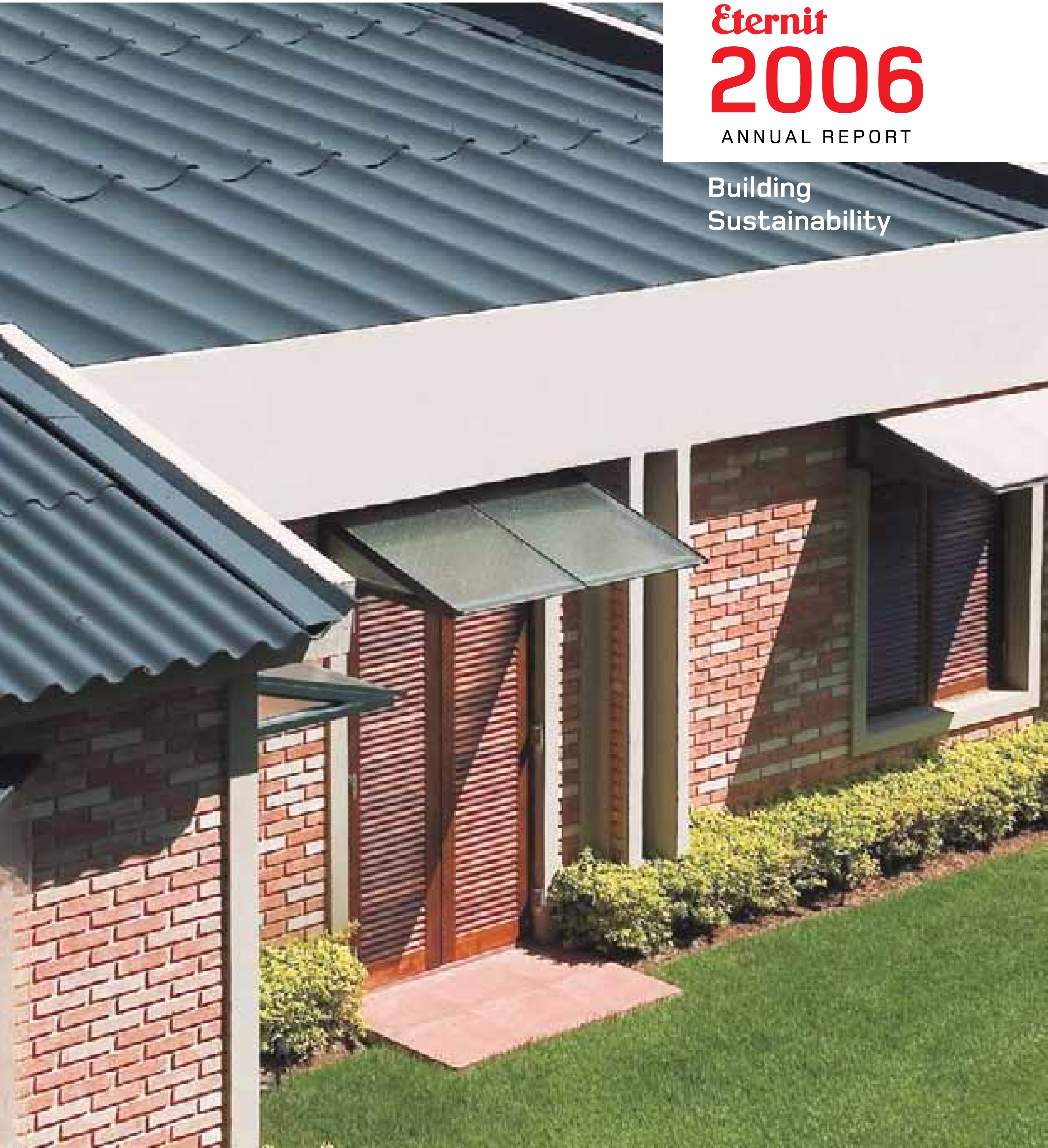
Eternit

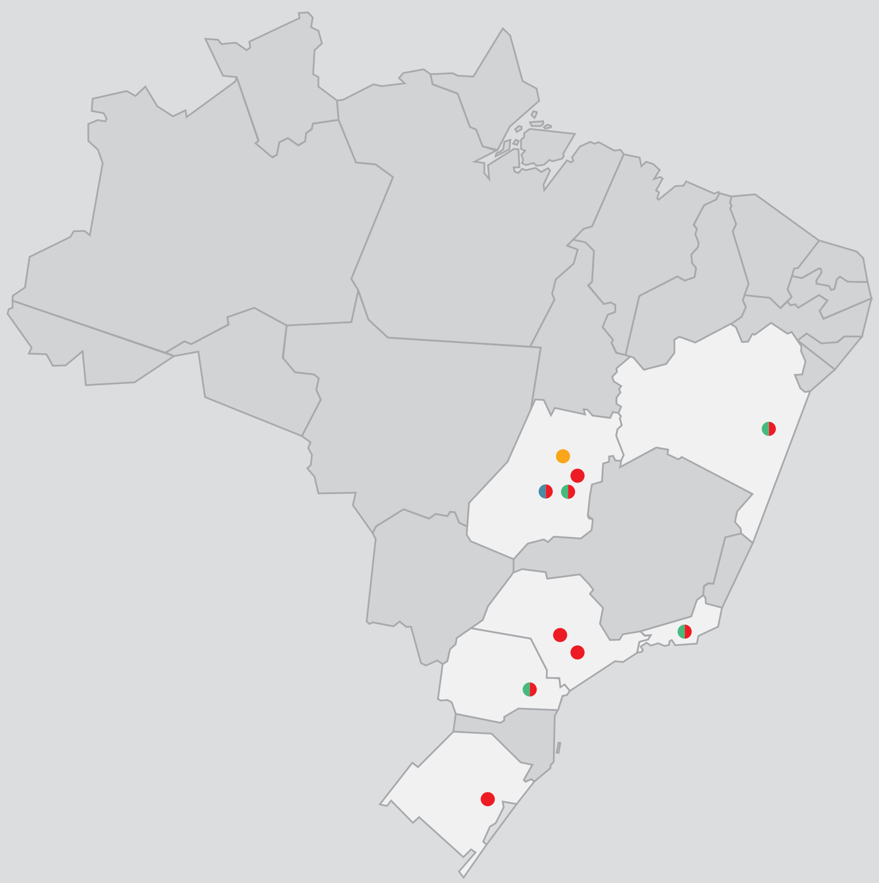
2006
ANNUAL REPORT

Building Sustainability



Operational units

Eternit seeks to operate throughout the production chain in its business segment: from the extraction and processing of chrysotile asbestos to the manufacture, sale and distribution of its finished products. To this end, it controls the only mine for the extraction and processing of this fiber in Latin America, having four of its own manufacturing plants and one subsidiary, as well as nine sales affiliates spread across the Southeast, Central West, South and Northeast of Brazil. The strategic location of these production units is one of the Company's most important differentials in setting it apart from the rest of the market.



SAMA S.A. – ASSOCIATED MINING OPERATIONS
Cana Brava Mine
Minaçu – Goiás

ETERNIT PRODUCTION PLANTS
Colombo – Paraná
Goiânia – Goiás
Rio de Janeiro – Rio de Janeiro
Simões Filho – Bahia

PRECON GOIÁS PRODUCTION PLANTS
Anápolis – Goiás

COMMERCIAL BRANCHES
Anápolis – Goiás
Brasília – Distrito Federal
Campinas – São Paulo
Curitiba – Paraná
Goiânia – Goiás
São Paulo – São Paulo
Porto Alegre – Rio Grande do Sul
Rio de Janeiro – Rio de Janeiro
Salvador – Bahia

Eternit 2006 ANNUAL REPORT

Building Sustainability

Our Corporate Home

Eternit is the largest manufacturer of corrugated fiber-cement roofing sheets and water tanks in the Brazilian market. In 2006 the Company's sales increased by 11% to 578,000 tons of finished products.

House in Campos do Jordão

01 Corporate Profile

Eternit, Brazil's market leader in the manufacture of corrugated fiber-cement roofing sheets and water tanks, with a market share of 29%, has won this position as result of its constant quest for excellence. Since its foundation more than 67 years ago, the Company has continually worked to achieve the best practices in its manufacturing plants, maximum quality in the production process, exercising ethical behavior in the market in which it operates and providing the best service to the most important element of its business: the consumer.

For Eternit it is a source of pride to be recognized as the number one company in the sale of fiber-cement building material in Brazil, which is one of the largest building markets in the world, with an annual demand of over 208 million square meters of corrugated roofing sheets and 3.3 million water tanks. In 2006, Eternit maintained its market leadership, reporting a sales volume of 578,000 tons of finished products, including eight different types of roofing sheet, two types of water tank, Eternit Wall panels and Eterplac fiber-cement facing panels.

The Company's four directly owned plants and its subsidiary Precon Goiás have increased production levels in order to meet the growth in demand in the building industry, which has been growing faster than national GDP. Having a network of more than nine thousand distributors, the Company has guaranteed its presence in Brazil's main consumer centers, with the flexibility and commitment to results which historically have characterized the management of its business.

Production and sales are aligned to the Company's strategic plan for sustainable growth, which bears future generations in mind, as well as conservation of the environment. For this reason, the raw material of fiber-cement - chrysotile asbestos - is extracted, processed and supplied by SAMA, a company controlled by the Eternit Group, which meets the rigorous standards of quality required in the manufacturing units for construction materials.

The first chrysotile asbestos mining company to achieve ISO 9001/2000 quality certification and the only one in the world to obtain ISO 14,001 certification for environmental management, the wholly-owned subsidiary SAMA in 2006 maintained a major share of the chrysotile asbestos export market, accounting for 10% of all the fiber sold in the world. With an installed capacity of 270,000 tons of fiber per year, SAMA exports approximately 60% of its production to more than 20 countries. In Brazil, SAMA supplies the mineral to other companies in the fiber-cement segment. In 2006, SAMA's total sales volume amounted to more than 221,000 tons, maintaining its position as the third-largest chrysotile asbestos mining company in the world.

Eternit's successes are the result of its efforts to achieve sustainable management of its businesses after 2004, when the Group underwent corporate restructuring. After the reorganization of the Company and the recovery of its identity, Eternit was able to again strengthen its business based on three major factors: the strategic location of its manufacturing plants, the strength of its brand name, and the Company's image of quality built up over its long history. Investment in creating sustainability in its business in its various aspects enabled the company to join Bovespa (São Paulo Stock Exchange) Level II Corporate Governance in March 2005, subsequently joining the Novo Mercado section of the Bovespa, on August 17, 2006. The shares of Eternit appreciated by 128% in 2006.

Eternit's successes are the results of its efforts to achieve the sustainable management of its businesses, based on the strength of its brand name and the quality of its products

Eternit continues to focus on consolidating the sustainable management of its businesses, constantly investing in initiatives which aim to strengthen and improve the markets in which it operates, the safety of its employees, and the development of the Country.

Now there are fresh challenges ahead, such as achieving expansion within its own business and the search for new opportunities in the building sector, either through acquisitions, mergers or new products. Such initiatives underline the constant quest for products with an excellent quality, low cost and high durability, differentials which for 67 years have underpinned the consumer preference for the Eternit brand.

The aim for 2007 is to continue to develop products with a high cost-to-benefit ratio that are outstanding in terms of quality and durability. Each year Eternit again takes pride in being the people's preference, playing a part in the history of Brazilian families and ensuring wide access to safety in the homes, in agricultural constructions and in Brazil's industries.

02 Mission, Vision of the Future and Values

MISSION

To develop, manufacture and sell quality products for the construction industry, ensuring competitiveness, profitability and continuity of the business, combined with social responsibility and respect for the environment.

