



eucatex

2Q14 Earnings Release

São Paulo, August 6, 2014 – Eucatex (BM&FBovespa: EUCA3 and EUCA4), one of the largest manufacturers of panels in Brazil, with operations also in the segments of paint and varnish, laminated flooring, partitions and doors, today announces its results for the second quarter of 2014 (2Q14). The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS). Except where stated otherwise, the amounts are in millions of Brazilian real (R\$ million) and comparisons are with the same period the previous year.

Highlights of the quarter

- » **Net revenue of R\$ 255.0 million (-8.8%)**
- » **Recurring EBITDA of R\$ 43.3 million (-27.7%), with EBITDA margin of 17.0%**
- » **Recurring net income of R\$ 6.7 million (-64.1%)**

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Amounts in R\$ million	2Q14	2Q13	Var. (%)	1H14	1H13	Var. (%)
Net Revenue	255.0	279.5	-8.8%	518.5	532.2	-2.6%
Gross Income	75.7	95.8	-21.0%	158.6	178.5	-11.2%
Gross Margin (%)	29.7%	34.3%	-4.6 p.p.	30.6%	33.5%	-2.9 p.p.
EBITDA adjusted by non-cash events	39.6	66.2	-40.2%	81.8	106.1	-22.9%
EBITDA Margin (%)	15.5%	23.7%	-8.1 p.p.	15.8%	19.9%	-4.1 p.p.
Net Income	3.0	25.0	-87.9%	14.7	45.2	-67.4%
Recurring Net Income	6.7	18.7	-64.1%	24.0	41.1	-41.6%
Net Debt	302.5	283.1	6.9%	302.5	283.1	6.9%
Net Debt / EBITDA (LTM)	1.7	1.2	41.8%	1.7	1.4	19.7%
RECURRING Adjusted EBITDA	43.3	59.9	-27.7%	91.1	102.0	-10.7%
Recurring Adjusted EBITDA Margin (%)	17.0%	21.4%	-4.4 p.p.	17.6%	19.2%	-1.6 p.p.

Management Comments

The weak performance of the Brazilian economy in the second quarter of 2014 reflects, among other aspects, the erosion in the purchasing power of the population caused by inflation indices hovering near the ceiling of the target, the slowdown in the growth of the real wage bill, the downturn in the credit market due to the hike in interest rates on loans to households and the sharp decline in the consumer confidence index. Another defining factor for sluggish economic activity is the fewer business days in June on account of the World Cup, which affected both retail and business in general.

Indicators of activity in the main markets in which the Company operates reflect this scenario. According to the Brazilian construction materials industry association (ABRAMAT), the sector registered a 4.6% decline in the first half of 2014 in relation to the same period the previous year. Domestic panel sales declined 3.7% in the period, according to the Brazilian panel manufacturers association (ABIPA).

The outlook for the coming months is of a rebuilding of stocks across the supply chain and of a slight recovery in the construction sector, since these markets are traditionally impacted positively by the seasonal factor in the second half of the year. However, it is difficult to determine if this will indeed happen, since the main drivers of the company's business have been deteriorating, as mentioned earlier.

The Company has obtained positive results in its cost-cutting initiatives and has also implemented several projects, which should result in more significant reductions than in the first half of 2014. Moreover, the economic slowdown has provided the Company with opportunities to reduce costs in a few of its raw materials, especially resin.

Operating Performance and Results

In the Wood segment, the Company's domestic sales and exports in 2Q14 were 6.6% lower than in 2Q13, while the market registered an 8.1% decrease, according to data from ABIPA. The decrease in sales in the Wood segment was lower than reported by ABIPA because the Company waited for the market to react and sought to maintain its margin levels. However, at the end of the quarter, supplies increased sharply in a few product families at the expense of prices.

Paint sales decreased 12.0% in the quarter due to adjustments in the stock levels at a few major customers, which was an isolated and non-recurring phenomenon. Paint sales in 1H14 were 1.5% lower than in the same period the previous year, which was still better than the 1.9% decline in overall paint market sales during the period, according to the Brazilian paint manufacturers association (ABRAFATI).

