

Y 2010 Earnings Call

Company Participants

- Alvaro Penteado de Castro, Investor Relations Manager
- Corporate Participant

Other Participants

- Debbie Bobovnikova
- Nick Sebrell

Presentation

Operator

Good morning, ladies and gentlemen and welcome to 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 accompany Duratex conference call. I would like to start this call by saying that the year of 2010 was very pleased in the sense that we accomplished completely the association with --. Probably that was the biggest highlight during the year. We accomplished the synergies that we disclosed earlier in the early stages of the deal. And during the course of the year, we were very successful also in ramping up the new plant from both the old Duratex and Satipel.

In the end, as the year was much better than the previous year, we managed also to recuperate some price discounts that we granted during 2009, the worst part of the economic crisis. With regard to the year of 2011, one highlight that I'd like to make, already on slide number two, is the 60 years of Duratex. 2011 we complete 60 years of existence. Duratex was established in 1961 already as an open capital company. Since then, we faced many challenges, but faced accordingly. We grew the operation in a sense that today we are a market leader in the Southern Hemisphere in all markets that we attend. We hold, as you see or I will comment further in another slide, more than 40% or around 40% market share within the Brazilian market in our segment.

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On slide number three, I have some highlights here. Again, we see it in the first one is the 60 years of the foundation of Duratex. The second one is the acquisition of Elizabeth Sanitary ware. We announced the acquisition in December and accomplished it in February, a couple of weeks ago. We paid R\$80 million for this operation, which will add about 25% worth of new capacity to the ceramic segment. We also acquired during the year more land with planted forest on it, already thinking in the future expansions of Duratex. You know that because of the wood cycle, which takes six years to be completed, we have to think beforehand any expansions in the future. So, as an integrated player, we are net buyers of land always.

Another highlight is the start-up of the new resin plant that happened in July this year. We are still ramping up. This new resin plant is accompanying the ramping up of the new capacity we started up in São Paulo and this unit should bring some cost savings during the process.

We are also expanding the production capacity in Deca organically in both segments metals and ceramics. In metals, in the end, we will increase the capacity to something like 18.2 million items a year. Today we have 17 million items worth of capacity. And in ceramics, we are growing two of our units, one of them in Pernambuco. We are adding a new -- in that facility. This operation should be done, or this expansion should be done during the course of this first quarter still.

Second, we are growing organically in the unit of -- de Janeiro. In that unit, we are opening it, remembering that we acquired such unit in 2008 from Ideal Standard, the Brazilian arm of American Standard. Since then this operation was stopped. And now given the market condition is very favorable for this sector, we are investing in this unit, updating technologically and in terms of capacity and we should finish this project by the end of this year, beginning of next year.

All these two expansions, along with the acquisition of Elizabeth that I already commented, should add something like 60% worth of new capacity to ceramics by the end of this project. In the end, we will have like 11.7 million items a year, up from 7.2 in the beginning of 2010.

Another highlight has to do with the migration of old Duratex IT systems to SAP. Such movement happened in the beginning of the second half year 2010. It is fully done. All the IT systems migrated successfully to this new IT platform and because of that we have more integrity on data.

Some financial highlights with regard to net revenues; we achieved R\$2.7 billion, a growth of around 22% over revenues of 2009. Recurrent EBITDA margin, we will see that we had some extraordinary events during the course of 2009 and 2010. So with regard to the recurrent EBITDA margin, we reached 32.6, which is much over, much better than the margins produced in 2009, 27.5. With regard to such improvement, I can highlight the recovery of prices during 2010 and economies of scale since in both divisions, Deca and Wood, we managed to grow volumes in Deca close to 10% and in Wood close to 16%.

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Slide number four; we have an evolution of Duratex since its foundation in the 50s. As I said before, Duratex exists and existed during very difficult times in Brazil, the crisis of the 80s, crisis of the 90s, and always growing, always waiting, always gaining market share and some highlights during this period happened in the 70s, when Duratex merged with Deca creating the basis of this company that we have now with these two divisions, Wood and Deca.

Later on, the late 2000s, we associated with Satipel, which was by that time the second runner in the panel making industry in Brazil, making Duratex or this resulting entity in the leader in the Southern Hemisphere in the fabrication of panels. With regard to capital markets, another very important movement happened by listing Duratex shares on Novo Mercado. So, today, we have only common stock; one share, one vote. And in 2011, we complete 60 years of existence, acquiring a new company and with some projects to grow organically to capture market momentum that I will comment further in this presentation.

Following, next slide number five, probably the biggest highlight besides these other ones that I commented before is the migration of the accounting standard in Brazil from what I call the old Brazilian GAAP to the new one with the adjustments related to IFRS that is the new accounting standard in Brazil from 2010 onwards.

When we think about Duratex and the impact of the adoption of this new accounting standard, I can highlight four different segments where our results were impacted. The first one has to do with business combination. In the previous accounting standard, we -- because of the merger with Satipel, Satipel actually merged Duratex into Satipel. So the preexisting balance sheet and income statement reflected the Satipel situation.