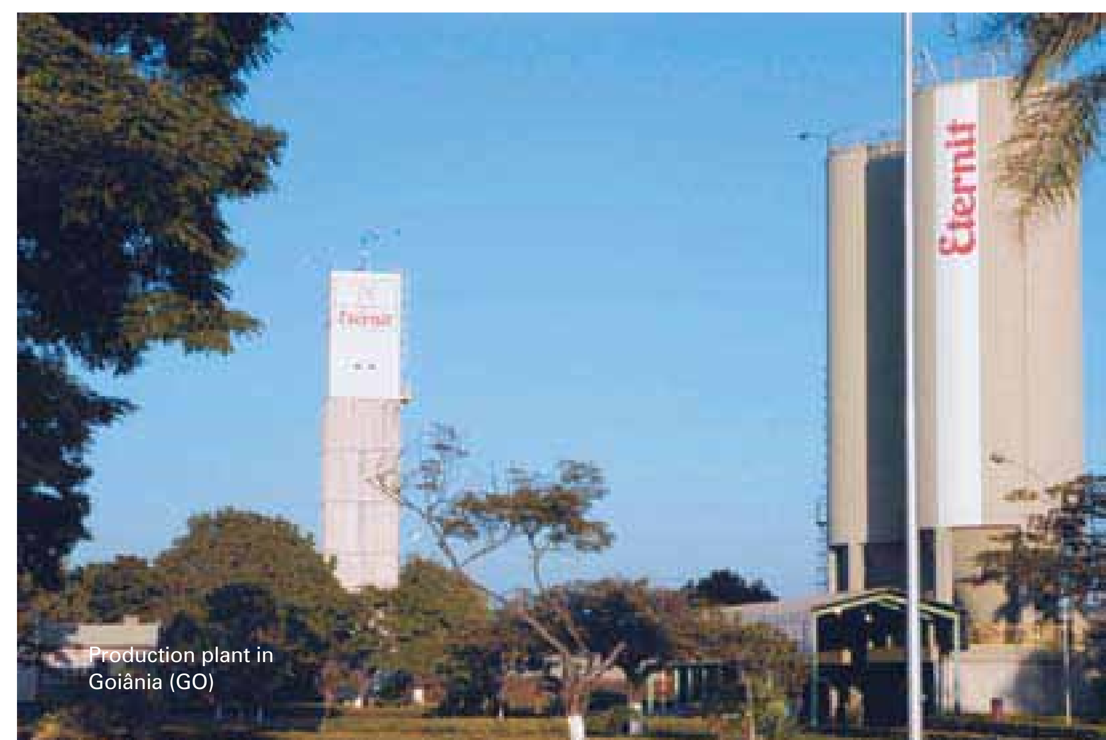
VISION OF THE FUTURE

To maintain leadership in the fiber-cement sector. To expand the Company's activities in the roofing segment, water tank segment and in the area of construction systems, using the strength of its brand name, the strategic location of its industrial park and its distribution channels, with a view to increasing shareholder value.

VALUES

Flexibility
Commitment to results
Ethics
Excellence
Respect for the environment
Transparency
Employee Worth

Eternit seeks to develop products which guarantee the continuity of the business, combined with respect for society and the environment



Production plant in Goiânia (GO)

03 Message from the President

BUILDING SUSTAINABILITY

A strong group, sustainable in the widest and fullest sense that this word can mean. The phrase is not meant to sum up 67 years of Eternit in the market – although it could. But rather serves to explain the leap which the Company has made in a short space of time. In the last three years Eternit has reorganized itself, regained its identity, expanded sales by 40% and has started on a new path, with a vision of the future of its businesses supported by the key elements of sustainability, which the Company believes consists of a process of natural selection of companies by their shareholders, employees and consumers.

Many ask what the secret of Eternit's success has been, in the face of the controversial war against the use of our main raw material, chrysotile asbestos. The secret is maintaining transparency with society. And willingness to open the doors of our five production plants and our mine to any citizen who wishes to gain a close knowledge of all the stages of our production process – from mining to the manufacture of finished products. The Open Door Program, in two years has allowed more than 12,000 people to obtain an inside perspective of the Company.

Aware of the transforming role of a Company wich brand name has become synonymous with the product that it manufactures, Eternit invests in the best practices in order to expand in a responsible manner – with a differentiated dividend policy, understanding the role that it should exercise as an agent for social initiatives, as well as the importance of acting in defense of the controlled and responsible use of chrysotile asbestos. The sustainability of our business is expressed in the cost-benefit ratio of our products to consumers, in our continual investment in improving the level of training and knowledge in fiber-cement roofing segment and in the preservation of resources necessary for a high quality of life in the communities which surround our production plants.

Building sustainability is a daily challenge. The efforts that have been made in our units have already produced results for the Company, such as new certification in the areas of environmental management (ISO 14,001) and occupational health and safety management (OHSAS 18,001). The certifications were obtained less than three months after the Company joined the Novo Mercado section of Bovespa, a process that demands the best corporate governance practices and transparency and which also demonstrates the Company's overall quality. These achievements have combined together to consolidate Eternit as the market leader and establish the Company as a benchmark in Brazil's roofing segment. Last year, although depreciation in the dollar had an impact on our subsidiary SAMA's exports of chrysotile asbestos, Eternit's sales of finished products increased by 11%, which demonstrates the strong acceptance of our products. It is not by chance that the Company's shares appreciated by 128% in 2006, proof of the market's confidence in our activities. In the last five years, the number of the Company's shareholders has leapt from 600 to approximately 4000. For 2007, one of our many goals is to continue to be preferred choice of consumers and maintain the Company's high level of attractiveness to investors.

Our corporate commitment is to economic development and the expansion of industrial activity, particularly with regard to respect for life, environmental preservation and civic responsibility

This year studies of asbestos will gain a rich contribution with the development of epidemiologic research which is expected to demonstrate, scientifically, that the use of fiber-cement products containing chrysotile asbestos in homes, is innocuous to health. The USP (Universidade de São Paulo) Faculty of Medicine is coordinating the participation of various national and international universities (Mc Gill, British Columbia and Montreal, in Canada) in a project approved and financed by CNPq – National Council for Scientific and Technological Development, which will evaluate, in various Brazilian towns and cities, people who have been using asbestos roofing on their homes for a period of over 15 years. This research should provide a definitive response to society, showing that there are no health reasons for the prohibition of the use of materials which for more than 60 years have been serving the needs of the population, without any harmful effects.

The Group's care for people begins in-house. The Company has not recorded any case of chrysotile asbestos-related disease among employees joining the company since 1980.

Acting in a firm and transparent manner to demonstrate the differences in Brazil which allow the sector to safely carry out the mining and processing of this mineral, the Company is a signatory to a tripartite agreement – the only one in the world – which provides powers to its employees through factory committees to inspect and control the work environment and even suspend production in the event of possible risks.

Our corporate commitment is to economic development and expansion of our industrial activity, particularly with regard to respect for life, preservation of the environment and civic responsibility, so that future generations will be able to share a world that is less aggressive, fairer and in better equilibrium. It is these values that make up the meaning of the word sustain, as in sustainability. As one knows, the other connotation of the word sustain is to defend a point of view with arguments or reasons. We say who we are, what we do and what we intend to be. Thus sustaining our belief in the future is what builds our sustainability.

Élio A. Martins

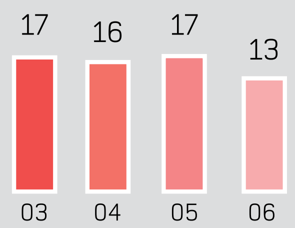
Chairman and Investor Relations Director of Eternit

04 Economic–Financial Performance

NET REVENUES

Net consolidated revenues in 2006 totaled R$ 355 million, with a higher proportion of sales in the domestic market which increased as a percentage of total revenues from 75% in 2005, to 78%. Export revenues were down 9%, dropping from R$ 87 million in 2005, to R$ 79 million. This alteration in revenue mix was due to the average depreciation in the US Dollar against the Brazilian Real, which particularly impacted the export revenues of our subsidiary SAMA. In the domestic market, the Company is continuing with its policy of encouraging loyalty from its clients, in the face of chrysotile asbestos imports. In the international market, SAMA continues to direct its sales to the most profitable markets, selling products with a higher aggregate value.

DIVIDEND YIELD:
PERCENT (%)



GROSS PROFIT AND GROSS MARGIN

Consolidated gross profit in 2006 was lower than in 2005, amounting to R$ 144 million, while gross margin amounted to 41%. Contributing to this picture, there was an increase in the sales volume of Eternit, which resulted in gains in scale, as well as price increases implemented at SAMA, together with a higher aggregate value mix, so helping to minimize the impact of the depreciation in the dollar.

DIVIDENDS

Type of Distribution	Date of proposal	Type of approval	Total distribution R$	Amount per share R$/share	Payment date
Dividend	01/26/05	EGM*	17,375	0.50	02/10/05
Dividend	02/23/05	Board of Directors**	6,255	0.18	03/10/05
Dividend	04/28/05	Board of Directors	8,340	0.24	05/13/05
Dividend	07/11/05	Board of Directors	7,298	0.21	07/25/05
Dividend	10/26/05	Board of Directors	5,213	0.15	11/09/05
Total 2005			44,841	1.28	
Interest-on-equity	12/26/05	Board of Directors	8,637	0.25	03/01/06
Dividend	04/07/06	AGM***	1,382	0.04	04/26/06
Dividend	04/07/06	Board of Directors	1,382	0.04	04/26/06
Interest-on-equity	04/07/06	Board of Directors	4,837	0.14	04/26/06
Interest-on-equity	07/07/06	Board of Directors	4,492	0.13	07/26/06
Dividend	07/07/06	Board of Directors	1,728	0.05	07/26/06
Interest-on-equity	10/25/06	Board of Directors	4,135	0.12	11/08/06
Dividend	10/25/06	Board of Directors	2,412	0.07	11/08/06
Total 2006			29,004	0.84	
Interest-on-equity	12/19/06	Board of Directors	3,446	0.10	03/12/07
Dividend	02/28/07	Board of Directors	17,572	0.51	03/12/07
Total 2007			21,018	0.61	

*Extraordinary General Meeting **Board of Directors Meeting ***Annual General Meeting

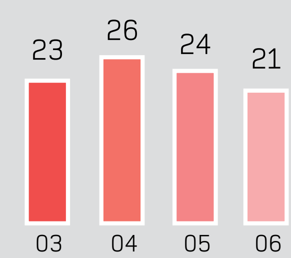
EBIT AND EBITDA

EBIT (earnings before interest and tax) was down 17% in 2006 compared to the previous year, amounting to R$ 56 million in the period. As a consequence of this, EBTIDA (earnings before interest, tax, depreciation and amortization) amounted to R$ 73 million, down 13%.

NET PROFIT AND ALLOCATION OF EARNINGS

Net profit for the year amounted to R$ 38.2 million, up 12% on 2005. In 2006 the result was leveraged by R$ 7.3 million, due to the booking of deferred tax assets. Of the net earnings in the year, R$ 3.9 million was allocated to Legal and Statutory Reserves, and R$ 34.3 million to the payment of dividends and interest-on-equity to shareholders. In addition to this, additional dividends were paid of R$ 7.1 million from retained profit reserves.

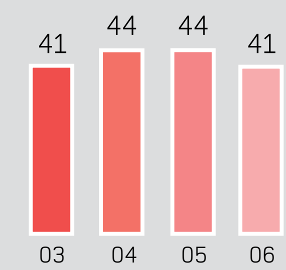
EBITDA MARGIN:
PERCENT (%)



INVESTMENTS

Consolidated investments amounted to R$ 13 million, focused on improvements in the areas of quality, development, health and safety, maintenance, productivity, information technology and the environment.

GROSS MARGIN:
PERCENT (%)



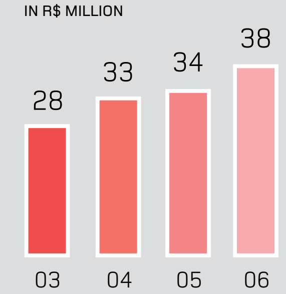
FREE CASH FLOW

Free cash flow in the year amounted to R$ 48 million, compared to R$ 63 million in 2005. Despite this reduction, the Company continued to be a strong cash generator.

CAPITAL STRUCTURE AND INDEBTEDNESS

With cash and equivalents of R$ 73 million and loans of R$ 10 million, the company ended 2006 with net debt of R$ 64 million. Shareholders' equity of R$ 230 million represented all the capital employed, placing Eternit as one of the most capitalized companies in Brazil – and with one of the lowest financial risks.

