down from what we had before. And cost pressures specifically metals contributed also to bring some margin and we were not able to increase prices there because the risk of or a higher risk of

Following to that on slide number four we have the conception within Brazil of panels both MDF and MDP. What we can see here is that on a compounded annual growth rate MDF expanded by 13.8% in 2008 an annual basis which represents something around 3.3 times

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in GDP the average GDP for the period are lower in 2011 against 2010 the industry was able to increase shipments by 3.5% which represents something around 1.5 the GDP period.

Important of results this evolution year-on-year of MDF that increased by 4.6 the volumes shipped in the industry. And MDP I think we spent more tax to the furniture industry is 97% 96% for revenues are directed for furniture making. This industry growth more or less than MDF that is has a more diversified sales mix. But with regard to MDP the results were more used in each of furniture. The compounded annual growth reached was around 1.5 times GDP for and as MDF 2010 and '11 grew by 3.5% but expanded last on a yearly basis fourth quarters

On the bottom we have the capacities of the industry estimated by Duratex and here we highlight three source of capacity effective and available. -- is driven by the capacity of the equipment running 100% of the time with the same product mix. Available they seems to account some bottlenecks with production and stop -- actually the available without some bottlenecks that require some marginal investment.

It's important to notice also that in 2012 the capacity -- the output capacity of this industry will grow with the addition of two lines. The first one arriving the market about the end of the first half of 2012 and the second line around the end of 2012 together these capacities, these additions represent 800,000 effective capacities but for this year, it's that much the new add, or will be new add something around 200,000 in the market.

Following to that on slide number five, we have the performance of the Abramat Index for those of you who do not know this index it measures the revenues of the building materials industries within the Brazilian markets.

As we can see here in 2011 the revenue of such industry increased by 2.9%. And Deca of course grew much more than that as we already saw and Elizabeth it increased revenues by 40%.

For this year we expect this index to grow by 4.5%. On slide number six, we have shipments in both Wood and Deca. It is important to notice that from 2009 to 2011, volumes increased by 51% in the Wood division. And of course from 2010 and '11, this is under worsening of macroenvironment within the domestic market. We've had more difficulties in approaching -- our shipments to the market.

We credit these difficulties to first the shortening of the installments in terms of the furniture financing in the retail with the worsening of the macroenvironment and increase of interest rates, the credit we see more expenses and short in retail which contributed to damaged revenues of furniture.

Because of that the furniture chain reduced their inventory levels more specifically in the first quarter '11 contributing to bring demand down. Inventories will reduce from 50 to something around 30 days which in the end represents one month without buying anything from the industry. And lastly, because of cost pressures we decided to increase

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prices to compensate the marginal loss and because of the -- in the industry, we suffered a little bit with a loss of market share.

So we traded some market share from prices but in the end we were successful in increasing our revenues besides losing almost super sanitary ware. In Deca the shipments in 2011 were a record 25.5 million items a year an increase of almost 18% year-on-year, and close to 30% increase over 2009.

It is important to note of course that Elizabeth is contributing to partially to this sort of increase. We remembered that it adds that something around 1.8 million items a year worth of capacity. For this year, these operation assets are affecting February. We can highlight a good moment of the construction segment, reminding that Deca takes part on the finishing phase so when we have the delay over the industry around two years, two years and a half to new constructions and something around a year to the remodeling segment.

And new homes represent in the industry something around 40% and remodeling represents 60% of the construction industry.

The acquisition of Elizabeth has added 25% capacity to the ceramic segment but on the other hand it added a much lower product mix that they want that we overall used to operate.

So, the challenge now is to migrate this product mix to something higher than we are producing there. And we expect higher growth in this economic sector in the years to come. The reason why we are still investing as we will see further in the --.

Slide number seven we have some information with regard to provision with regard to revenues. Deca, you can see in the bottom, Deca approached 38% participation in revenues as the Wood segment -- the advantage, 62% in the fourth quarter. With regard to the performance of revenues in -- you can see that in 2011, we experienced a quarter close to 54% over 2009 and 8% over 2010.

These revenues of R\$2.9 million is a record in the company's history. When we analyze on a quarterly basis, fourth quarter '11 year-on-year increased by close to 7% and for another quarter, a decrease of 2.6% that we credit to the normal seasonality of the business. The third quarter has to be the best. The fourth quarter, we see already some deceleration specifically because the characteristics for the month of December. After the first -- of December, the activity level diminishes a lot, given the holiday season.