Operating Performance
2005 - 100 base

Sales Volume	2Q14	2Q13	Var. (%)	1H14	1H13	Var. (%)
Panels (DM)	147	158	-7.0%	151	159	-4.8%
Panels (EM)	70	70	-0.2%	69	65	5.5%
Paint	337	383	-12.0%	378	383	-1.5%

DM - Domestic Market / EM - Export Market

Net revenue

Net Revenue Breakdown (R\$ million)	2Q14	2Q13	Var. (%)	1H14	1H13	Var. (%)
Wood Segment	195.6	217.4	-10.0%	392.1	416.0	-5.7%
Paint Segment	54.3	57.0	-4.7%	113.3	105.5	7.4%
Other	5.1	5.2	-0.9%	13.0	10.7	21.0%
Net Revenue	255.0	279.5	-8.8%	518.5	532.2	-2.6%

Net revenue totaled R\$ 255.0 million (R\$ 279.5 million in 2Q13). In relation to 1H13, the Paint segment was the top performer with a 7.4% increase in revenues on account of the increase in prices.

Cost of Goods Sold (COGS)

The 2.5% decrease in COGS in the quarter reflects the year-on-year decrease in the prices of a few key raw materials, especially urea formaldehyde resin, which is an important input in the production of MDP, T-HDF and MDF panels. The pressure on costs was lower in 2Q14 and the Company has taken measures that should improve its competitive edge.

Gross Income and Gross Margin

Gross income in 2Q14 was R\$ 75.7 million, compared to R\$ 95.8 million in 2Q13. In 1H14, gross income was R\$ 158.6 million, compared to R\$ 178.5 million in 1H13. Gross margin in 2Q14 and 1H14 stood at 29.7% and 30.6% respectively, down 4.6 p.p. and 2.9 p.p., year on year.

Operating Expenses

Breakdown of Expenses (R\$ million)	2Q14	2Q13	Var. (%)	1H14	1H13	Var. (%)
Selling	(37.0)	(38.5)	-4.0%	(74.6)	(72.6)	2.8%
General and Administrative	(12.4)	(12.9)	-3.5%	(26.6)	(25.6)	4.0%
Total Operating Expenses	(49.4)	(51.4)	-3.9%	(101.3)	(98.2)	3.1%
% Net Revenue	-19.4%	-18.4%	1 p.p.	-19.5%	-18.4%	1.1 p.p.
Other Operating Income and Expenses	(2.2)	(2.7)	18.4%	(4.5)	(3.0)	51.4%

Operating expenses in 2Q14 decreased 3.9% from the same period the previous year. However, their share of net revenue increased 1 p.p. basically due to the lower dilution of fixed costs.

EBITDA and EBITDA Margin

As a result of the above, recurring EBITDA totaled R\$ 43.3 million, down 27.7% from 2Q13. Recurring EBITDA margin stood at 17.0%, down from 21.4% in the same period the previous year. In 1H14, recurring EBITDA totaled R\$ 91.1 million, down 10.7% from 1H13, and recurring EBITDA margin was 17.6%, down 1.6 p.p.

EBITDA Reconciliation (R\$ million)	2Q14	2Q13	Var. (%)	1H14	1H13	Var. (%)
Net Income	3.0	25.0	-87.9%	14.7	45.2	-67.4%
Income and Social Contribution Taxes	4.1	2.8	45.4%	9.9	7.8	26.8%
Net Financial Income (Loss)	13.2	20.1	-34.4%	18.8	28.3	-33.6%
EBIT	20.4	48.0	-57.6%	43.5	81.3	-46.5%
Depreciation and Amortization	29.9	29.3	2.1%	60.9	47.1	29.2%
EBITDA under CVM instr. 527/12	50.2	77.3	-35.0%	104.4	128.5	-18.7%
EBITDA Margin	19.7%	27.6%	-7.9 p.p.	20.1%	24.1%	-4 p.p.
Non-cash adjustments						
Fair value variation in biological assets	(10.6)	(11.1)	-4.2%	(22.6)	(22.4)	0.8%
EBITDA adjusted by non-cash events	39.6	66.2	-40.2%	81.8	106.1	-22.9%
Non-recurring events ⁽¹⁾	3.7	(6.3)	-158.5%	9.3	(4.1)	-328.6%
Recurring adjusted EBITDA	43.3	59.9	-27.7%	91.1	102.0	-10.7%
Adjusted recurring EBITDA Margin	17.0%	21.4%	-4.4 p.p.	17.6%	19.2%	-1.6 p.p.