NET EARNINGS:
IN R$ MILLION



ADDED VALUE

	2006		2005	
Distribution of Added Value	184,789	100.00%	182,179	100.00%
Human Resources	60,518	32.75%	56,738	31.14%
Taxes	60,247	32.60%	71,569	39.28%
Remuneration of third-party capital	25,810	13.97%	19,691	10.81%
Shareholders (dividends)	34,311	18.87%	29,488	16.19%
Retained profit	3,903	2.11%	4,693	2.58%

05 Eternit's Performance

OPERATIONAL AND SALES PERFORMANCE – ETERNIT

The Brazilian fiber-cement market grew by 5% in 2006, compared to GDP growth in the construction industry of 4.5%. For the year Eternit recorded R$ 206 million in net revenues from finished products, having supplied the market with 578,000 tons, an increase of 11% on the previous year. This result enabled gains to be made during the period, once more demonstrating the strength of the Company's brand name and its sales policy, supported by its nine commercial branches, together with more than nine thousand distributors spread throughout the country.

Eternit's market share in terms of finished products rose from 28% to 29%, which was possible as a result of the adoption of management focused on increasing competitiveness and reducing costs. Approximately 70% of the sales of Eternit are to the lower-income section of the population, which is more sensitive to price changes.

The average capacity utilization rate of the Company's manufacturing plants amounted to 90%.

MANUFACTURING PLANTS

Colombo (PR): Produces corrugated roofing panels and associated parts, being the only plant which manufactures Eterplac fiber-cement facing panels and Wall panels. Inaugurated in 1975.

Goiânia (GO): Produces fiber-cement water tanks, corrugated roofing panels and associated parts. Inaugurated in 1971.

Rio de Janeiro (RJ): Produces corrugated roofing panels and associated parts, being the only plant which produces polyethylene water tanks. Began operations in 1949.

Simões Filho (BA): Produces corrugated roofing panels and associated parts. Inaugurated in 1967.

Precon Goiás (GO): Produces corrugated roofing panels and associated parts. This subsidiary is located in Anápolis and was founded in 1976.

06 Performance of SAMA

OPERATIONAL AND SALES PERFORMANCE - SAMA

Sales of chrysotile asbestos by the Group's wholly-owned subsidiary SAMA amounted to 222,000 tons, an increase of 4% on the previous year. Of this total, 59% was exported with the remainder being sold in the domestic market.

Operations in more profitable markets, offering fiber with a higher aggregate value, enabled the price in dollar terms to be increased by 13%, mitigating some of the effect of the depreciation in the dollar on sales volume.

SAMA maintained its solid position of being the third largest chrysotile asbestos mining company in the world and the main supplier to the domestic market, due to the high productivity of its mine, the rigorous safety criteria adopted and the quality of service it provides to its clients.

Adjoining page, aerial view of production plant in Simões Filho (BA). Below, the Cana Brava Mine, in Minaçu (GO), the only one in Latin America

Taguaíba Condominium/Guarujá

Corporate Foundations

Eternit's business structure aims to improve the company's profitability in a sustainable manner. The transparency of its management and its increasing competitive advantages, have resulted in greater value generation for its various public audiences.

07 Strategic Positioning

The Eternit Group's strategic plan was drawn up to provide continuity to its growth and expand the profitability of the business. To achieve these objectives, one of the Company's differentials is that it operates throughout the chrysotile asbestos production chain. The Company controls the only mine for the extraction and processing of this natural fiber in Latin America, in addition to five fiber-cement production plants. Fiber-cement, used in Eternit's corrugated roofing panels and water tanks is created based on a mixture of chrysotile asbestos fiber with pulp, lime, cement and water. In Brazil, the fiber-cement segment is responsible for 49% of the roofing market, followed by ceramic tiles with 36% and others, with 15%.

The option to produce fiber-cement using chrysotile asbestos is a strategic decision by the Company. Eternit defends the controlled and responsible use of chrysotile asbestos, with safety for its employees and society, taking advantage of the unique characteristics of this mineral. Alternative fibers increase the price of the end product by 30% and do not produce the same quality as chrysotile asbestos. A proportion of the Group's water tanks are made from polyethylene, to meet new demands and fulfill the requirements of new construction systems.

OUTLOOK

The global chrysotile asbestos market has been growing constantly in the last few years. In 2004, global consumption was approximately 2.1 million tons, 5% higher than in 2003; in 2005, consumption of this fiber amounted to 2.3 million tons, up 10%. Last year the global chrysotile asbestos market remained stable, at 2.3 million tons.

In the domestic market, sales of construction products made of chrysotile asbestos, also increased by more than the average. In 2006, sales grew by 5%.

This increase in sales was also the result of the Company's constant search for solutions to meet its clients' requirements throughout its product line. For this reason, the brand is recognized as a symbol of quality, tradition and value, supported by an extensive domestic distribution network and benefited by the location of the various production plants. This strategy enables Eternit to maintain a commitment to its employees, clients, suppliers and residents in the communities where it operates.

08 The Company's shares as an investment

NOVO MERCADO

On August 17, 2006 Eternit joined the Novo Mercado, being the 34th company to comply with this level of Corporate Governance. The Company's shares had already been traded since March 2005 under Bovespa Corporate Governance Level II.

LIQUIDITY

From the time of hiring Àgora Sênior Corretora de Títulos e Valores Mobiliários S.A. in July 2005 to act as a market maker for the Company, the liquidity of Eternit's shares has increased substantially, rising to an average daily volume of R$ 1,297,000 by the end of 2006. The volume of shares traded increased by 80% compared to the previous year.

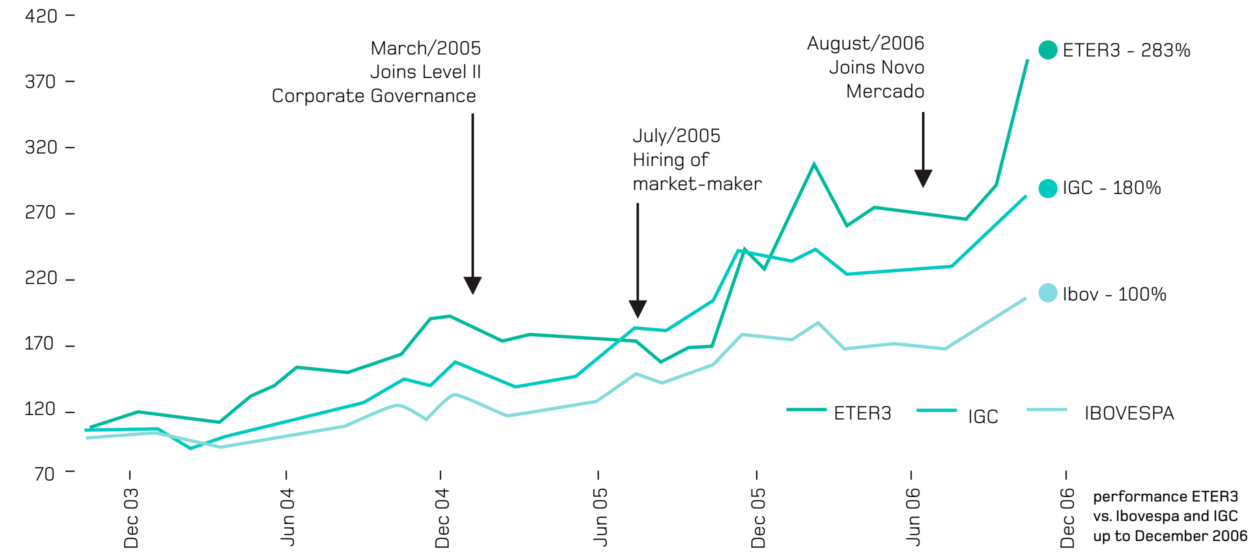
SHARE PERFORMANCE

Eternit's market capitalization at the end of the financial year amounted to R$ 466 million. Its ordinary shares (ETER3) appreciated by 128.1% in 2006, outperforming the Bovespa Index by four times in the same period.

NOVO MERCADO BOVESPA BRASIL

ETERNIT ON BOVESPA:

PERIOD: 12/31/2003 – 12/31/2006 (BASE 100)



In 2006, Eternit joined the Bovespa Novo Mercado, its shares appreciating by 128% during the year, outperforming the Bovespa Index four times

SHAREHOLDER REMUNERATION

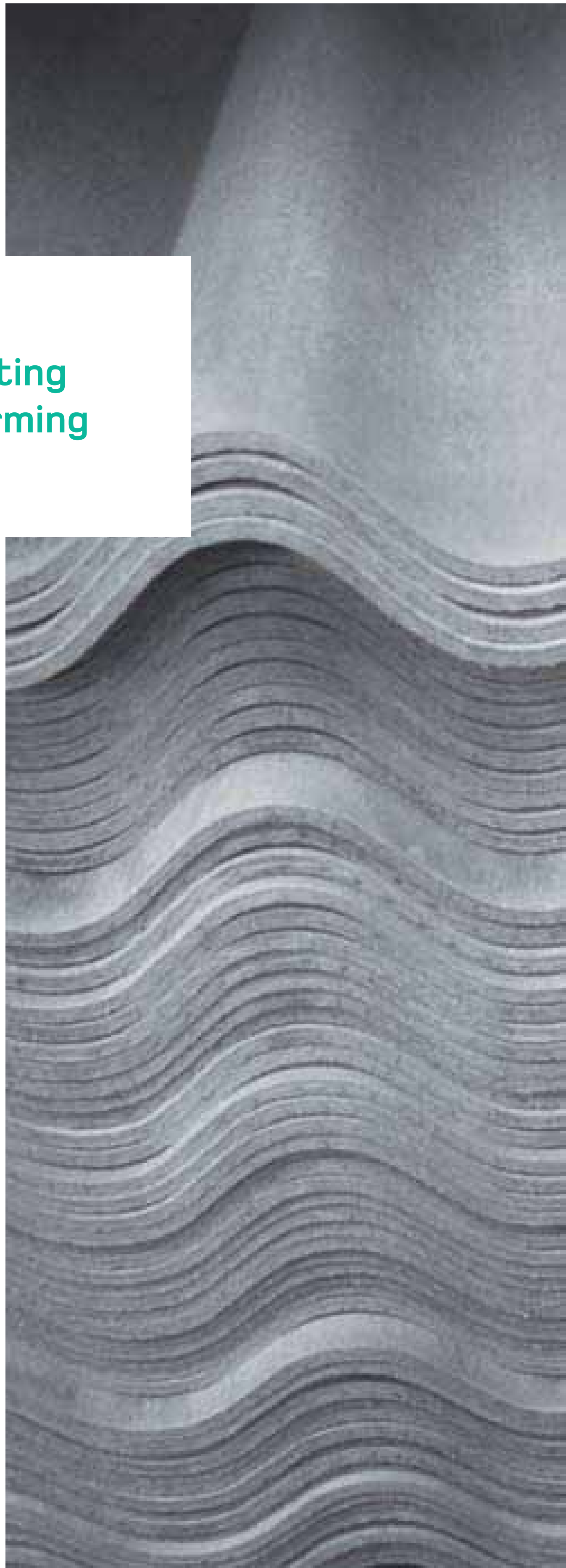
Of the net profit reported in each financial year, the Company allocates 5% to a legal reserve and 5% to a statutory reserve, the remainder being distributed to shareholders in the form of dividends and interest-on-equity. In the last few years, distributions have been made on a quarterly basis.

DIVIDENDS

In 2006 a distribution was made of R$ 0.84 per share representing a dividend yield of 13.2%. In the last four years, Eternit's ordinary shares have had an average dividend yield of 16%.

Investors and market professionals recognize that the Company:- leads the fiber-cement corrugated roofing panel and water tank market; is well capitalized; is a net investor of funds and is included among the companies with the best shareholder remuneration. Taking the dividend yield of all Brazil's companies Eternit has occupied first position in the last 10 years, according to Economática data published by the newspaper Gazeta Mercantil, on February 2, 2007.

* Result of dividing the share price by the dividend distributed during the year (the payment period of which the distribution is based), at the closing share price at the end of the previous year.