In terms of gross margins, we have twin provisions here, in IFRS and before the adoption of IFRS. But in the end, what it shows here is that the margin of 2011, they decreased over the margins of 2010 mostly because of the economies of scale that we experienced in the wood division and because of the cost pressure that we experienced in both divisions.

Slide eight, now we have information of EBITDA, net income and equity and return on equity. These are information under the IFRS. And, we are talking about recurrent pattern. Remember that, in both these years, 2009, 2010 and 2011 we had events of an extra -- nature, just -- in 2009, we merged our operation with Satipel.

In that type, there was a negative effect on the operations. In 2010, we recuperated from tax credit and in '11 mostly positive numbers regarding the revenue of --. In the other spot we have is the EBITDA reaching almost R\$800 million in 2011, an increase of almost 62% over the EBITDA of 2009 and a little low than what we closed in 2010, 6% down.

In terms of margins, we posted the current margins close to 27%, and even the difficulties in terms of prices and -- that the existing item is specifically in the wood division. Our reading is that, the performance was very positive and we were successful in coping up with -- issue as they are successful in the market.

With regard to this is -- any front, we posted net income of close to R\$350 million in 2011, close to 40% above the 2009 level, but 20% down from 2010. Here we have some observations, some events that you have to take into consideration -- our numbers and we will have highlights of these events on slide number 12 and I will move to comment when we get to that. Equity reached R\$3.6 billion also record level as return on equity touched almost 10%.

On the following slide, we have the same information before the adoption of the IFRS standard and the basic difference here is the recognition of the participation in profits and stock options that before IFRS, they recorded under the operating line. So, the results under IFRS, they tend to be a little higher than with the adoption of IFRS, this is the basic difference. And the net income of course interest takes into account also the biological assets we have under that IFRS.

We can see on slide 10 we have a reconciliation of total assets and equity. In 2011 before the adoption of IFRS total assets were equal to R\$5.16 and then we have all of these events business combination that what is under and the acquisition of Elizabeth. Biological assets the mark-to-market of the first three assets and employee benefits is the recognition into our tax of leasing and the company's foundation the retirement funds for employees and minor adjustments of

In the end the difference between total assets before and after the adoption of IFRS is something like R\$1.4 million more than what we have before. Same analysis in equity before IFRS R\$2.6 million after R\$3.6 million of Deca of R\$800 million loss. Of course the increase of equity by that much contributed to push return on equity down from what we had before.

Slide number 11 we have the reconciliation of EBITDA. We saw a lift the operating profit before financial results so in the fourth quarter we have R\$131 million. We are the depreciation amortization and depletion of 79.4 million we take out from this number the effect of the market value of the -- assets the R\$63.5 billion. We have the depletion associated to such biological assets R\$32.5 million.

We do that because these are non-cash event. Likewise the employee benefits recognition for its use R\$835,000. So we get to an EBITDA of R\$188 million for the quarter with a margin of 24.5%. You can see that third quarter '11 and fourth quarter of '10 they were some extra than revenue of fourth quarter cash the in the end the EBITDA for the year close to R\$800 million and the margin closed to 27%. In the bottom we have the EBITDA and margin before the adoption of our IFRS.

Slide number 12 we do a reconciliation of new income starting before IFRS so for the fourth quarter R\$69 million. The effect of the business combination took out R\$4 million of results biological assets contributed R\$13.8 million employee benefits R\$79.3 million.

If we compare the performance of the years of 2011 and 2010 I would like to highlight a total of non-cash events that contributed dramatically to the results of 2010. The first one is the highlights for asset. You can see that in 2010 these items contributed with R\$34 million in the results of that year 2011 it contributed only with R\$10 million. So the difference is R\$23 million for -- in 2011.

We also had the increase in depreciation amortization and the depletion mostly because investments are being carried on. You know that we acquired Elizabeth in February we also commissioned new equipment in the wood division low pressure and 89 and all of these equipment they are contributing increase in depreciation of the depletion but they are not running at a year for ability so we have some efficiencies at the beginning.

But in the end the depreciation increased year-on-year by R\$23 million contributing to a non-cash effect on 2011, the number of -- we never add. Another impact that I would like to comment is the increase of the financial expenses net that happened in 2011 against 2010. If you analyze our financial statement you see that financial expenses have an impact of R\$15.8 million in 2011 numbers because the higher level of debt and the higher level of interest rates during this units. So all these events of course, they contributed to bring the cost mobility down on cost -- all this was pressured that we commented already.