With IFRS under CPC, which is norm that is IFRS, they say that the acquiring entity should be the one who will, and with the highest participation in the business which is the old Duratex. Because of that, all the preexisting balance sheet and income statement before August 31, 2009, which was the effective date of the merger, contemplates only the old Duratex numbers. Satipel was incorporated only after that. Because of this aspect, all data when you read the previous -- previously from IFRS, you have 12 months of Duratex in the case of the income statement and only four months of Satipel.

The other highlight under IFRS has to do with the biological assets. It is known that Duratex is an integrated player in the panel making segment, owning most of the timberland that fit the wood needs used to fabricate the balance. We have about 136,000 hectares of planted forest used for such purpose. Under IFRS, we have to mark-to-market such timberland assets; I'm sorry, the forest area. So we took all the trees aged from two years old and older and calculated the present value of the cash flow of such forest. And this caused an increase on the asset side in the counterpart on the equity side.

Following to that, we have a pension fund. Duratex supports pensions fund for its employees and such pension plan has a surplus. So we have to recognize this surplus on the numbers. And this surplus increases the operating result during the period. All these

events are highlighted in our statements and also on the fact sheet that we released this morning.

We also had the reclassification of some items that were listed before the implementation of IFRS under the operating line. I'm talking about a profit sharing program along with some statutory participation. All of these numbers were reclassified proportionally into the cost of goods sold, selling expenses and general and administrative expenses.

Slide number six brings already two tables showing the adjustments made, first in total assets and in the bottom on the shareholders' equity. We have on this table three periods, 31st December, 2010, 30 September, 2010 and 31st December, 2009. Before the adjustments, the assets totaled R\$5 billion. Then we had a positive impact of business combination worth of R\$757 million.

Biological assets contributed with a further R\$332 million followed by benefits to employees worth R\$66 million. In total, assets increased by around 23% given such changes. Shareholders' equity was further impacted. It increased by 32% from the previous accounting standard to the current one. And likewise, in assets, the size of the changes in magnitude the biggest is business combination contributing with R\$556 million followed by biological assets 219 and benefits to employees R\$44 million.

Following to that, we have on slide number seven the adjustments to IFRS on the EBITDA side. So the table on the top brings the EBITDA before the implementation of the IFRS. We have, or we start this number with the, let's say the accounting EBITDA that totaled in 2010 R\$935 million, representing an EBITDA margin of 34%. We had some extraordinary events during 2010. On the third quarter we had a recuperation of some past due loans and the revenues of assets. And during the fourth quarter, we had some tax credits worth R\$36 million.

So if we disregard such impact, we have a recurrent EBITDA of R\$893 million, representing an EBITDA margin of 32.6%. The comparison basis in 2009 brings a proforma statement of EBITDA, which means 12 months of Satipel and 12 months of Duratex. The stated EBITDA was R\$502 million, but because of the impact all the write-downs, all the negatives that we had due to the association worth around R\$96 million plus write-offs of the shutting down of hardboard plant. The start-up process of an MDF plant in Uberaba along with some other minor adjustments caused to us to add a R\$150 million, which impacted negatively the stated EBITDA in 2009, bringing the recurrent EBITDA to R\$618 million, 27.5% of margin.

So when we take this proforma statement one year against the other, we see a strong growth on EBITDA margins over 500 basis points.

When we go down and adjust to IFRS, we have or we start here the operational profit before the financial result and from there, we add and discount the events to get to the stated EBITDA. In 2010, we have one entities Duratex, I mean the merged entity, but the comparison basis 2009 brings 12 months of the old Duratex and only four months of

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Satipel. the months between September and December 2009. So the comparison basis on nominal terms is not on the same language here on the -- under the IFRS. So we have to analyze this more on the margin side, which makes more sense.

But when you do all this math, you add up depreciation, you discount the changes in the fair value of biological assets, because we believe because of this impact is not a cash-based impact, we have taken it down from a calculation basis to approach more to the real cash generation of the company. We get to this stated EBITDA of R\$893 million with a margin of 32.6%. This is more than 1,200 basis points above the performance of 2009. And to that I add all these aspects that I mentioned before, the recuperation of prices, salary mix, plus economies of scale. We had also some extraordinary events that we take down from the stated EBITDA in 2010 and add up from 2009, getting to R\$850 million of recurrent EBITDA of 2010 against for R\$194 million in 2009, still around 500 basis points worth of incremental margin year-on-year.

Following to that, I have some slides showing the consolidated performance of the company. And in all cases on the top, you see performance before the adjustments of IFRS, meaning that we have a proforma data and then in the bottom we have the tables. And when you see the consolidated data for 2009, we have only four months of Satipel and 12 months of Duratex, so on nominal terms, not very comparable. We have to concentrate more on the margin side.

But when we did it, the revenues before adjustments and after is the same, besides this detail of having only four months of Satipel in 2009, although the IFRS didn't change their ways to recognize revenues in Duratex.

Gross margin, however, was impacted when you compare the old way and the new way. We have, on the gross margin side, the biological assets impacting the margin and also the appropriation of profit sharing from the productive personnel on the IFRS side. So, margins that were around 40% on the year, or previously with the year old accounting standard, reduced a little bit given this recognition of profit sharing, since we excluded the aspects of biological assets, because it provides too much volatility, and it is not a cash impact.