(1) non-recurring events: 2Q14 - Terminations and labor claims and 2Q13 - Reversal of ICMS Tax Debits

Recurring Net Income

Recurring net income in 2Q14 was R\$ 6.7 million, down 64.1% from 2Q13. In 1H14, recurring net income totaled R\$ 24.0 million, compared to R\$ 41.1 million in 1H13, down 41.6%.

Debt

The Company's net debt at the end of 1H14 was R\$ 302.5 million and was equivalent to 1.7 times its annualized EBITDA.

Debt (R\$ Million)	1H14	2013	Var. (%)
Short Term Debt	132.5	121.1	9.4%
Long Term Debt	182.1	182.7	-0.3%
Gross Debt	314.5	303.8	3.6%
Cash and Cash Equivalents	12.0	20.7	-42.0%
Net Debt	302.5	283.1	6.9%
% Short Term Debt	42%	40%	2.2 p.p.
Net Cash (Debt)/EBITDA	1.7	1.2	41.8%

Capex

Capex totaled R\$ 57.4 million in 1H14 and was used in maintaining the Company's operations.

Sustainability

Eucatex's forest sustainability is assured by 46,100 hectares of forests, all located in the state of São Paulo.

Eucatex is widely recognized for its sustainable development practices and was the first company in the industry to obtain ISO 9001 certification, in 2000. It also holds ISO 14001 certification and the Green Seal awarded by the Forest Stewardship Council (FSC), which certifies that its forests are managed in accordance with rigorous environmental, social and economic standards.

In another pioneering initiative, Eucatex became the first in the industry in South America to build a woodchip recycling line on an industrial scale. Its state-of-the-art equipment enables materials obtained within a radius of approximately 120 kilometers from the Salto (São Paulo) unit to be

used as raw material for producing panels and as biomass for firing its boilers. Total processing capacity is 240,000 metric tons/year, which is equivalent to approximately two million trees, 470,000 cubic meters of standing timber or 1,500 hectares of planted forests. The investment in land and planting to maintain this volume of wood, considering a seven-year cycle, would amount to around R\$ 200 million. Not only does it generate cost benefits, but recycling woodchips also prevents this material from being deposited in local landfills.

Capital Markets

Eucatex's preferred stock, listed on the BM&FBovespa under the ticker EUCA4, closed 2Q14 at R\$ 4.44. Eucatex's market capitalization at the end of the period stood at R\$ 411.2 million, equivalent to approximately 36% of its book value.

About Eucatex

Eucatex S.A. Indústria e Comércio completes 63 years in 2014 and is one of Brazil's largest manufacturers of laminated flooring, wall partitions, doors, MDP/MDF/T-HDF panels, fiberboard, and paints and varnishes. It operates four modern plants in the cities of Botucatu and Salto, located in the inland region of São Paulo state, and employs 2,402 people. Its products are exported to more than 37 countries. For more information, visit www.eucatex.com.br/ri

This release contains forward-looking statements relating to the business prospects, estimates of operating and financial results, and those related to the growth prospects of Eucatex. These are merely projections and as such are based exclusively on the expectations of Eucatex management concerning the future of the business. These forward-looking statements substantially depend on market conditions, the performance of the Brazilian economy, the sector and the international markets and therefore are subject to change without prior notice.

Audit

The policy of the Eucatex Group regarding services provided by its independent auditors that are not related to the external audit of its financial statements is based on the principles of professional independence. These principles are based on the premise that the auditor must not examine his own work, perform managerial functions or practice law on behalf of clients. In 2Q14, the Eucatex Group did not contract any services from Grant Thornton Auditores Independentes other than audit services.