On slide number 13, we have some information about the division in this space. First, the sales channels, you can see here that the furniture industry is the most important client of ours and is very exposed to the credit conditions in Brazil, since they deteriorated in 2011.

These segments have basically posted performance below the one that we expected in the very beginning of the year.

On the right hand side, we have net revenues and gross margins, one highlight here is that revenues reached 1.87 billion whereas this is a record for Duratex. It represents an increase of 60% over 2009 and 2.5% over the year before, showing that we will be successful in increasing prices and controlling our market share.

Gross margin above we were not able to put up all the cost pressure, because a much stronger because of the cost of resins specifically within this division that was in the end of the year with the devaluation of the rial.

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On the bottom left hand side, you have occupancy rates during 2011, 74% average for MDF, MDP 80 and Hardboard -- to almost at full capacity during the whole year.

We have bottom note showing the capacities of Duratex nominal effects is unavailable.

I'd like to remind you that at the beginning of '13, we will be adding a lot of 520,000 effective capacity in MDF. On the right hand side, we have EBITDA and margin. With all these difficulties, EBITDA margins totaled for the year 28.3% which in our view is very positive again given the challenges that we met during the year.

Of course that the deterioration of margins, we made it to the loss of -- that we've. So we have funded the economy is okay not able to dilute some fixed costs plus the increase on variable cost during the year.

Following page is there for you to accept how we got to the EBITDA. Remember that biological assets effect only wood deviations, loss Deca and here we have the reconciliation taking into account these non-cash events.

Slide 15. We have the information for Deca. Remember that retail or the remodelling industry represents something around 60% of the construction in -- view. And this is one of the reasons why retail is so much important in the distribution channel representing 67%.

Revenue distributed directly 22%, wholesale 9% and other channels 2%.

Again in the Wood... in the Deca division I am sorry, we achieved a record revenues of R\$1.1 billion and gross margin of 38% also -- year-on-year growth, you can see a 44% growth over 2009 and 20% growth in revenues over 2010. On a quarterly basis, fourth quarter year-on-year, an 18% growth. So that is really coping up with a good momentum of the construction.

We were successful in expanding capacity in this, in the past and now we are taking the advantage of this good momentum of the construction that we see going forward in a sustainable way. And the broader -- in this year that we were able to run the operations in --

At 90% or above 90% of the consume rates, that idea is to dilute what you can of fixed cost. And one way of doing that of course is going a little down from what you are used to in terms of profit mix. On one hand, it contributes to dilute fixed cost, but on the other hand, of course you have lower unitary revenue because the more -- source of products that we --

EBITDA, very much in line, close to the record number of 2010, R\$1 million short only. And over 2009, a 46% growth. So, again we have here the contribution of Elizabeth that added 25% volume to the ceramic segment. We have some price increases, we have

some price increases in ceramic and more towards the end of the year [Technical Difficulty] that will be added through this cash position.

We will have R\$178 million online on interest of plus 2.45% a year which represents a total cost around 8.5% a year plus R\$100 million in debentures convertible debentures. This operation is going on today we have period to those our shareholders. These shareholders they can exercise their rights to subscribe such debentures between the 15th of February and 15th of March or if they wish they can their rights in the stock margins.

Following to that, we have some informations regarding the capital expenditures of the company you can see that after 2008 the investments reduced in that year. We had a concentration of investments in three new plants two of MDF and one of MDP. And in 2011 these investments increases again mostly because the investments we are converting in new MDF lines that we will be due in the beginning of '13 as already said. And the other highlight here is the inauguration of a new ceramics plant that will take place in Rio Janeiro and more towards the second half of '12.

So for this year we expect to spend something like R\$650 million including these two important projects that will contribute to position the company even better to capture future momentum. You can see and those are the charts below how capacities are evolving during the years. The first one showing the capacities in the wood division on an effective basis meaning what we can reach a 100% of this capacity after addressing some bottleneck with our few existing more specifically in NTP in the plant of

And in the bottom we have the capacities in Deca and how they are included. In year thereafter the completion of this investment cycle capacities in the wood division will have grown by more than a 100% as in Deca the wood have grown by almost 70%. So the company is clearly focused in increasing its participation in the markets it operates. We have lease that the market completion is existing in Brazil.