On the EBITDA side, likewise, we had great improvement year-on-year 2009 against 2010. And with the IFRS, we have this impact of the lines that were below the operating line, profit sharing plus statutory expenses that were accounted across selling and general expenses, bringing margins down, for example, in the fourth quarter from 32.4 to 30.4%.

The next slide, number nine, we have net profit and return on equity. Here, we can see a great improvement on the profit side, where we increased from R\$275 million to R\$414 million in 2010 and grew above 50% and evolution during the quarters. And return on equity thereby year-end reached almost 17% and 16.8 during the fourth quarter.

When we adopt the IFRS changes, we have to remember that both assets and equity were increased by biological assets and the business combination impact, bringing these

numbers up and returned down as a result. So, return on equity dropped to 13.3% in 2010, up from 16.8, and on the fourth quarter from 16.8 to 14%.

Following to that, we have another table, or four other tables showing total assets, that increased from R\$4.3 billion to R\$5 billion on the old accounting standards, and under IFRS from R\$5.5 billion to R\$6.2 billion.

Current ratio increased. The company is in a very healthy situation, increase from 1.4 times current ratio to two times on the old accounting standard, and from 1.3 to 1.95 in the new accounting standards. And as for EBITDA, as a result, decreased. It represents 1.1 times the EBITDA, very low for capital market terms.

Equity reached R\$2.3 billion, increased to 2.6 in the old accounting standard. Net debt to equity decreased from 47.5 to 37.3. And underneath the new standard, it decreased even further because of the increase on the equity side. Equity, by the way, increased by around 30% year-on-year.

Switching gears here, jumping to slide number 11, we have the origins of net revenues in 2010. Duratex have a concentration of revenues in the domestic market, 96% against 4% on foreign market. The compound mix comprised by MDF/HDF/SDF and laminate flooring represents the most important product mix in Duratex, reaching or achieving 36.5% of the total revenues in 2010, followed by MDP and metal fittings. The Wood division represents two-thirds worth of revenues.

Following to that, we have, on slide 12, the business segments or the distribution channel in revenues during the fourth quarter. If we add together furniture industry along with retail that serves mostly the carpenters and such, we have close to 80% revenues directed to the furniture industry. And the segments, construction, representing 10% and other segment 5%; this is in the wood division case.

When we analyze Deca, retail represents the most of the distribution channel, 53%. This has to do a lot with the characteristics of the construction industry in Brazil, which is represented by around 60% worth of remodeling units and only 40% of new homes. When we talk about remodeling, it is the individual like myself, like -- goes to the retail and buy the products to serve the remodeling they are carrying away, carrying on. Construction represents around 23%. This participation more than double if you analyze this breakdown from three years ago and now, and follows the trend on the market that shows that the construction industry is experiencing a very favorable market momentum still.

Following to that, we have some information about the divisions itself, starting with the Wood division where we have the broadest product mix within the industry, hardboard, MDP MDF/HDF/SDF, laminate flooring, moldings and components. With regard to the end use of such panels, for MDF, furniture represents directly 55% of the revenues for the industry; this is not Duratex data; retail around 33%, construction 8 and flooring 4.

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When we think about MDP, this is a product used almost entirely for furniture purpose. 89% of the revenues of such panel ends up in the manufacturing of furniture. And when we think about hardboard, 44% is furniture and construction 14 and the other segments or other purposes absorbing the remaining portion of revenues. So, furniture plays an important role in the revenues of the Wood division.

Here, I would highlight as drivers the private availability in terms to finance the acquisition of such panels on the retail side, thinking about furniture, of course, and these conditions are present in the Brazilian market nowadays. Not only that, but also we have an increased disposable income in the market that contributes a great deal for these consumable goods segment performance.

Following to that, slide 14 brings some information with regard to our competitive differentials in the Wood division. First one, of course, has to do with scale. We are the largest producer of panels in Brazil. We are the most diversified geographically speaking. We have operations in the south and southeast. All our competitors are concentrated from São Paulo and south.

We have a high degree of integration not only with timberland, but recently also with resin that feeds about 65% of all my resin needs, and well differed priority of products at -- that I commented already.

With regard to the capacity, we have currently nominal capacity around 3.9 million cubic liters a year, up from 2.5 in 2007. And here we have a proforma data, so this includes the capacities from Satipel also.

Following to that, some performance number of this division; first one, of course, is the evolution of the margins. You can see in both before-IFRS adjustments and after-IFRS adjustments that margins increased considerably year-on-year and even during the quarters from the fourth quarter '09 and Q4 quarter 2010. Gross margin in 2009, that totaled 32% on the old accounting standard reached 36.8%, a 500 basis point increase, fourth quarter 31.6, fourth quarter 38.5.

When we check the EBITDA, their performance was also very positive. EBITDA margin increased to 32.9%, EBITDA margin, from 28.1 in 2009, and during the fourth quarter 2010 it reached 34.6%.