09 Corporate Governance

Eternit's corporate governance policy is guided by the principles of transparency, profound respect for shareholders, equal treatment in the access of information and rigorous compliance with the law. Since August 2006, the Company's capital has consisted exclusively of ordinary shares. The granting of tag-along rights to its shareholders guarantees equal sales conditions for its minority shareholders in the event of the sale of control of the Company. Eternit holds analyst meetings to present its results at APIMEC (Association of Capital Market Analysts and Investment Professionals) and at the INI (National Investor Institute). In 2006, four meetings were held.

BOARD OF DIRECTORS

The Company's Board of Directors comprises a Chairman and six Board Members with a mandate of one year, with the possibility of being re-elected at General Shareholders Meetings. Board of Directors meetings are carried out on a routine basis every two months, and on an extraordinary basis whenever deemed necessary or when convened by one of the seven members of the Board. In 2006 there were 15 Board of Directors meetings. It falls to the Board of Directors to provide general guidelines for the business, elect the Executive Board and deliberate on the distribution of dividends.

EXECUTIVE BOARD

The Executive Board is elected by the Board of Directors with a mandate of one year, with the possibility of re-election. It consists of the Chairman, who also performs the role of Investor Relations Director, and five directors. The Executive Board is responsible for the implementation of the decisions made by the Board of Directors and for the direct management of the Company's businesses.

COMMITTEES

Six committees provide advice to the Board of Directors and the Executive Board. They meet every two months, and are made up of board members, directors and other Company professionals and act in the following areas: Committee for Auditing, Accounting and Treasury; Sales Committee; Committee for Information Disclosure, Image and Social Responsibility; Legal Committee; Committee for Strategic Planning and Human Resources Committee.

INDEPENDENT AUDITS

Eternit's policy in the hiring of an external auditing services is based on the international principles of auditor independence: a) the auditor must not audit his own work; b) the auditor must not exercise any management role for his client and c) the auditor must not promote the interests of his client.

In 2004, in compliance with CVM Rule 308, which governs the rotation of external auditors, Deloitte Touche Tohmatsu took over the role of auditing the Company's accounts, replacing PriceWaterhouse Coopers Independent Auditors.

10 Intangible Assets

Eternit's capacity to innovate, its human capital resources, its nationwide brand name and its extensive sales network, all make up a solid combination of competitive advantages which ensures the Eternit Group a differentiated position in the Brazilian market.

HUMAN CAPITAL

For Eternit, the management of its staff is an integral part of its policy of improving its administrative processes. The Company believes that human capital is its main asset. It is the factor which makes the difference for the Company, showing through at the moment when it has a direct influence on the excellency of our production and in the finding of solutions for our consumers and suppliers. For this reason Eternit seeks to provide constant support for perfecting the skills of its professional staff. In 2006, the Company invested R$ 587,000 in training programs.

BRAND

The tradition of the Eternit brand, created in the 1940s, and its history of leadership in the market are among the Company's most important assets. Eternit is a brand with a strong presence in Brazil and has already become synonymous with the product which it provides to the consumer. Due to this profile, it has become a seal of quality.

SALES NETWORK

The sales network consisting of more than nine thousand distributors permits all Brazilians easy access to Eternit's quality products, in any income bracket in society. Another important differential is the strategic location of its production units, distributed in the South, Southeast, Central West and Northeast, making logistics access easier and reducing production costs.

ENVIRONMENTAL MANAGEMENT

In order to ensure the sustainable growth of its business, the Company progressively invests in energy conservation programs, the reuse of water and the treatment of solid residues, as well as the maintenance of environmental areas. In November 2006 the production plants of Eternit and of subsidiary Precon Goiás were audited by DNV (Det Norske Veritas), of Norway, and received ISO 14,001 environmental management certification. The subsidiary SAMA has had ISO 14,001 certification since 1998.

HEALTH AND SAFETY AT WORK

One of the high points of the Company is the care it takes for the health of its employees, through the enforcement of a rigid safety program in the mine and at its plants. At the end of 2006, after the audit by DNV (Det Norske Veritas), of Norway, the production plants of Eternit and Precon Goiás obtained OSHAS 18,001 certification – for occupational health and safety management, consolidating the Company's management policies in the area of health, safety and the environment.

Refinement and Finishing

Eternit seeks to continually develop products with a high cost-benefit, with differentials in terms of quality and durability in the sector. This innovative vision also guides the improvements made in its industrial processes.

2006 Christmas House / Baixada Santista

11 Processes

The continual quest for quality and innovation are characteristics of Eternit's processes. The controlled and responsible use of chrysotile asbestos requires a standard of excellence in the Company's production chain – care taken which begins from the mining operation and continues right through to providing service to the final client, always with the aim of providing the best service to sales agents and consumers of the branded product.

CANA BRAVA MINE

The mineral deposit of Cana Brava consists of two main trenches (A and B), separated by a distance of approximately 75 meters and exploited simultaneously. The objective is to obtain good product quality, both in terms of the length and average content of the fiber for satisfactory use at the processing plant and meeting the consumption standards of the market. Chrysotile asbestos processing at the Cana Brava mine uses exclusively physical methods, without additives being introduced at any treatment stage. The process takes place in enclosed equipment, so that employees have no contact with the fiber. The various production stages are as follows:

Extraction: Carried out on an open cast basis, employing the classic ramp method, with the use of explosives, being permanently dampened to avoid dispersion of the powder. The tailings and the sterile mineral are dumped in two deposits, whose environmental planning already includes the replanting of new covering vegetation.

Drilling and fragmentation: In this process, fragmentation is carried out in front of the rock face to make it easier to carry and transport the mineral to the primary crusher.

Carriage and Transport: Mechanical loaders fill the trucks which take the mineral to the crusher.

Crushing: In the first phase, the crusher receives blocks of crude mineral and reduces them to a maximum size of 30 centimeters. At the exact moment that the

The processing of the chrysotile asbestos in the Cana Brava mine takes place without any contact by employees with the fiber and without the use of additives, at any stage of the process

truck unloads the mineral, a sensor sets off a water spray, eliminating dust in suspension in the air. In the following phase, there are two operational lines to facilitate the separation of the mineral into two size brackets: one being finer, of 30 mm, which goes directly to the drying plant, and the other coarser, which will be sent to the second crusher to have its size reduced (below 100 mm).

Concentration: The processing plant is composed of two lines of operation, one which produces the fine fraction, sent to the mineral drying silo, and the other course of fraction, deposited in tailing piles in the form of banks.

Drying: The mineral is dried using the hot air produced by furnaces and is subsequently sent to a covered silo storage unit.

Treatment: Phase in which the fibers are separated and classified in terms of length, and impurities removed.

Industrial filter: SAMA's entire plant, from the primary crushing stage through to the bagging process, has filters for the control of pollution and particularly for the generation of air for the industrial process. This is the most modern equipment in Latin America, with 17,000 filter bags.

The process of mixing the basic paste used in the manufacturing of finished products is automated, carried out in a totally mechanized and enclosed system

Eternit's production process undergoes rigorous quality control

Tailings: The tailings, being material with fiber content not recovered in the processing plants, is deposited in piles in the form of banks, where it will be replanted with covering vegetation.

Bagging: Consists of two production lines. One of these is exclusively for the types of fiber used in fiber-cement products. The block formed is approximately 50 kg in weight, and after bagging, it passes to the sewing machine for the bag to be sealed. Blocks above or below the specified weight are rejected and reprocessed.

Palleting and storage: In this stage the blocks are handled automatically which form a packaged unit with a plastic coating, which receives another plastic covering, only then being made available for storage.

The entire process avoids handling and contact with chrysotile asbestos by the employees of the Cana Brava mine.

Eternit's corrugated fiber-cement roofing panels and water tanks are easy to install and have an excellent cost-benefit ratio

MANUFACTURING STAGES OF FIBER-CEMENT PRODUCTS

Taking delivery: The cement and lime is transported in bulk. The chrysotile asbestos and pulp (newspapers and cardboard) are delivered in palette form.

Silos and storage: The chrysotile asbestos and pulp are deposited in a closed warehouse. The lime and cement are stored in silos. The primary silos stock the raw material as soon as it arrives and the secondary silos function as a type of reserve. The company also has an area for the storage of filler (crushed fiber-cement, made from broken products) and residues (reusable material collected during the cleaning of the machinery and production process shutdowns). Filler and residues are part of the new product manufacturing process.

Mixture: In this phase, all the ingredients are mixed to form a basic paste. The first phase is the opening of the chrysotile asbestos fibers, by adding water to make into a paste. Using a totally mechanized and enclosed system, the opening up of the fibers is carried out and the plastic packaging is pulverized and incorporated in the production process. The entire operation is automated, avoiding any human contact with the ingredients. Subsequently the other various elements are mixed in.

Making of the fiber-cement sheet: For the manufacturing of roof coverings, the mixture is sent to a machine which produces a flexible sheet of fiber-cement, which is then transported to a molding section, where it is corrugated to form of the finished corrugated roofing product. Having passed through this process, the corrugated roofing panels are stacked and sent for the curing. In the case of molded products the sheet is drawn off in rolls and taken by electric trolleys to the molding sector. For the production of fiber-cement water tanks, a similar mixture is used in the manufacture of 250, 500 and 1000 liter tanks.

Curing: All the products undergo a curing period of approximately 8 hours. After this period, the products are sent to be removed from their molds.

Stock of final products: Having been removed from their molds, the products are visually inspected and sent for storage, where they stay for drying, before they are released by Quality Control.

Shipment of finished products: The sales area sends a service order for the sector responsible for the transport of the products which will be delivered to the clients.

12 Solutions

SALES

The sales team consists of 160 professionals, who periodically undergo training with the aim of providing the best information possible on the products to clients and consumers.

Information Technology: All the professional staff in the sales area use PDAs (Personal Device Assistant), a tool which combines the function of a mini-laptop and a cell-phone, equipped with software, which allows orders to be placed and access to various information, such as client purchase history, product availability and target monitoring. The introduction of this tool, as well as making a contribution to client relationships, has increased the reliability and speed of information and has significantly reduced the length of time taken for the whole process.

Mobile training unit: To improve the service to its clients, Eternit also invests in the training of its distributors. A good example of this is the Mobile Training Unit, which holds courses and provides technical support to clients throughout Brazil in the handling and use of the Company's products. The courses are free of charge and are carried out at a whole range of different locations, such as building sites, events and universities, as well as at the sales agents' premises.

Eternit has a wide distribution network, its sales team consisting of 160 highly qualified professionals

DIFFERENTIATED SERVICES

Internet: Always with innovation in mind, Eternit's website provides complete solutions for roofing projects. The Ercalc tool can be used online or downloaded, and is for calculating the quantity of material that will be used in the construction of a particular roof. This process reduces calculation time by up to 90% and also provides a three-dimensional view, as well as a complete report of the parts to be used. To complete the service, the project can be automatically sent to Eternit's estimate unit, which will provide a final costing of the materials needed and select the sales agents closest to the user for delivery, sending the estimate by e-mail.

13 Architectural Qualities

DESIGN AND EASE OF USE

The success of the Eternit brand is due to its product quality. The company uses efficient industrial production processes to produce its diversified product line. In addition to the traditional corrugated fiber-cement roofing sheets (eight models) and fiber-cement water tanks, the Company also offers Wall panels and Eterplac cement facing panels, in addition to polyethylene water tanks. All these products are easy and quick to install, representing an excellent option from a technical and economic standpoint.

A network of more than 9000 distributors enables Eternit's products to be distributed from the North to the South of Brazil. Corrugated fiber-cement roofing sheets, the Company's flagship product, come in a wide variety of models and sizes, which can be used in a wide range of residential, commercial, agricultural and industrial projects. These corrugated fiber-cement roofing sheets are light and resistant, requiring minimal use of labor. And is the cheapest product in the market, after black canvas.

In its water tank production, the Company also makes a polyethylene model. These water tanks are manufactured using a rotating mold process, with two layers of polyethylene, which limits the entry of light and minimizes the formation of algae and the accumulation of impurities. Its low weight is one of the main advantages of this product, making handling, transport and storage easier.