Income Statement

Income Statement (R\$ million)	2Q14	2Q13	Var. (%)	1H14	1H13	Var. (%)
Gross Revenue	312.8	343.9	-9.0%	635.5	655.3	-3.0%
Sales taxes and Deductions	(57.8)	(64.4)	-10.3%	(117.0)	(123.0)	-4.9%
Net Revenue	255.0	279.5	-8.8%	518.5	532.2	-2.6%
Fair value variation in biological assets	10.6	11.1	-4.2%	22.6	22.4	0.9%
Cost of Goods Sold	(190.0)	(194.8)	-2.5%	(382.5)	(376.2)	1.7%
Gross Income	75.7	95.8	-21.0%	158.6	178.5	-11.2%
% Gross Margin	29.7%	34.3%	-4.6 p.p.	30.6%	33.5%	-2.9 p.p.
Selling Expenses	(37.0)	(38.5)	-4.0%	(74.6)	(72.6)	2.8%
General and Administrative Expenses	(10.1)	(10.8)	-6.2%	(22.3)	(21.5)	3.7%
Management Compensation	(2.3)	(2.1)	10.7%	(4.4)	(4.1)	5.4%
Other Operating Income / (Expenses)	(2.2)	(2.7)	18.4%	(4.5)	(3.0)	51.4%
Net Income before Financial Result	(51.6)	(54.1)	-4.6%	(105.8)	(101.2)	4.6%
Financial Income (Expense)	24.1	41.7	-42.3%	52.8	77.3	-31.7%
Non-recurring Income (Expense)	(13.2)	(20.1)	34.4%	(18.8)	(28.3)	33.6%
Net Income after Financial Result	(3.7)	6.3	-158.5%	(9.3)	4.1	-328.6%
Provision for Income and Soc. Contr. Taxes	7.2	27.9	-74.3%	24.7	53.0	-53.5%
Net Income (Loss) before Non-Controlling Interest	(4.1)	(2.8)	45.4%	(9.9)	(7.8)	26.8%
Non-controlling interest	3.0	25.0	-87.9%	14.7	45.2	-67.4%
Net Income (Loss) for the Year	0.0	0.0	71.3%	0.0	-	0.0%
Net Margin	3.0	25.0	-87.9%	14.7	45.2	-67.4%
	1.2%	9.0%	-7.8 p.p.	2.8%	8.5%	-5.6 p.p.