When we think about the adjustments of the IFRS, again, remembering that we have the biological assets impacting the cost of goods sold, we took that impact off because it is a non-cash event. We also took off the benefit from employees, and we ended up with this EBITDA margin of 31.7%, up from 26.5 in 2009. Margins at the fourth quarter 2010 reaching 32.7%, so margins are pretty healthy. And within that branch that we say that the margins are sustainable in the long run, even after making such adjustments.

Following to that, we add an important information here, trying to help the market to understand better the capacities of the industry. We have around 210,000 cubic meters worth of nominal capacity in hardboard, 1.9 million in MDP and 1.8 million in MDF. These are

nominal capacity, meaning that to get to this number, this implies a production non-stop 365 days a year, with a fixed mix of 15 millimeters, which is the most standardized size of the item. So, if I produce 100% of the time, this mix without stopping, this is the sort of nominal capacity that the equipment we have, can manufacture.

Of course that this is not possible; we have to stop for maintenance, planned maintenance and sometimes unplanned and equipment that essentially breaks down or something that happens in a plant and we have to shut down for -- to fix the problem. Of course that the mix there is a lot, specifically in our case that we have the broadest product mix, a lot of different thickness of panels. We have thin panels as thin as 2 to 3 millimeters and as thick as 25 centimeters or even 30 centimeters. So, because of this variation, we believe that it is more feasible to think about capacity as this carried production that we list on the right hand side of this table we list below. So, if we take into consideration this carried production, which represents roughly 85% of the nominal installed capacity, we have this occupancy rate that we listed on the table or on the graph above. When we talk about the shipment itself, in 2010, we shipped close to 2.3 million cubic meters, up from 2 million, which represents a growth of 16%.

Moving to slide 17, we have the cost in the Wood division. The highlight here is the wood itself. We are integrated. Wood represents close to 20% of the total cost in the Wood division, followed by chemical resins, in which we are 65% integrated, followed by papers, work force, electricity, depreciation, fuels and other materials.

Switching to Deca; for those of you who are not in Brazil probably and not so aware of the brand, but that is the major brand in Brazil. We dominate mid and high income segment. We have the broadest product mix and the broadest distribution capability. We are the most diversified player geographically speaking, specifically in ceramics as we will see in the next slide, and this brings, along with other factors, a big competitor advantage when comparing to other players.

Slide number 19 brings the capacities of Deca. As I said before and commented before, we are ongoing an expansion project, both organic and here acquisition. Organic, we will add count in the unit of Pernambuco and Rio de Janeiro. Such expansion should be finished until the beginning of next year, and the acquisition includes the Elizabeth deal that we closed recently. In the end, the capacity in Ceramics will grow to 11.7 million items a year.

In Metals, we are growing into stages, the first one is accomplished already. We reached 17 million items a year, which will be ready for the year of 2011. And during the course of this year, we will grow the operation further to 18.2 million items a year until the end of this year.

Following to that, we have the capacity of this segment along with the occupancy rate. Here, you can see that Deca operates with a more, or less idle capacity than Wood. Given the characteristic of the business, it is easier and faster to grow the operation on Deca, if necessary. All the expansions happen much faster than in the Wood division. Remember that in Wood, if you want to have an integrated model, you want to start buying land

today to have extra capacity six years from now. So you have to be thinking always in the long run.

Deca is a provider of finishing goods to the construction industry, is a lagger to the construction industry, meaning that we can wait and see what happened with regards to the construction industry, the best and adequate our production output capacity to fulfill the upcoming demand according to our expectation. So, this is why we are more able to run with more optimums or more high levels of occupancy rate in Deca than in Wood.

Following to that, we have some financials of this division. Here, the impact of IFRS are minor or not as relevant as in the Wood division that faced both impacts from business combination and the biological assets. Deca do not have biological assets, so the numbers reflect, or the difference, the basic difference reflect the incorporation of profit sharing and statutory participation that in the old accounting standard were listed below the operating line and now they are divided proportionately between cost, selling expense and general expense.

Likewise, in Wood, there was a great deal of margin expansion from 40.7 in 2009 gross margin to 44.6. And here, the margins fluctuate more than in the Wood division, given the changes of selling mix. We have a very broad product line and the mix varies accordingly and causing more fluctuation, of course, on the margin side. So in the fourth quarter '09, we had 42.6% worth of gross margin, up 44.4, reaching a record graph high during this period to 47.9 in third quarter, fourth quarter went down to 43.9%. EBITDA margin represents some volatility as well. But I would like to highlight here the impact on the fourth quarter.

We had a concentration of expenses, named some marketing expenses due to the good momentum of this division, plus we had also the beginning some cost pressure, specifically on labor. As we will see on the next slide, labor represents close to 38% of the cost in this division. And we had some important salary increases during the fourth quarter, which are already represented in this number. After IFRS changes, it changes little. Year-on-year gross margin increased from 40.1 to 43.5 and EBITDA margin year-on-year, 24.3 to 29.7, all of this data recurrent.

Slide number 22 brings the cost. So as I highlighted before, workforce is the major cost here, 37.7%, followed by metals, 16%.