Eterplac cement facing panels, another innovation by Eternit, allows projects to be carried out that require practicality and creativity, providing complete freedom in a wide variety of applications, such as external and internal walls, building façades and partitions. The facing panels, made using CRFS technology (cement reinforced with synthetic thread), are impermeable, very heat resistant and resistant to bending and deterioration over time. Eterplac panels are available in various sizes and thicknesses.

Wall panel consists of a sandwich of solid wood between two cement panels, as an external covering. Manufactured using a hot pressing system, the panel has unique qualities, such as high mechanical resistance and thermal and acoustic insulation, and can be used in the building of walls, partitions, mezzanine floors and technical linings. This is a product which allows the maximum use of space and is present in schools, commercial buildings, hospitals, industries and shopping centers.

14 Recognition in 2006

STAFF MANAGEMENT

Valor Econômico: In research carried out by the Hay Group consultancy and the newspaper Valor Econômico, published on October 31, 2006 Eternit and SAMA were classified among the 66 best companies in terms of staff management. As a result of the quality of its employee management, the Company's trainee program attracted 7000 applications for five places on the program.

Great Place to Work / Época magazine – In 2006 SAMA was classified as one of the best companies to work for by the "Great Place to Work" institute, in research published by Época magazine.

MARKETING AND BUSINESS MANAGEMENT

March 2006

– 8th award for excellence in Brazil's Mining-Metallurgic Industry, granted by Minérios & Minerales magazine, to SAMA for the Cana Brava mine.

May 2006

– 13th ranking in Industry Concept and Image. Ruy Ohtake award, presented by the Revenda Group, in the Water Tank and Corrugated Fiber-cement Roofing Sheets category.

June 2006

– 15th Anamaco award "Construction Oscars", with an Honorable Mention in the Major Client category and in the category of Corrugated Fiber-cement Roofing Sheets and Water Tanks.
– Corporate Sustainability Award, granted by Meio Ambiente Industrial magazine and awarded to SAMA.
– 100 best Brazilian mining companies, granted by Brasil Mineral magazine and awarded to SAMA.
– Altamiro de Moura Pacheco award, granted by the Legislative Assembly of the State of Goiás, with the Aroeira Trophy, for environmental preservation.
– Lojista da Bahia award, granted by the Federation of Store Directors in the state of Bahia, in the category of Corrugated Fiber-cement Roofing Sheets and Roofing.

September 2006

– 10th prize for best product of the year, offered by the Revenda Group, awarded 1st place in the Water Tank and Corrugated Fiber-cement Roofing Sheets category and 1st place in 6 and 8 mm Corrugated Fiber-cement Roofing Sheets.

October 2006

– Sustainable Development Award, awarded by FIEG/CNI to SAMA, in the category of medium and large company.
– Award for Quality and Productivity, awarded by FIEG/CNI to SAMA, in the category of medium and large company.
– SESI prize for Quality in the Workplace, awarded by SESI to SAMA, or second place in the state, in the large company category.

November 2006

– 12th Pini prize, awarded by Editora Pini, in the Corrugated Fiber-cement Roofing Sheets category.

December 2006

– Sinaprocim/Sinprocim quality award "Oscar for Construction", awarded by Sinaprocim/Sinprocim, in the category of Water Tanks and Corrugated Fiber-cement Roofing Sheets.

Both Eternit and SAMA have collected various prizes in recognition of the quality of their staff management policy

Living and Working Together

Eternit believes that to achieve sustainability in its business, it needs to take action in protecting the environment and in the promotion of the well-being of its people. To this end, it adopts and maintains a series of measures and programs with a social bias.

Teju Açu Inn / Fernando de Noronha

15 Environmental Management

Eternit is a company which values interaction between its employees both in the internal environment of its units and industrial plants, as well as in the communities that surround them. Eternit continually invests in solutions which protect ecosystems, promotes the quality of air and water and reduces the disposal of solid residues.

THE FIBER

Asbestos is a natural mineral fiber found in 2/3 of the Earth's crust. It has been known and used since antiquity because of its properties, such as high mechanical resistance (particularly traction) high temperature resistance (fire), durability, flexibility and thermal insulation, among others. Annually some 2 million tons of chrysotile asbestos are consumed throughout the world. There are two major families of asbestos in the Earth's crust, the amphiboles (crocidolite-blue asbestos, amosite-brown asbestos and anthophyllite), and chrysotile (white) asbestos, in regular use in Brazil.

Differences: Amphibole asbestos has hard, straight and pointed fibers, and is resistant to attack by acidic substances, as well as having high concentrations of iron in its makeup, which makes it potentially carcinogenic. Chrysotile asbestos has curved silken fibers, is easily soluble in acid solution and has high concentrations of magnesium, which significantly reduces its toxicity and potential carcinogenic effect. As a result of these characteristics the fibers of chrysotile asbestos have different rates of bio-persistence – time of the fibers remaining in the lungs before they are eliminated. The fibers of Brazilian chrysotile asbestos remain a maximum of two and a half days in the lungs. While amphibole fibers remain for more than a year. The European Community, under Directive 97/69-EC, establishes that a fiber, to be considered carcinogenic, must have a bio-persistence, through inhalation, of more than 10 days.

MINING

The history of chrysotile asbestos mining in Brazil can be divided into two chapters: before and after the Cana Brava mine, in the North of Goiás. At the beginning of the 1960s, the discovery of this mine changed Brazil's participation in the global fiber market. Its reserves, as well as supplying demand in the domestic market (today, 120,000 tons a year), have made Brazil an exporter of the product (60% of the mine's production) to more than 20 countries, such as India, Mexico, Indonesia and Thailand and Colombia.

The Cana Brava Mine, currently 4.7 km long, 1 kilometer wide and 135 meters deep, is the only chrysotile asbestos mine in Latin America and the third-largest in the world, only behind mining companies in Russia and China. At the time of the last study carried out,

the productive life of the Cana Brava Mine - on an open cast basis - was estimated at 50 years, with an average production of 220,000 tons a year. Its production started in 1967, with the extraction and process of chrysotile asbestos by SAMA – a company that carries ISO 9,001 certification (Quality Management) and ISO 14,001 certification (Environmental Management), granted by DNV (Det Norske Veritas), one of the best-known issuers of ISO certifications in the world. SAMA is the only chrysotile asbestos mining company in the world to receive ISO 14,001 certification, which includes the entire production process, from the planning of the mineral extraction up to facing the product in containers at the Port of Santos or delivering it to the production plants of clients in the domestic market.

Minaçu, up to the discovery of the "green and hairy rock", according to local reports, was a region inhabited by few families, who lived along the banks of the rivers. Today, the main street of the town that has a population of 34,600 inhabitants, ends at the gates of the mining company SAMA. Between the mine and the town, an almost perfect system of environmental rehabilitation does not allow one to notice the existence of a mining company in the location. It is the only mine in the world that replants all its areas of tailings and sterile mining waste (a term used to characterize the rock that does not contain chrysotile asbestos fibers) with trees and shrubs. The production of chrysotile asbestos is also responsible for the economic development of the city, generating jobs and wealth.

FINISHED PRODUCTS

At the end of 2006, Eternit's production plants in Colombo (PR), Goiânia (GO), Rio de Janeiro (RJ) and Simões Filho (BA), and its subsidiary Precon Goiás, in Anápolis, were audited by DNV (Det Norske Veritas) and received ISO 14,001 certification for environmental management, consolidating the Company's management policies in the environmental area.

SOIL CONTROL

Only a third of the rock in the mineral reserve at the Cana Brava Mine contains chrysotile asbestos. The unused residues and sterile mining waste are deposited in the form of banks in a belt beside the mine itself. The deposit area is subsequently rehabilitated by planting a wide variety of shrubs, offering absolutely no risk to society. As a whole, over six decades some 700 hectares will have been replanted in this way. Therefore, even if activity at the mining company is intense, it is carried out with in a restricted area which is easy to control, minimizing its environmental impact.

CONTROL OF AIR QUALITY

The air quality at Eternit's units is monitored by a specialist consultancy and certified by INMETRO. The consultancy measures the levels of chrysotile asbestos in suspension. During the entire production process, there is no human contact whatsoever with asbestos. Monitoring is also carried out at the exit pipes of all the dust removal systems and chimneys. SAMA has the largest air filtration system in Latin America, with more than 17,000 bag filters and almost 100 cartridge-type filters. In the mining areas and on the access roads to the mining company, the soil is kept damp to avoid the dispersion of dust into the atmosphere. Monitoring and control of atmospheric emissions is carried out at more than 100 workstations and at Minaçu. The environmental measurements, which follow international standards not covered by Federal Law, are capable of detecting as little as 0.0005 f/cm^3 (fibers per cubic centimeter) in the town and in the area surrounding the company's businesses. This is an index which can be registered in any town or location, seeing that the fiber is natural and exists in the air and the water of the entire planet.

CONTROL OF WATER

The treatment of affluent in the trenches of SAMA is carried out using separation tanks and run-off lakes, seeing that the water is not contaminated with chemical products. The reuse of water in the mining operations should increase this year from 9% to 11%. The treatment of effluent is periodically monitored by a specialist company. At Eternit, the water used in the production process is reused, remaining in a closed circuit.

ZERO RESIDUE

This program was introduced in all the production plants of Eternit and Precon Goiás. It allows the waste generated in the production process to be reincorporated in the process. In offices, all paper thrown out is sent to the corrugated fiber-cement roofing sheet and water tank production plants. Plastic, glass and other residues are disposed of in compliance with the legislation. The only inputs which are not reused are oily residues, which are sent for re-refining by a specialist company. At SAMA, the SAMBAÍBA project was implemented aiming to ensure the correct destination for residues. The project operates in the industrial area and in the residential quarters, and in the future will be implemented in the town of Minaçu. Almost 100% of the residues produced will be recycled. The garbage is the excess which is left after all the residues have been made maximum use of, undergoing the 3Rs process: reduction, reuse and recycling.

CONSERVATION: CHELONIA PROJECT

Created in 1995, in partnership with IBAMA (the Brazilian environmental Institute), the Chelonia project has been raising the sensitivity and awareness of the community in Minaçu about the need to take care of the environment. Located in an area of thirty five thousand square meters, it is the only conservationist breeder of turtles from the Amazon, within a company in Brazil. It is also considered a standard reference for this type of initiative. The lake containing the turtles, of 29,000 square meters in size, consists of water pumped from the mine. With approximately 250 chelonia, among them being turtles from the Amazon, including tracajas – side-neck turtles, cágados turtles, tigres d'água – striped turtles and jabutis – tortoises, the program has two complementary activities: handling the reproduction of the Amazonian turtle, and environmental education.

PRESERVATION: ENVIRONMENTAL RESERVES

Green areas are very precious and for this reason need to be preserved and appreciated. Eternit contributes to the environmental maintenance of the Colombo (PR) and Simões Filho (BA) environmental reserves, respectively 58,000 m^2 and 810,000 m^2 in size, maintaining these native forests, with their biological wealth and diversity intact. At Minaçu (GO), SAMA maintains 80% of its area of 4,500 hectares under environmental protection. The SAMA forestry reserve is located in the Serra de Cana Brava, in the middle of a pasture region characteristic of Central Brazil, where humid tropical climates govern the weather in two seasons, the rainy summer season followed by the dry winter season.

The Chelonia project protects a population of 250 specimens, which live in an area of 35,000 m^2 in Minaçu (GO)

Eternit maintains environmental reserves of almost 900,000 m^2 in total, preserving the wealth and diverse fauna and flora in these locations.

16 Health and Safety

SAMA, as a result of its internal policy, maintains a low rate of accidents in the workplace, compared to the mining sector and industry in general. The mining company has an internal team which monitors air quality on a monthly basis in all the work environments, and every six months monitoring is also carried out by a specialist company. In all Eternit's units measurements of fiber in suspension are also carried out every six months by an outsourced specialist company, in compliance with the terms of Annex 12 of NR 15 of Administrative Ruling 3214/78.