Balance Sheet

Balance Sheet (R\$ '000)	1H14	2013	Var. (%)
ASSETS			
Current Assets			
Cash and Cash Equivalents	3.8	11.6	-67.0%
Marketable Securities	8.2	9.1	-10.2%
Trade Accounts Receivable	209.8	259.1	-19.0%
Inventories	165.3	137.6	20.2%
Taxes Recoverable	26.6	30.6	-13.0%
Prepaid Expenses	3.0	2.6	13.7%
Other receivables	4.0	2.9	37.2%
Total Current Assets	420.7	453.4	-7.2%
Non-Current Assets			
Long-Term Assets			
Trade Accounts Receivable	7.8	7.3	6.0%
Taxes Recoverable	3.5	3.8	-8.5%
Goods held for sale	0.7	0.7	0.1%
Investment properties	27.7	27.7	0.0%
Judicial Deposits	9.2	8.7	5.3%
Other receivables	17.2	17.2	0.0%
Total Long-Term Assets	66.1	65.5	0.9%
Permanent Assets			
Investments	-	-	0.0%
Biological Assets	355.4	340.0	4.5%
Fixed Assets	1,064.6	1,060.9	0.4%
Intangible Assets	0.3	0.3	-11.9%
Total Permanent Assets	1,420.3	1,401.2	-7.0%
Total Non-Current Assets	1,486.4	1,466.7	1.3%
Total Assets	1,907.1	1,920.2	-0.7%
LIABILITIES			
Current liabilities			
Trade Accounts Payable	89.5	108.2	-17.3%
Loans and Financing	107.0	108.2	-1.1%
Labor Liabilities	29.4	30.3	-3.0%
Tax Liabilities	14.1	15.4	-8.3%
Inventories	0.0	0.0	0.0%
Tax Installments	36.8	39.7	-7.2%
Advances from Clients	12.0	11.3	6.8%
Dividends and interest on equity payable	56.7	56.7	0.0%
Debentures payable	25.4	12.9	96.9%
Accounts Payable	37.9	36.8	3.1%
Total Current Liabilities	409.0	419.5	-2.5%
Non-Current Liabilities			
Loans and Financing	132.8	121.0	9.7%
Trade Accounts Payable	1.6	2.0	-18.3%
Tax Installments	61.1	67.8	-9.8%
Deferred Income and Soc. Contr. Taxes	79.5	76.9	3.5%
Provision for Contingencies	19.5	17.3	12.3%
Debentures payable	49.3	61.6	-20.0%
Total Long-Term Liabilities	343.8	346.6	-0.8%
Shareholder's Equity			
Capital	488.2	488.2	0.0%
Revaluation Reserves	207.2	208.2	-0.5%
Profit Reserve	366.0	348.7	5.0%
Asset Valuation Adjustment	95.4	97.0	-1.6%
Other Comprehensive Income	0.3	0.3	11.8%
Treasury Stock	(2.9)	(2.9)	0.0%
Total Shareholder's Equity	1,154.2	1,139.5	1.3%
Non-controlling interest	-	-	0.0%
Total Shareholder's Equity & Non-controlling I	1,154.2	1,139.5	1.3%
Total Liabilities and Shareholder's Equity	1,907.1	1,905.5	0.1%

Cash Flow

Cash Flow (R\$ 000)	1H14	1H13
Net Income before Income and Social Contribution Taxes	24.7	53.0
Adjustments to Reconcile Net Income and Operating Cash Flow		
Depreciation and Amortizations	31.7	29.2
Exhaustion of biological assets	29.2	28.3
Residual Value of Fixed Assets Sold	-	0.0
Fair value variation in biological assets	(22.6)	(22.4)
Interest, Monetary and Exchange Variations, net	8.6	22.2
Write-off of investments	(0.0)	(0.1)
Provision for inventory losses	0.0	0.0
Income and social contribution taxes in the period	(7.2)	(7.2)
Deferred income and social contribution taxes	(2.7)	(0.6)
Provision (reversal) for liabilities and others	8.0	(5.7)
Changes in operating assets and liabilities		
Trade accounts receivable	24.8	(12.0)
Receivables from related parties	-	(0.1)
Inventories	(22.1)	(6.5)
Recoverable taxes	5.0	(9.2)
Deferred income and soc. Contr. Taxes - 11,638/07	2.7	1.6
Deferred expenses	(0.3)	0.2
Judicial deposits	(0.5)	0.6
Other receivables	0.2	0.8
Trade accounts payable	(19.0)	11.0
Labor and Tax Liabilities	(6.4)	(3.1)
Tax Installments	(15.2)	(6.4)
Advances from Clients	0.8	(5.4)
Accounts payable	1.1	5.4
Net Cash Flow from Operating Activities	40.8	73.6
Cash Flow from Investing Activities		
Capital reduction on subsidiaries	0.0	-
Addition to fixed assets	(35.4)	(28.2)
Addition to biological assets	(22.0)	(24.4)
Marketable Securities	0.9	(0.1)
Net Cash Flow from Investing Activities	(56.4)	(52.7)
Cash Flow from Financing Activities		
Amortization of Loans	(63.2)	(75.3)
Loans	71.1	58.3
Payment of dividends/Interest on equity	-	(3.9)
Net Cash Flow from Financing Activities	7.9	(20.9)
Increase (Reduction) in Net Cash and Cash Equivalents	(7.8)	0.0
Cash and Cash Equivalents		
Beginning of period	11.6	5.3
End of period	3.8	5.3
Supplementary information:		
Income and social contribution taxes paid	(6.0)	(7.2)