The next information or the following slide brings some economic outlook, at least over the things we believe are important to the business segment we are inserted on. The first one, of course, has to do with unemployment. This driver is very important, because it helps feeding and expanding the disposable income segment. On December 2010, we experienced one of the record lows in terms of an unemployment rate, 5.3%. Unfortunately, some other important countries are not in the same page of Brazil, which should have post 2010 GDP growth above 7% according to market expectations.

Following to that, we have some information with regard to the disposable income. First, minimum wage is increasing on real basis, which is important to retrofit demand for

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consumable wood durables and wood durables. Disposable income reached R\$404 billion. And when we analyze the food basket against the minimum wage, you see that still recently people needs less money to buy a food basket than needed in the past. In the past, they took 79, almost 80% of their income to buy a food basket and now they need only 50% to buy the same sort of wood, releasing more money to other baskets of wood.

The credit availability is also helping. It reached R\$1.7 trillion December 2010, which should represent something around 46.6% of GDP in Brazil, a huge growth in five-year time, when total credit over GDP represented only 28.1%. Interest rate, although increased already in January over the end of 2010, 11.25 against 10 in three quarters, this is too low when compared to past history in interest rates during the recent time.

The next slide brings an important information with regard to the panel segment. Here, we have the data provided by ABIPA. ABIPA is the association of the panel producers in Brazil. You can see the evolution of both demand for MDP and MDF. MDP do not grow as fast as MDS, because it's been cannibalized by this sort of product that was introduced in the Brazilian market in the late 90s. So it got a lot of market share of the MDP and some market momentum of this product during the beginning of the evolution of this product. But, we can see in the end that both are growing much above GDP. Giving support to this good feeling, we still have about the market in Brazil and the sustainability for the medium, long run, or at least for the four next years we believe that the market have conditions to meet GDP growth rate around 4%, which might be very good for our business.

In terms of demand for such panels, we can see that it grew from 2.4 million cubic meters in 2009 of MDP to 2.8 million cubic meters of MDP, something like 400,000 cubic meters extra. This represents roughly a normal size of a new plant. So the market grew a new plant year-on-year.

MDF grew stronger, 2.9 million cubic meters in 2010, up from 2.3, an extra 600,000 cubic meters, which you can interpret like two plants of 300,000 or one bigger plant like the one we introduced back in 2009. In the end, what I'm trying to say is that, or highlight is that the market grew 1.1 million cubic meters in one year time, representing two big plants worth around 500,000 each.

With regard, or if you take into account this sort of shipment against the market size and the market size on nominal terms for MDP is 4.7 million cubic meters according to our estimates and 4.8 million cubic meters for MDF. If you use that 85% number to get to the actual market capacity, you will see that the market is running already above 72% occupancy rate, meaning that if Brazil keeps growing with this 4% GDP, these plants should improve their occupancy rate quite fast.

Following to that, we are doing our homework, we are investing in the company. We are preparing to capture market momentum. When we see the investments made in 2008, we have to remember that by that time we were establishing or implementing three new lines in the Wood division, one in Taquari, Rio Grande do Sul, one of MDF in Uberaba and another one of MDF in Agudos, also investing in Deca in 2008, 2009 and of course 2010.

So during this year, a lot of investment; after 2008, more investment in Deca than in Wood, but taking the advantage of market momentum and preparing to further grow.

On the bottom, we see some acquisition of land that was already accomplished. Some investments that we are directing to Deca, R\$220 million, the expansion in Taquari to debottleneck that unit, more investment in forest tree plantation, equipment and on the nursery activities. We are doubling our capacity of laminate flooring to take the advantage of the construction market momentum and recently acquired one more unit in the ceramic --.

Duratex is not only made of numbers, positive and good numbers, profitability is probably the best of the industry on the comparables. We are also taking care of the sustainability of the business. When we think about timberland, we have close to 225,000 hectares of land, with 136,000 hectares of planted forest, -- mostly. We have more than 267 million trees, plant 56 trees per minute. The wood cycle is still between six and seven years. We have one of the lowest average distance between the land and the plant, which brings us a tremendous competitive advantage based on lower straight. And this land is certified by the FSC and ISO14.001, which grant the sustainability or the balance between the exploration of the forest and the natural fauna and flora of such regions.

In terms of -- per year, this timberland used to produce something close to 20,000 cubic meters per hector a year back in the 50s, 60s, and now we are generating already something like 50 cubic meters per hector a year, a great improvement, meaning that for further expansions, less land will be needed.

We have also some ongoing projects and programs, very important, the first one is the Pura reserve program for Deca for the rational use of water. So we manufacture more water efficient products under this deal.

Some of our products have the Sustentax label, some of this water stabling products, laminate flooring and some other panels that we manufacture, meaning that these products can be used in green building constructions. The Green Seal that I commented before that attests the sustainability of the wood exploration, and we are one of the founders of the Green Building Council Brazil.

Switching gears to the corporate governance, as I said in the beginning of this presentation, we are listed on Novo Mercado. Of our free float, which represents around 42% of the outstanding shares, 29% are with foreigners and 11.2% or 12, 13% with local investors.