They are sustainable on a long run. We have some information about that on slide 20. Recently there was the announcement of some the expansion of the tax exemption the for the Deca and all building products and to the end of '12 a new credit line for remodeling. It is not very expensive but the message is that government is sensible we keeping the sort of industries. Unemployment rate reached a record low in December '11, 4.7%.

Interest rates started finally to drop and they already at 10.5%, there's an expectation that this rate ends 2012 on nominal terms at -- which represents a real rate of 3.5%, if you consider penetration of around 5.5%.

And GDP expansion that should end 2011 around 2.3, 2.7. And the focus report we had an estimate of 3.3% for '12 and 4.2 for '13. Once fourth quarter loans there are some current gaps expected GDP growth with higher than that something between 3.5% and 4%. The message here is I think our business stands to operate in multiples of GDP, probably 2011 was more of a year to position the company to capture this possible good momentums that are ahead of us.

I now close my remarks and open myself to the questions you may have. I have here with me Fabio Schvartsman so we are here to -- you in the way we can. Thank you.

Questions And Answers

Operator

Excuse me ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. And our first question comes from Mr. Lucas Ferreira with JP Morgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Hi, good afternoon Fabio and Alvaro. My first question is related to your CapEx so I was wondering if you could give us a breakdown of 650 million how much of that is extension CapEx and how much of that is maintenance? And within the extension CapEx how much you were investing this year in the new MDF plans and how much in the missing parts of your extensions in -- models? Thank you.

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

Hi Lucas.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Hi, Alvaro.

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

It was just a little second for us to get the right number. But I can anticipate that for maintenance it's something around R\$200 million.

Okay?

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay.

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

And for that we're getting the number here to provide you with the closest number.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay. Thank you. Can I ask my second question or...?

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

Definitely, definitely shoot. Yeah, just about the CapEx. You can not book...

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Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay.

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

Evenly split the 450 between Deca and Wood. And mostly, the most important event when you take the 225 around 225 for the Wood division, you can say something around 150-160 for the new MDF line. And when you analyze the 225 for Deca takes 120, 130 for to take out those plans. Okay?

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay.

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

And the rest are marginal investments that we are converting in the Wood more in the -- and some coating equipments that's it.

Q - Lucas Ferreira {BIO 16552031 <GO>}

All right. Thank you. And my second question is, after this investment round in Deca are you already planning anything new for this division, would you consider maybe new acquisitions or maybe growing new investments, new organic investments what would be your preference in terms of organics versus M&A at this point for Deca?

A - Fabio Schvartsman {BIO 2067677 <GO>}

I know that you know that we are always looking ahead in fact so, these investments that we are finalizing between this year and the beginning of next year, they are good for the scenarios that we draw and as you saw our capital structure is still very balanced to take any opportunity either way to grow organic or to grow the acquisitions.

We always analyze with something but you know that this sort of information or discussion depends on a lot of issues that I cannot extend myself too much, but the answer is that we are looking ahead in time and again, we believe that the markets we are inserted -- that we are included, the acquisitions to grow on a sustainable, very long time.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay, because I know that in your balance sheet, there is some more room for acquisitions or more room for investments, but I don't know exactly if in Deca's market, there is room for more capacity, especially this year. So just wondering, if you have any color on the market, if you would expect more and more capacity around that?

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

We are increasing but we are not -- the modest trends is, we will be ready strongly in the - for third quarter and increase capacity of Deca, we will grow during the year but mostly in the second quarter -- second half.

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Q - Analyst

Okay. Thank you.

Operator

And our next question comes from Mr. Augusto Ensiki with Morgan Stanley.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Hey, good afternoon gentlemen. My first question is on the comparison -- on the wood panel side. I mean you've mentioned several times that you guys are price leaders, do you have an average measure of how much your wood panels are priced above the market?

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

Hi Augusto. Well, you know that the panel segment or the panel itself is more of a commodity side item. So the ways you have to have a premium price over competition is really that basically the logistics types of market, attendance, service and -- patterns or some -- sort of finishing that you can develop for some -- We believe that our ability to -- is a more, around 5% to 7% above the market, no more than that.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay. And then, so I mean so currently you are above market, but the cost side is still squeezing and then the margins for both -- actually both businesses this quarter were down a bit and you went in some detail on that. How can we expect this going forward into, I mean even if you have any details for first quarter or for a general view for the full year, are your resin costs still an issue and what kind of, may be the expected lower normalized margin for both businesses going forward?