In 2006, Eternit obtained ISO 14,001 certification for environmental management and OHSAS 18,001 certification for occupational health and safety management

In 2006, 100% of the points analyzed at the mine registered less than 0.1 fiber per cubic centimeter. At Eternit, 92% of the points analyzed had a reading of approximately 0.1 fiber per m^3. The legislation sets a tolerance limit for airborne fiber of 2.0 fiber/ m^3.

At Eternit, the controlled and responsible use of chrysotile asbestos is a priority matter at all its production plants, a process that is ensured by a series of standards and initiatives of the Company and its employees. In addition to rigorous internal controls, the Company adheres to a tripartite agreement for the responsible use of chrysotile asbestos, signed by representatives of the fiber-cement industry and employees, and filed with the Ministry of Work. Through this agreement, employees have the right to shut down industrial activities in the production plants if a risk of releasing fibers is detected.

The production plants of Eternit and subsidiary Precon Goiás obtained OHSAS 18,001 certification for occupational health and safety management in November 2006. The certification audit was carried out by DNV (Det Norske Veritas).

There is no record at Eternit or the subsidiaries SAMA and Precon Goiás of any occupational diseases caused by exposure to chrysotile asbestos among employees joining the company after 1980. There is also no record in medical and scientific literature, even at the World Health Organization, that any member of the Brazilian population has contracted any disease as a result of using corrugated fiber-cement roofing sheets and water tanks manufactured from chrysotile asbestos.

17 Social Responsibility

The policy of social responsibility at Eternit and SAMA embodies a constant concern about the quality of life of its employees. For this reason, the Company believes that good education and training is the best tool for ensuring the well-being and development of future generations. The professional training and worth-building programs, in the area of health and safety in the workplace also contribute to the better education of employees and families and the surrounding communities.

There is no record at Eternit, or the subsidiaries SAMA and Precon Goiás, of any occupational diseases caused by exposure to chrysotile asbestos among employees joining the company after 1980

To ensure professional development, in 2006 Eternit and SAMA carried out a series of initiatives involving the investment of a total of R$ 587,000 in training. Last year, the average salary in the company's workforce was R$ 1,675.00 compared to R$ 1,637.00 in 2005. The career program involved the promotion of 70 employees at Eternit and 77 at SAMA. 216 requests for student grants were approved during the year, as well as the awarding of grants for postgraduate and language courses (English and Spanish), depending on their requirement for the job position. The company bears between 50% and 100% of the cost of these courses.

In 2007, the Company intends to increase the size of its workforce by 10%, with approximately 300 promotions. The group prioritizes internal recruitment, except for very specific functions. Of the 888 employees of Eternit and Precon Goiás, 56% have over 35 years of age. At SAMA, of the total of 545 employees, 53% are more than 35 years old. There are 103 women employed at Eternit and 49 at SAMA.

The pioneering spirit of Eternit can also be observed in the other concerns which it has for its employees. Benefits which today are common in the marketplace have been provided by the company for more than 30 years. Among these, of particular note are life insurance, medical and dental health plans, a resident doctor within the production plant, subsidies provided for the purchase of medicines and the Christmas food basket. In addition, the Company also offers a private pension scheme, a basic food basket, optical care and daycare subsidy.

With the aim of integrating employees and their families, the production plants at Eternit and Precon Goiás have recreation areas for the practice of sports and events such as The Employee Party, The June Party, The Children's Day Party and The Fraternization Party. At all the units, employees have areas for resting after lunch, and in rigorous fulfillment with the legislation, the Company was the first in the fiber-cement sector to adopt a medical monitoring program for its employees.

At SAMA, employees have available a complete social integration area, with two clubs and grounds for the playing of a wide variety of sports, as well as swimming pools and areas for events and fraternization.

The quality of life and the benefits offered to its employees have meant that more than 40,000 people have been part of the workforces of Eternit in its 67 years of existence.

RELATIONSHIP WITH THE COMMUNITY

The Open Doors program which includes all the units of Eternit, Precon Goiás and SAMA, has already received more than 12,000 people since its creation, in November 2004, among them being authorities, investors, entities and companies linked to the capital markets, mining and environmental bodies, universities and other learning entities, as well as people from the surrounding community. In 2006, the total number of visitors exceeded 5600, and for 2007 this program is expected to continue its success.

The object of the program is to contribute to a better understanding by society of the extraction and processing of chrysotile asbestos and the manufacture of fiber-cement products in a controlled and responsible manner. The Open Doors program consists of visits to the production plants and the mine, and is in keeping with the company's policy of transparency and willing dialogue. The presence of politicians and authorities, invited to learn about the companies working conditions, also strengthens confidence in the safety of the entire process. All the visitors under the program answer a questionnaire to evaluate the quality of the supervised visits. For 98% of people, the program fulfilled their expectations.

COMMUNITY TRAINING: SAMBAÍBA PROJECT

The name is inspired by the SAMBAÍBA, a typical tree of the cerrado (Brazilian savanna), of which everything can be made use of. The program was created to ensure the satisfactory destination of solid residues generated in the industrial area, in the residential quarters of SAMA and in the town of Minaçu (GO). The Sambaíba Project is a partnership between SAMA, the Secretary of Commerce and Industry of the State of Goiás, the Municipal Authority of Minaçu and Senai. Of the total volume of residues produced per year, SAMA sent 350 tons for recycling in 2006.

Arts and Crafts Cooperative - Coopemim, the Cooperative of Entrepreneurial Mineral Artisans of Minaçu was created for the purpose of generating new opportunities for professional training in the less favored sections the Minaçu community, thus providing income for artisans who live in the surrounding areas. Using the sterile serpentinite rock (without the presence of chrysotile asbestos), these artists create a wide variety of useful ornamental pieces. Youngsters from the community of Minaçu participate, including people with disabilities. Currently 18 adolescents work in the workshop.

In 2006, the SAMBAÍBA Project recycled 350 tons of solid residues, generated in the industrial area, the residential quarters and the town of Minaçu

ADDRESSES

HEADQUARTERS
Rua Dr. Fernandes Coelho, 85 – 8º andar
CEP: 05423-040 – São Paulo – SP
Tel.: (11) 3038-3838 Fax: (11) 3819-1647
sac@eternit.com.br

PRODUCTION PLANTS

Colombo – PR
Rua Presidente Faria, 5323 – Colônia Faria
CEP: 83411-050 – Colombo – PR
Tel.: (41) 2109-6800 Fax: (41) 2109-6890
portasabertas.colombo@eternit.com.br

Goiânia – GO
Rodovia BR-060, km 165,92
Chácaras Anhanguera
CEP: 74001-970 – Goiânia – GO
Tel.: (62) 3545-5000 Fax: (62) 3296-8181
portasabertas.goiania@eternit.com.br

Rio de Janeiro – RJ
Rua Francisco Portela, 122 – Guadalupe
CEP: 21660-010 – Rio de Janeiro – RJ
Tel.: (21) 3369-9600 Fax: (21) 3106-9040
portasabertas.riodejaneiro@eternit.com.br

Simões Filho – BA
Rodovia BA-093, km 4,5
CEP: 43700-000 – Simões Filho – BA
Tel.: (71) 3296-8012 Fax: (71) 3296-8013
portasabertas.simoesfilho@eternit.com.br

SUBSIDIARIES

Precon Goiás – GO
Distrito Industrial de Anápolis – Quadra 6
CEP: 75133-600 – Anápolis – GO
Tel.: (62) 3328-4400 Fax: (62) 3328-4412
portasabertas.precongoias@eternit.com.br

SAMA S.A. – Minerações Associadas – GO
Mina de Cana Brava, sem número
CEP: 76450-000 – Minaçu – GO
Tel.: (62) 3379-8100 Fax: (62) 3379-8181
sama@sama.com.br

COMMERCIAL BRANCHES

Brasília – DF
SAI/SUL – Q. 4C – Lote 51 – Loja 3
CEP: 71200-045 – Brasília – DF
Tel.: (61) 3233-2580 Fax: (61) 3233-4632

Campinas – SP
Av. Dr. Alberto Sarmento, 916
CEP: 13070-711 – Campinas – SP
Tel.: (19) 3241-6000 Fax: (19) 3243-3083

Curitiba – PR
Rua Presidente Faria, 5323 – Colônia Faria
CEP: 83411-050 – Colombo – PR
Tel.: (41) 2109-6868 Fax: (41) 3666-6878

Goiânia – GO
Rodovia BR-060, km 165,92
Chácaras Anhanguera
CEP: 74001-970 – Goiânia – GO
Tel.: (62) 3545-5050 Fax: (62) 3545-5059

Porto Alegre – RS
Av. Wenceslau Escobar, 1134 – Salas 309/310
CEP: 91900-000 – Porto Alegre – RS
Tel.: (51) 3268-3071 Fax: (51) 3024-4871

Rio de Janeiro – RJ
Rua Francisco Portela, 122 A – Guadalupe
CEP: 21660-010 – Rio de Janeiro – RJ
Tel.: (21) 3107-0665 Fax: (21) 3106-9118

Salvador – BA
Rodovia BA-093, km 4,5
CEP: 43700-000 – Simões Filho – BA
Tel.: (71) 3296-8000 Fax: (71) 3296-8001

São Paulo – SP
Rua Dr. Fernandes Coelho, 85 – 8º andar
CEP: 05423-040 – São Paulo – SP
Tel.: (11) 3038-3841 Fax: (11) 3032-7295

CREDITS
Andréa Oliveira Pedroso de Melo
Anna Laura Fernandes Linkewitsch
Camila Ferreira Mation Anker
Élio A. Martins
Flávio Grisi
Francisco Antônio Antunes
Gilberto Cominato
Gisele Lamas Guerra
Isabel Cristina Faria
Juliana Collina Scanavaca
Marcelo Ferreira Vinhola
Marcílio Favalli
Marcos Intelisano
Michel Cutait Neto
Milton do Nascimento
Nelson Pazikas
Peter Spring
Rodrigo Lopes da Luz
Rubens Rela Filho

Concept, coordination, text editing, graphic design and production
Selulloid AG Comunicação por Conteúdo

Photographs
Aleko Stergiou
Ali Karakas
Marcelo Scandaroli
Eternit's Image Bank

Translation from the original Portuguese
Ashley Huggins

Printing
Laborgraf

Eternit

Financial Statements 2006

(Convenience translation into english from the original previously issued in portuguese)

Balance Sheets as of december 31, 2006 and 2005

(In thousands of Brazilian reais - R$)

ASSETS	Notes	Company 2006	Company 2005	Consolidated 2006	Consolidated 2005
CURRENT ASSETS					
Cash and banks		1,668	1,166	5,141	1,523
Temporary cash investments		52,161	37,827	68,197	57,491
Trade accounts receivable	4	30,630	27,169	62,288	55,421
Dividends receivable	8	7,187	8,094	–	–
Inventories	5	23,801	23,987	52,879	50,627
Recoverable taxes	6	1,615	3,259	2,828	5,088
Deferred income and social contribution taxes	14c	1,306	–	3,110	1,679
Other receivables		2,167	2,422	6,538	11,324
Total current assets		120,535	103,924	200,981	183,153
NONCURRENT ASSETS					
Long-term assets					
Escrow deposits and tax incentives		2,359	1,963	5,311	5,390
Recoverable taxes	6	16,806	15,007	17,435	15,947
Deferred income and social contribution taxes	14c	11,170	–	16,586	6,575
Government securities receivable		2,374	2,445	2,374	2,445
Receivables from sale of properties		1,846	2,306	1,846	2,339
Other receivables		341	–	406	–
Investments	7b	93,246	109,562	8,523	17,097
Property, plant and equipment	9	48,759	48,334	78,041	81,263
Intangible assets		403	524	944	1,200
Deferred charges		934	1,239	1,878	2,260
Total noncurrent assets		178,238	181,380	133,344	134,516
TOTAL ASSETS		**298,773**	**285,304**	**334,325**	**317,669**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Company 2006	Company 2005	Consolidated 2006	Consolidated 2005
CURRENT LIABILITIES					
Trade accounts payable		12,636	12,994	16,537	14,294
Advances from customers		394	673	463	739
Financing and advance on foreign exchange contracts - ACC	10	–	–	6,949	3,301
Payroll and related charges		842	778	1,739	1,664
Payable vacation and 13th salary		4,882	4,899	7,875	8,122
Taxes payable	11	3,448	4,638	8,244	9,401
Dividends and interest on capital payable		20,963	8,176	20,963	8,176
Accrual for employees' future benefits	12	1,418	–	2,415	–
Other payables		1,227	2,370	3,588	5,104
Total current liabilities		45,810	34,528	68,773	50,801
NONCURRENT LIABILITIES					
Long-term liabilities					
Accrual for employees' future benefits	12	18,882	20,339	27,367	30,078
Financing	10	–	–	2,701	4,922
Accrual for contingencies	16	3,853	1,298	5,128	2,573
Taxes payable	11	–	–	123	151
Total noncurrent liabilities		22,735	21,637	35,319	37,724
MINORITY INTEREST		–	–	5	5
SHAREHOLDERS' EQUITY					
Capital stock	13a	201,025	201,025	201,025	201,025
Capital reserve		1,955	1,955	1,955	1,955
Treasury shares	13d	(914)	(1,688)	(914)	(1,688)
Profit reserves		28,162	27,847	28,162	27,847
Total shareholders' equity		230,228	229,139	230,228	229,139
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**298,773**	**285,304**	**334,325**	**317,669**