Governance bodies; we have under the Board nine members, three of which independent. And each of these independent members, they had a Board Committee, one of them had the Sustainability Committee, the other one, the People Governance and Nomination Committee and the last one had the Audit and Risk Management Committee. We have also disclosed a Negotiation Committee that overseas all the capital market aspects. And below that, we have the Executive Board. We have standalone rights to all our shares, the 100%, and a differentiated dividend policy was 30% payout.

Slide 31 brings the performance of the share. We performed much better than the local benchmark, which is Ibovespa. The performance of the stock since the announcement of the association between Duratex and Satipel, the market, or the quotation of the share increased by almost 117% against 29% on the Ibovespa. Market value by 31st of December R\$8.2 billion. We trade around 1.1 million shares a day, which represents something like 17, R\$18 million a day. Fourth quarter average trading was R\$20 million.

So to wrap up this presentation, some takeaways; the balanced financial structure, which makes us fit to grow, both organically and the acquisition if we have the opportunity. We have leadership within our markets, not only in capacity but also in action. We lead design, we lead pricing momentum, we lead margins. We are leaders within the markets that we operate. The quality of the assets, the average age is very low. Probably the oldest equipment of ours dates from the 70s to 80s, the most of them from the 2000 and onwards. We have a high degree of integration, specifically in the Wood division, having the timberland and resin plant to feed our needs.

We have a favorable market condition, as I showed, with regard to unemployment rate, credit availability and a very dynamic market of consumable goods and construction. In terms of corporate governance, listed in Novo Mercado. We are in the forefront in terms of corporate governance. And probably what is most important and drives growth in our space is addition of building up value to shareholders.

With this, I conclude my presentation and I make myself available for the questions that you may have. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we would now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Mrs. Debbie Bobovnikova from JP Morgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. Good afternoon, Alvaro. Just wanted to start off by asking on the cost side. Could you help us out? Could you give us the breakdown for cash COG between the Wood and Deca division for this quarter? And then also, if we can talk a little bit about the wage inflation that you're seeing, can you give us a little bit of color as to when the latest wage increases were and how much they were in total and also if you have any contracts coming up for renegotiation in the coming months? Thanks.

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

Hi Debbie. Thank you for your question. With regards to the cash cost, we released on the fact sheet of ours the cash cost information. So, you can access there.

With regard to the cost pressure or the labor situation, as you saw, we have about 10% of the cost in the Wood division represented by labor and about 37-38% in the Wood

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division. We have more than 14 unions negotiating monthly, let's say, salaries with the different categories of labor we have in Duratex. But the most important ones happened in the fourth quarter. We have metallurgicals. We have employees from the corporate office. We have also in ceramics. So as you can see, the most representative part of labor is negotiated in the end of the third quarter, fourth quarter. Salary increases during 2010, they were -- on a real basis, they were around 7.5% over what we had in 2009. So, this is the sort of pressure we have already in the fourth quarter.

With regard to some other pressures that we have to highlight here, we have the energy contract that are paid to IGPM. So, these two cost components, labor plus electric power, are the ones who were pressuring our margins already in the short run. All the other inputs, we are keeping one eye on, but they are not causing too much trouble right now. They are in high levels, yes, some of them were partially compensated by FX effect, but we are keeping one eye on those.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And in terms of the ability to pass through these increases, I mean, you've mentioned that you basically have an outlook for improving utilization rates in the industry in the wood panels segment for 2011. Does that mean that you'll try to pass through these cost pressures on to your customers?

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

Yes. Well, the idea, of course, is to, at some point in time, recuperate such pressure. Seasonally speaking, the beginning of the year is never a good time to talk about price increases, which is what you're implying. Seasonally speaking, we have a weak momentum always. The end of December is not good. The beginning of January is not good as well because of vacation time in Brazil. So, the activity starts to pick up around February and March depending when we have carnival. We are not talking about price increases right now. We have to wait a little bit more to have a better view of what the year might be.

On our numbers, we are working. We have a GDP around 4%, which is positive in the sense that our products have some elasticity to GDP. So, in this sense, we might grow above such rates, but we have to wait a little bit to have a better view.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Got it. If I can just turn now to look a little bit on your CapEx; for 2010, your CapEx actually came in below guidance. You said about 460 million, and I believe your guidance was about 550. So, can you just help us understand what the difference is due to and also if you have any guidance for 2011 at this point?

And then as a follow-on to this chain of thought, just to understand how you're thinking about expansions in general, given how underlevered your balance sheet is at this point? I mean, you are now at 0.9 times net debt to EBITDA, I know that's a bit below your target. So, if you could just also kind of give us your thoughts on maybe new expansions that you're considering and any potential timing of those?