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

We believe that the consolidated margin over 2011 should be a driver for 2012. We might gain some economical scale since we expect to grow volumes this year and we believe that we may have some pricing power in the future.

We -- want to say yes, because the first order as you know is weaker. So this is not the very best momentum to talk about prices, price increases. What we can say is that this year is starting seasonal revenues and -- is starting to do better than 2011, specifically because we are not having what we had in '11 which was that in the -- adjustments, in the furniture chain, so the performance is more normal in the beginning of the year.

In terms of cost, we also see the reductions of the cost, some reduction in response for resin in the beginning of this year. So if that's a trend in my experience are marginal increase to say.

Q - Augusto Ensiki {BIO 15988025 <GO>}

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I'm sorry you mentioned just now potential pricing power and typically I think correct me if I'm wrong but you raised your prices in the second quarter is that something that we can expect again this year?

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

Well if you are of the business we always try to adequate our product base around the second quarter to get or to pass through the best months of the year with advanced pricing base. So this is but it's too soon to say if that would be the case in '12 we need a little more time just to understand the market trend to see that if that is going to be needed or not order price increases that will depend on the cost side of course and some other variables.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Understood. Thank you very much Alvaro.

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

You're welcome.

Operator

And our next question comes from Mr. -- with Deutsche Bank.

Q - Josh Milberg {BIO 2004065 <GO>}

Hi Alvaro Josh Milberg here actually. Just a couple of quick questions you had highlighted that de-stocking of the furniture chain and tighter credit conditions were behind the lower panel volumes last year. So my first question is just how much visibility do you in fact have on the level of stocks in the furniture chain? And if you could give a little more color on what you're seeing there right now and then also if you could just touch what's your outlook for credit conditions for furniture consumption going forward? Do you see those loosening again et cetera

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

Well when we talk about inventories we have a about the event or levels specifically furniture chain. This information that our commercial area takes us with the sales and the trends. But we have of course more visibility about the orders when they enter. And then we go after deposits that's what happens last year when we saw orders coming much below what we expected we started to ask questions in the market trying to reason. And we found out that furniture chain was under itself through the financial tightening that the potential bank was in the beginning of this year. So if that's a trend in my experience are marginal increase to say.

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Normally this sought of channel the channel was operating with inventories close to 60 base and now the information about the amount close to 30 base it's like that. The ultimate for credit so far the message is forwarded in the sense that interest rates are going down but the effect of that in the market is not very present yet it requires certain time some months for the effect to achieve or transform the market. What we is some

retailers increasing the terms of from 10 to 14 but these are some it is not structure movement on the retail chain.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay that's helpful. And then just my second question is on the you mentioned some deactivation of I believe MDP capacity by one of your competitors. And if you could just give us a little more color on that the exact size of that capacity that was taking out maybe you mentioned that already but I think I missed it

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

Sure, no problem. Yes it was a capacity of our it was one of the oldest lines of MDP in the markets it was not a continuous line with a nominal capacity of 270,000 cubic meters something around 200,000 effective capacity that plant was located in --. And -- do not form port anymore the sort of induce operation. So they decided to discontinue and since they are adding capacity this year probably if you compensate the continuation. But the problem was not in terms of demand because equipment that was outdated old, inefficient and located in the wrong place and wrong --.

Also adding capacity, Duratex is adding two capacity as you know 520 is the first one do in the beginning of '13 the second one is 680 that will be do in the end of '15... beginning of '15 then we have one plant of Paraná of 400,000 and during the end of the first half '12 and the second line 400,000 also in the end of or around the fourth quarter '12.

So, the balance I am seeing out of this because the balance... the output balance probably will not change 2012 against 2011 the occupancy rate in the industry should increase this year.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay. That's very helpful. Thank you.

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

You're welcome.

Operator

[Operator Instructions]. This concludes today's question-and-answer session. I would like to invite Mr. Alvaro Castro to proceed with his closing statements. Please go ahead sir.

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

Thank you. Well, so all of you thank you for your time myself Fabio and my team we are available for further questions that you may have via phone or email. Thank you have a great afternoon and great holidays Monday and Tuesday we will have on local holiday. Bye bye. Thank you.

Operator

That does conclude the Duratex audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.

FINAL

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