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

Statements of Income
for the years ended december 31, 2006 and 2005

(In thousands of Brazilian reais - R$, except earnings per share)

	Notes	Company 2006	Company 2005	Consolidated 2006	Consolidated 2005
GROSS SALES		264,273	243,694	444,945	434,571
DEDUCTIONS		(58,236)	(53,711)	(90,175)	(85,545)
NET SALES	19	206,037	189,983	354,770	349,026
COST OF SALES		(155,782)	(139,753)	(210,719)	(195,215)
GROSS PROFIT	19	50,255	50,230	144,051	153,811
OPERATING EXPENSES (INCOME)					
Selling expenses		(21,332)	(19,856)	(47,093)	(47,044)
General and administrative expenses		(17,758)	(17,311)	(36,755)	(35,615)
Management compensation		(3,431)	(2,955)	(4,158)	(3,635)
Financial expenses	18a	(2,404)	(2,325)	(29,044)	(22,878)
Financial income	18a	16,247	10,479	28,726	19,281
Interest on capital		(10,788)	(1,747)	(16,909)	(8,638)
Goodwill amortization	7c	(8,279)	(8,279)	(8,279)	(8,279)
Other operating expenses, net		(6,294)	(11,233)	(3,779)	(10,983)
Equity in earnings of subsidiaries	7b	25,237	37,808	–	–
		(28,802)	(15,419)	(117,291)	(117,791)
INCOME FROM OPERATIONS		21,453	34,811	26,760	36,020
NONOPERATING INCOME (EXPENSES)					
GAIN (LOSS) OF SALE OF PERMANENT ASSETS		74	10	(295)	5,075
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES		21,527	34,821	26,465	41,095
INCOME AND SOCIAL CONTRIBUTION TAXES					
Current	14	(1,403)	(2,387)	(11,427)	(16,536)
Deferred	14	7,302	–	6,267	984
INCOME BEFORE REVERSAL OF INTEREST ON CAPITAL		27,426	32,434	21,305	25,543
Reversal of interest on capital	8, 18	10,788	1,747	16,909	8,638
NET INCOME		**38,214**	**34,181**	**38,214**	**34,181**
EARNINGS PER SHARE- R$		**1.11**	**0.99**		
NUMBER OF SHARES, EXCEPT TREASURY SHARES	13a	**34,454,445**	**34,550,445**		

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

Statements of Changes in Shareholders' Equity (Company) for the years ended december 31, 2006 and 2005

(In thousands of Brazilian reais – R$, except per share information)

	Notes	Capital stock	Capital reserve – Tax incentive	Treasury shares	Profit reserves – Statutory	Profit reserves – Legal	Profit reserves – Retention of profit	Retained earnings	Total
BALANCES AS OF DECEMBER 31, 2004		218,400	1,955	(542)	3,069	19,460	625	–	242,967
Capital reduction		(17,375)	–	–	–	–	–	–	(17,375)
Aquisição de ações próprias		–	–	(1,146)	–	–	–	–	(1,146)
Net income		–	–	–	–	–	–	34,181	34,181
Allocation of net income:									
Reserves		–	–	–	1,709	1,709	1,275	(4,693)	–
Interest on capital - R$0.25 per outstanding share		–	–	–	–	–	–	(8,638)	(8,638)
Dividends - R$0.60 per outstanding share		–	–	–	–	–	–	(20,850)	(20,850)
BALANCES AS OF DECEMBER 31, 2005		**201,025**	**1,955**	**(1,688)**	**4,778**	**21,169**	**1,900**	**–**	**229,139**
Cancellation of treasury shares	13d	–	–	1,688	(1,688)	–	–	–	–
Repurchase of stock	13d	–	–	(914)	–	–	–	–	(914)
Deferred tax asset	14c	–	–	–	–	–	5,174	–	5,174
Net income		–	–	–	–	–	–	38,214	38,214
Allocation of net income									
Reserves		–	–	–	1,911	1,911	81	(3,903)	–
Interest on capital - R$0.49 per outstanding share	13c	–	–	–	–	–	–	(16,909)	(16,909)
Dividends - R$0.71 per outstanding share	13b	–	–	–	–	–	(7,074)	(17,402)	(24,476)
BALANCES AS OF DECEMBER 31, 2006		**201,025**	**1,955**	**(914)**	**5,001**	**23,080**	**81**	**–**	**230,228**

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

Statements of Changes in Financial Position for the years ended december 31, 2006 and 2005

(In thousands of Brazilian reais - R$)

	Notes	Company 2006	Company 2005	Consolidated 2006	Consolidated 2005
SOURCES OF FUNDS					
From operations:					
Net income		38,214	34,181	38,214	34,181
Items not affecting working capital:					
Goodwill amortization	7c	8,279	8,279	8,279	8,279
Equity in earnings of subsidiaries	7b	(25,237)	(37,808)	–	–
Dividends received and/or receivable	7b	27,670	36,440	–	–
Interest on capital received and/or receivable	7b	6,121	6,891	–	–
Monetary adjustment of long-term assets		(1,862)	(952)	(1,862)	(952)
Depreciation and depletion		6,575	6,472	16,934	16,404
Amortization of deferred charges		305	284	382	377
Write-off of permanent assets		(74)	(10)	(171)	(5,075)
Recognition of deferred tax asset	14c	(11,170)	–	(11,170)	–
Realization of deferred tax asset		–	–	1,159	(1,312)
Accrual for employees' future benefits	12	1,563	5,996	2,302	4,332
Reversal of provision for loss on property, plant and equipment		–	–	(60)	–
Reversal of provision for loss on Eletrobrás shares		–	–	(1,299)	–
Loss on Eletrobrás shares - fair value adjustment		–	–	466	–
Interest on financing		–	–	106	99
Accrual for contingencies	16	3,367	–	3,367	–
		53,751	59,773	56,647	56,333
From third parties:					
Recognition of reserve for profit retention	14c	5,174	–	5,174	–
Decrease in long-term assets:					
Receivables from third parties		1,269	822	2,695	832
Recoverable taxes		129	456	466	750
Increase in long-term liabilities		1,378	–	1,811	767
Investments for sale	7c	112	–	295	–
Financing		–	–	95	1,952
Sale of permanent assets		90	37	205	9,323
Total sources		61,903	61,088	67,388	69,957

	Notes	Company 2006	Company 2005	Consolidated 2006	Consolidated 2005
USES OF FUNDS					
In long-term assets:					
Receivables from third parties		1,304	182	1,454	526
Recoverable taxes		237	3,884	263	3,903
Investments - Capital increase in subsidiary	7b	629	–	–	–
Property, plant and equipment		6,895	6,500	13,430	15,540
Deferred charges		–	171	–	1,066
In long-term liabilities:					
Financing		–	–	2,422	2,814
Realization of accrual for employees' future benefits	12	1,602	922	2,599	1,760
Decrease in long-term liabilities		3,608	–	5,065	847
Dividends paid and/or proposed	13b	24,476	20,850	24,476	20,850
Interest on capital paid and/or proposed	13c	16,909	8,638	16,909	8,638
Capital reduction		–	17,375	–	17,375
Repurchase of stock	13d	914	1,146	914	1,146
Total uses		56,574	59,668	67,532	74,465
INCREASE (DECREASE) IN WORKING CAPITAL		**5,329**	**1,420**	**(144)**	**(4,508)**
REPRESENTED BY					
Current assets:					
At end of year		120,535	103,924	200,981	183,153
At beginning of year		103,924	91,336	183,153	185,591
		16,611	12,588	17,828	(2,438)
Current liabilities:					
At end of year		45,810	34,528	68,773	50,801
At beginning of year		34,528	23,360	50,801	48,731
		11,282	11,168	17,972	2,070
INCREASE (DECREASE) IN WORKING CAPITAL		**5,329**	**1,420**	**(144)**	**(4,508)**

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

Notes to the Financial Statements
For the years ended december 31, 2006 and 2005

(Amounts in thousands of Brazilian reais – R$, except per share data)

(Convenience translation into english from the original previously issued in portuguese)

1.OPERATIONS

Eternit S.A. (the "Company") is engaged in the manufacture and sale of fiber cement, cement, concrete, plaster and plastic products, other construction materials and respective accessories, and can hold equity interests in other companies.

The Company and its subsidiaries have technologies that allow manufacturing fiber cement products with any reinforcing raw material, and their main product is the traditional line with chrysotile asbestos.

2. PRESENTATION OF FINANCIAL STATEMENTS

a) Company

The individual financial statements have been prepared in accordance with Brazilian accounting practices and supplementary standards of the Brazilian Securities Commission (CVM).

b) Consolidated

The consolidated financial statements have been prepared in accordance with Brazilian accounting practices and include the accounts of Eternit S.A. and its direct and indirect subsidiaries:

	Direct investment – %	Indirect investment – %
Wagner Ltda. ("Wagner")	99.85	0.14
Wagner da Amazônia Ltda.	–	99.99
SAMA S.A. – Minerações Associadas ("SAMA")	99.99	–
Engedis Distribuição Ltda.	–	99.99
Precon Goiás Industrial Ltda. ("Precon")	99.99	–
Prel Empreendimentos e Participações S/C Ltda. ("Prel")	99.99	–

Intercompany balances and transactions and income tax effects are eliminated in consolidation. Minority interest is recorded separately in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Income statement

Income and expenses are recognized on the accrual basis. Sales revenues and related costs are recorded when title to the products transfer to the costumer.

b) Current and noncurrent assets

• Temporary cash investments consist principally of fixed-income investment funds and bank certificates of deposit (CDB) in Brazilian currency, which are readily convertible to cash and include income earned through the balance sheet dates.
• The allowance for doubtful accounts was recorded based on the analysis of each receivable and in an amount considered sufficient by Management to cover potential losses on the realization of receivables.
• Inventories are stated at lower of average cost of acquisition or production or market.
• Other assets are stated at cost or realizable value, including, when applicable, income earned and monetary variations.
• Investments in subsidiaries are accounted for under the equity method.
• Amortization of goodwill is computed using the straight-line basis, as stated in note 7c.
• Depreciation and depletion of property, plant and equipment are computed using the straight-line method, based on the estimated useful lives of the assets, as stated in note 9.
• Trademarks and patents, software and telephone lines are recorded as intangible assets.

c) Current and noncurrent liabilities

Stated at known or estimated amounts including, when applicable, accrued charges. The accrual for employees' future benefits is recorded based on an actuarial estimate, as described in note 12.

d) Transactions in foreign currency

Recorded at the exchange rate in effect on the transaction date. Assets or liabilities denominated in foreign currency are translated using the exchange rate prevailing at the balance sheet dates. Exchange variations are included in the statement of income as incurred.

e) Income and social contribution taxes

Income tax is calculated at the rate of 15% on taxable income, plus 10% surtax on taxable income in excess of the limit set by legislation, and social contribution is calculated at the rate of 9%.