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

Of course. With regards to CapEx, part of our CapEx, the investment happened in the beginning of 2011, so this is the basic difference. The acquisition of Elizabeth happened in the beginning of this year, so we came below of what we expected in 2010. For 2011, the loan projects takes the CapEx to something close to R\$600 million. We're talking about, of course, the acquisition of Elizabeth R\$80 million plus 200, R\$300 million or so in the other projects of backup to grow organically. We have also the investments that are being carried on in the Wood segment, the first one to double-fold our capacity of laminate flooring. We are also adding some coating lines and information line to paper to add more value to the panels, and we have budget to buy more land and plant for forest. So, this is pretty much included in the R\$600 million. We don't have any plans to expand capacity in the -- organically in the Wood division right now, because we're still working at the investments --.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And just on that, if I can just get one last follow-up question on your wood panel division, I believe you mentioned something about potentially delaying the Taquari plant expansion. Did I understand correctly? Can you just help us understand, because that's a plant that's going from operational capacity of what, 200,000 cubic meters to 700 by 2013? Is that still on track or are you going to kind of delay more focus to 2013 rather than trying to anticipate it this year in 2012?

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

No, it's on track. We are debottlenecking that unit in two stages. The first one should be accomplished around this first half of the year. We will grow the capacity to close to 430,000 cubic meters. And then the second leg, we'll grow further the capacity to the 700,000 nominal capacity, which should be accomplished by 2013.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay, great. So, even concerning this half, first half of this year, we're going to see the expansion take in, and then the second half -- 2013?

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

The capacity is there. We are equating it to the demand. In the end, this is what we are doing.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And does that impact at all your CapEx, because that's about what, R\$100 million worth of CapEx?

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

No, it's included in the 600.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

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Okay, perfect. Thanks so much, Alvaro.

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

Thank you.

Operator

Excuse me, our next question comes from Mr. Nick Sebrell from Morgan Stanley.

Q - Nick Sebrell {BIO 7321622 <GO>}

Hi, Alvaro. I'm sorry, the presentation I had to step away for a bit. Could you go over again the capacity of the industry relative to demand in the Wood business? And I saw the slide that you presented. You're expanding capacity. How did that fit in with the total industry and how do you foresee, kind of following on the earlier question -- how do you foresee that changing supply-demand scenario in 2011?

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

Hi, Nick. Thank you. Well, we are talking, are you referring to the slide 26? We are adding a new information to the market, adequating the nominal capacity to what we call the disposable capacity. There is a difference between those. Nominal capacity is the capacity that the equipment have to manufacture 100% of their time, with no stoppages of fixed product mix, let's say, a 15 millimeter product. Since there are maintenance stoppages regular, we will stop around 20 days a year, every year, plus the non-foreseen stoppages for eventual brokers to fix eventual problems.

You can use an index of 85% to bring the nominal capacity to the actual market capacity. So, when you read that MDP has a nominal capacity of 4.7 million cubic meters, if you use this 85% index, you get to a effective production capacity worth of 4 million cubic meters. If you -- if that's true and you compare that, the demand level for 2010, you see that the utilization rate of the industry was something around 72%. Okay?

Q - Nick Sebrell {BIO 7321622 <GO>}

Right. 72% within the history you have, is that high, low, supportive of tightness, what?

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

This I will say, that is normal.

A - Corporate Participant

2008 was 100%.

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

Yeah. If you go back, yeah -- this industry grows in cycles. I would say that we are in the middle of our newer cycles. When you commission your plants, probably you operate

around 60, upper 60s. And now you run into 70s, moving to 80. 80 is a high degree. You have already economies of scales at 70s, if that's what you're asking.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay. So, in this sense, things are pretty normal, you don't see pressure, upward pressure maybe for pricing, but at the same time you probably we have, or at least this quarter indicates, that you have some room over the course of the year to price your cost increase, yeah?

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

Yeah. With respect to prices, let's go back a little bit to 2010, that probably will help you understand a little bit. 2010, we started the year in full speed, I mean, we implemented a couple of price increases, one in November and another one in January, which are very unlikely. But the market was so strong, recuperating from a very low comparison, that it was possible to do so, recuperate the price discounts of 2009.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay.

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

This year, probably more normal from the seasonal point of view. We are having a normal cycle of winter December, I mean, most of the plans were under maintenance during the first two weeks of January and went back to normal after it. So, we are still ramping up the units during this quarter. So, it is starting, finality point of view, very normal. In this sense, it is not the right time to think about price increases. Probably they are possible, will be possible, but we need more visibility on the market to see when that will be possible.

Q - Nick Sebrell {BIO 7321622 <GO>}

Got it. And then last question, what percentage of your wood needs do your suppliers sell? Help me understand, when you're talking about the forest assets that you have, is that 100% of what you process or are you also buying outside sources for wood board, MDS, MDP, et cetera?

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

Yeah. Currently, we are more than 100% integrated in São Paulo and Minas Gerais, meaning that we have extra wood than we need for our plant. So, we are selling wood in the market right now. In the south, we have a different situation. In the south, probably around 25% of the operation is integrated and the remaining portion of wood is acquired in the market from third party. Part of our CapEx includes the acquisition of land in the south to reduce the exposure from third-parties approaching the supply situation in the south to our situation in the southeast.

Probably we will not be fully integrated, because the characteristic of the south includes a variety of possible supply. But we will not keep the 25% that in our view is risky. Not now,

because there is plenty wood supply there. But if you have a more tight market and more demanded market, you might face problems in supplying your plants. So, we want to reduce that.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay, makes sense. Thank you.

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

Welcome.

Operator

Excuse me, our next question comes from Mrs. Debbie Bobovnikova from JP Morgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. I just wanted to follow up on the previous question that I had, just to think about more your longer-term expansion plans. I know you mentioned you are thinking about building a forestry reserve for future expansion to the wood panel division, but you also talked in the past about Deca division. Just once again looking at your balance sheet and looking how much cash flow you're generating, how underlevered your balance sheet is, what are you thinking about the timing of any potential new expansion projects, and would you consider potentially paying out higher dividends if you don't find any attractive new growth opportunities?

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

Okay. Debbie, as I mentioned before, specifically in the wood business, you have to think six years ahead of the current time, sometimes even 12 years ahead because you need wood. So, Duratex has already all the plans. I mean, we know where we want to go. As I mentioned before, we are not wood in São Paulo and Minas Gerais.

I mean, at some point in time, of course, that we will keep growing the operation. But the momentum to do so, to make announcements probably is not now. We have to analyze all the market aspects to make such a decision. But you're right, with this sort of capital structure, we are fit to grow. We are aware of market opportunities, we are a market leader. In the recent time, we commissioned three new plants, recently a player in ceramics. We are growing organically metals, growing coating ability, laminate flooring, double flooring. So, we are doing -- we are growing consistently with our strategies to add value to shareholders.

If we keep generating cash, my guess is that at some point in time, this will be distributed somehow, it is easy to talk. I don't know, but I'm not the one who makes this decision, this is the Board decision-making. Probably I don't have how to answer more precisely your point.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. So, basically there is not a time line that management has in mind for kind of either reinvesting the cash flow and deleveraging up the balance sheet through new growth or then if we're giving back the cash to investors?

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

We have our plans, yes. We have internally the discussions, we have everything. It's just difficult to talk something that -- we have to wait a little bit more.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. I understand. Thank you for trying.

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

Okay. Well, you try.

Operator

Excuse me, our next question comes from Mr. Nick Sebrell From Morgan Stanley.

Q - Nick Sebrell {BIO 7321622 <GO>}

Hi. Thanks for taking the follow-up. Two questions, the first regarding the pension fund. Could you just describe that in brief terms, how does that work, is it a Defined Benefit Plan or otherwise, and has it always been fully funded?

And the second question just regards an admin item. In your quarter release, there isn't any fully stated fourth quarter income statement. I was wondering if maybe you could release that on your website or something similar maybe in a filing?

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

Okay. Yeah. One aspect -- first, pension fund; we have both plans, we have, what you call, both.

Q - Nick Sebrell {BIO 7321622 <GO>}

Defined Benefit Plan.

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

Defined Benefit and we have the other one.

Q - Nick Sebrell {BIO 7321622 <GO>}

Defined Contribution.

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

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Yeah. Defined Contribution, yeah. The bulk of the employees of Duratex are under the Defined Contribution Plan. Duratex, however, had a Defined Benefit until four or five years ago and then all employees, they adhere to change to Defined Contribution. So, they only -- probably 100 and 170 people are still under the Defined Benefit.

But anyway, this pension fund have to be and always had a surplus. And because of people may leave the company and the money will be from the pension fund or they retire before time and their contribution, we might end with a balance in favor of the company. And because of that, we recognize quarterly or monthly, on a monthly basis, positive effect of this pension fund in our numbers. The reason why we are taking this from the calculation of EBITDA, it is a non-cash, but so far it's generating a positive effect on our numbers. Did I make myself clear?

Q - Nick Sebrell {BIO 7321622 <GO>}

Yes, that's actually very clear. Perfect. Thank you.

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

And the second part of your question was with regard to the audited statement.

Q - Nick Sebrell {BIO 7321622 <GO>}

Yeah.

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

We will release the comparable statements from the first quarter, second quarter and third quarter 2010 and a comparison basis 2009 on IFRS under the TVM regulatory time, which will be March 15, one month more up to 15 of March. So, we still have time...

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay, great.

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

-- to release such results. We are working on that, a lot of work.

Q - Nick Sebrell {BIO 7321622 <GO>}

Yeah, I'm sure, I can image. And the first quarter results will be included in that release?

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

Yes. What we did on the fact sheet, we released the numbers, the close numbers, the yearly numbers and on the tables fourth quarter, third quarter and fourth quarter '09, and in some cases the evaluation. But, we will see if we can release something without the auditing company to see -- I don't know, I'll have to discuss internally to see if we can speed up the process.

Q - Nick Sebrell {BIO 7321622 <GO>}

Sure. Okay. And maybe we can call you just to get a better idea of some of the below-the-line items, et cetera. Thank you.

Operator

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

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

Well, I appreciate the call, the questions we've had. I hope I was clear enough to clarify those points. If I was not, myself, Robbie, which is with me, and my team are here to help you, assist you in understanding the challenge of switching from the previous accounting standards, understand it to the new one. We are always here for you.

Thank you very much. Good to have you with us.

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.

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