Deferred income and social contribution taxes were calculated at the prevailing tax rates and recorded in current and noncurrent assets based upon the expected average period of realization of the temporary differences from which these deferred taxes arose, as stated in note 14.

f) Use of estimates

The preparation of financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

g) Earnings per share

Calculated based on the number of shares outstanding at the balance sheet dates.

4. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	2006	2005	2006	2005
Domestic customers	31,845	28,109	43,793	38,295
Foreign customers	24	–	40,898	34,837
Advances on foreign exchange contracts	–	–	(20,459)	(15,974)
	31,869	28,109	64,232	57,158
Allowance for doubtful accounts	(1,239)	(940)	(1,944)	(1,737)
	30,630	**27,169**	**62,288**	**55,421**

Most of the exports of the subsidiary SAMA are to the following countries: India, Thailand, Indonesia, Colombia, Mexico, United Arab Emirates, Malaysia, China, Sri Lanka, Bolivia, Iran, Ecuador, Nigeria, Philippines, Mozambique, Turkey, Vietnam and Syria.

5. INVENTORIES

	Company		Consolidated	
	2006	2005	2006	2005
Finished products	16,527	17,336	35,435	33,181
Semi-finished products	–	–	1,328	1,318
Resale	188	331	683	481
Raw materials	5,539	4,878	4,212	3,559
Supplies	1,547	1,442	11,221	12,088
	23,801	**23,987**	**52,879**	**50,627**

6. RECOVERABLE TAXES

	Company		Consolidated	
	2006	2005	2006	2005
Current:				
ICMS (state VAT)	306	605	978	1,414
IRRF (withholding income tax)	746	2,258	1,097	2,756
IRPJ (corporate income tax)	333	232	390	344
CSLL (social contribution tax)	210	135	265	410
Other	20	29	98	164
	1,615	**3,259**	**2,828**	**5,088**
Noncurrent				
ICMS	680	715	1,309	1,655
IRRF	10,310	9,091	10,310	9,091
IRPJ	5,816	5,201	5,816	5,201
	16,806	**15,007**	**17,435**	**15,947**

The balances of IRRF refer to redemptions of temporary cash investments and prepayment of income and social contribution taxes that are monetarily adjusted.

The Company filed a lawsuit for offset or refund of IRRF paid. Currently, the lawsuit is in the lower court, awaiting the request for expert evidence.

Based on the advice of the legal counsel, management judged that a provision for said lawsuit was not necessary.

7. INVESTIMENTS

a) Information on subsidiaries

	Wagner	SAMA	Precon	Prel
Shares (in thousands)	3	34,847	500	44
Number of shares held (in thousands)	3	34,847	500	44
Ownership interest - %	99,85	99,99	99,99	99,99
Capital	3,001	65,100	6,700	7,272
Adjusted shareholders' equity	2,024	67,733	9,580	7,818
Net income (loss) for the year ended December 31, 2006	(566)	21,811	2,894	1,007
Unrealized profit as of December 31, 2006	–	(2,844)	–	–
Unamortized goodwill as of December 31, 2006	–	8,279	–	–

b) Changes in investments - Company

	Subsidiaries				Other investments	Total
	Wagner	SAMA	Precon	Prel		
As of January 1, 2005	2,073	103,253	10,256	7,662	120	123,364
Dividends paid	–	(32,161)	(3,795)	(484)	–	(36,440)
Interest on capital paid	–	(5,859)	(665)	(367)	–	(6,891)
Equity in earnings (loos) in subsidiaries	(268)	33,285	3,784	1,007	–	37,808
Goodwill amortization	–	(8,279)	–	–	–	(8,279)
As of December 31, 2005	1,805	90,239	9,580	7,818	120	109,562
Capital increase	629	–	–	–	–	629
Available for sale	–	–	–	–	(112)	(112)
Dividends paid	–	(25,787)	(1,240)	(643)	–	(27,670)
Interest on capital paid	–	(4,833)	(740)	(548)	–	(6,121)
Equity in earnings (loss) in subsidiaries	(413)	21,828	2,631	1,191	–	25,237
Goodwill amortization	–	(8,279)	–	–	–	(8,279)
As of December 31, 2006	**2,021**	**73,168**	**10,231**	**7,818**	**8**	**93,246**

Unrealized profits on transactions with subsidiaries were eliminated to calculate the equity in subsidiaries.

c) Changes in investments - Consolidated

	SAMA	Other investments	Total
As of January 1, 2005	24,837	539	25,376
Goodwill amortization	(8,279)	–	(8,279)
As of December 31, 2005	16,558	539	17,097
Available for sale	–	(295)	(295)
Goodwill amortization	(8,279)	–	(8,279)
As of December 31, 2006	**8,279**	**244**	**8,523**

In December 1997, the Company acquired the controlling interest in SAMA, with goodwill of R$45,608, which is being amortized over ten years. In January 2001, the Company acquired 6,903,333 treasury shares in SAMA for R$42,007, with goodwill of R$26,026, which is being amortized over seven years. Total goodwill is based on expected future earnings and the remaining balance of goodwill as of December 31, 2006 was R$8,279 (R$16,558 in 2005).

8. RELATED-PARTY TRANSACTIONS

Balances and transactions with related parties are as follows:

	2006				2005
	SAMA	Precon	Prel	Total	Total
Current assets:					
Trade accounts receivable	–	555	–	555	227
Dividends and interest on capital	6,220	555	412	7,187	8,094
Current liabilities:					
Trade accounts payable	2,979	440	–	3,419	4,500
Other payables	–	–	18	18	35
Transactions:					
Sales	–	6,588	–	6,588	2,865
Purchases	49,862	462	–	50,324	46,837
General and administrative expenses	–	–	210	210	205
Revenues (interest on capital)	4,833	740	548	6,121	6,891

Receivables and payables refer to sales and purchases of raw materials (asbestos) and finished products that were eliminated in the consolidated financial statements. These are usual transactions made over the years.

Since the transactions with the subsidiaries are usual and made over the years, intercompany payables are recorded in current liabilities.

9. PROPERTY, PLANT AND EQUIPMENT

a) Company

	Annual depreciation rates - %	2006			2005
		Cost	Depreciation and amortization	Net book value	Net book Value
Land	–	831	–	831	771
Buildings and improvements	4	20,401	(15,397)	5,004	4,686
Machinery and equipment	10 a 15	50,887	(33,655)	17,232	19,352
Tools and dies	15	5,511	(3,671)	1,840	1,444
Installations	10	33,250	(13,135)	20,115	19,830
Vehicles	20	1,490	(1,179)	311	246
Furniture and fixtures	10	2,454	(1,143)	1,311	1,013
IT equipment	20	2,300	(1,563)	737	811
Construction in progress	–	1,378	–	1,378	181
		118,502	**(69,743)**	**48,759**	**48,334**

b) Consolidated

	Annual depreciation rates - %	2006			2005
		Cost	Depreciation, amortization and depletion	Net book value	Net book value
Land	–	1,843	–	1,843	1,763
Buildings and improvements	4	47,569	(35,146)	12,423	12,603
Machinery and equipment	10 a 15	96,791	(74,099)	22,692	24,020
Extraction machinery	30	13,700	(10,626)	3,074	4,210
Tools and dies	15	7,373	(5,481)	1,892	1,565
Installations	10	125,759	(100,188)	25,571	25,941
Vehicles	20	4,696	(3,381)	1,315	703
Off-road vehicles	25	13,679	(10,829)	2,850	5,346
Furniture and fixtures	10	7,163	(4,594)	2,569	2,316
IT equipment	20	4,817	(3,617)	1,200	1,371
Construction in progress	–	2,612	–	2,612	1,425
		326,002	**(247,961)**	**78,041**	**81,263**

10. FINANCING AND ADVANCE ON FOREIGN EXCHANGE CONTRACTS

a) Advance on foreign exchange contracts

Refers to funds intended to leverage the working capital of the subsidiary SAMA, denominated in United States dollar, obtained Banco Bradesco S.A and Banco do Brasil S.A, at an average exchange rate of R$2.27 and bear interest based on the LIBOR with an average rate of 6.52% per year.

b) Financing

The funds obtained by the subsidiary SAMA from the National Bank for Economic and Social Development (BNDES) in June 2003, November 2004, May, June and August 2005 and April 2006, were used for the replacement of the truck fleet and excavation machines, which were pledged as collateral for the financing, with weighted average rates of 10% per year plus TJLP (long-term interest rate).

	Consolidated	
	2006	2005
Current		
Advance on foreign exchange contracts	4,352	–
Financing	2,597	3,301
	6,949	3,301
Noncurrent		
Financing	2,701	4,922
Total	**9,650**	**8,223**

The consolidated long-term financing, totaling R$2,701, has maturities in 2008 - R$2,196, 2009 - R$502, and 2010 - R$3.

11. TAXES PAYABLE

	Company		Consolidated	
	2006	2005	2006	2005
Current				
IRPJ (corporate income tax)	–	–	554	2,005
CSLL (social contribution tax)	–	–	19	2
ICMS (state VAT)	1,755	1,613	4,054	2,770
IPI (federal VAT)	753	756	868	831
COFINS (tax on revenue)	745	1,085	1,568	1,841
PIS (tax on revenue)	162	235	341	400
IRRF (withholding income tax)	4	910	10	953
CFEM (charge for mining)	–	–	665	501
Other	29	39	165	98
	3,448	4,638	8,244	9,401
Noncurrent				
ICMS	–	–	123	151

The ICMS amount recorded in long-term liabilities is derived from the tax incentive "FOMENTAR" granted to the subsidiary Precon.

12. ACCRUAL FOR EMPLOYEES' FUTURE BENEFITS

In accordance with the criteria established by the Brazilian Securities Commission (CVM) Resolution No. 371, the Company and its subsidiaries, based on an actuarial report, recorded an accrual for employees' future health benefits. Such accrual as of December 31, 2006 was adjusted based on the actuarial revaluation performed by an independent actuary.

a) Main actuarial assumptions used to determine annual expenses:

Discount rate - %	8.00
Increase in health expenses - %	7.12
Long-term inflation rate - %	4.00
General mortality table	AT 49 M

b) Actuarial valuation

	Company		Consolidated	
	2006	2005	2006	2005
Number of participants	374	382	599	604
Present value of obligations at beginning of year	20,339	15,265	30,078	27,506
Service cost	1,563	5,985	2,302	4,321
Actuarial gains	(3,261)	–	(4,849)	–
Benefits paid	(1,602)	(911)	(2,599)	(1,749)
Present value of obligations at end of year	**17,039**	**20,339**	**24,932**	**30,078**

c) Amortization of actuarial gains

	Company		Consolidated	
	2006	2005	2006	2005
Unrecognized actuarial gains				
Interval – 10% of the present value of obligations	(1.704)	–	(2.493)	–
Actuarial gains subject to amortization	1.557	–	2.356	–
Expected future average service (in years)	13,76	–	13,62	–
Amortization	**113**	**–**	**173**	**–**

d) Accounting reconciliation of benefit obligation

	Company		Consolidated	
	2006	2005	2006	2005
Balances at beginning of year	20,339	15,265	30,078	27,506
Benefits paid	(1,602)	(911)	(2,599)	(1,749)
Service costs	1,563	5,985	2,302	4,321
	20,300	**20,339**	**29,782**	**30,078**
Current	1,418	–	2,415	–
Noncurrent	18,882	20,339	27,367	30,078

13. SHAREHOLDERS' EQUITY

a) Capital

At the Extraordinary Shareholders' Meeting held on June 29, 2006, at a second call, the shareholders approved the migration of the Company from Level 2 of Corporate Governance to the "NOVO MERCADO" segment of BOVESPA (São Paulo Stock Exchange).

The 2,382,585 preferred shares were converted into common shares in the proportion of 1 preferred share to 1 common share held on August 7, 2006.

On August 17, 2006, the Company started to trade on the trading sessions of BOVESPA as "NOVO MERCADO".

Shareholders

	2006		2005	
	Shareholders	Shares	Shareholders	Shares
Individuals	2,249	14,044,671	1,499	13,828,387
Legal entities	59	7,615,340	46	8,061,445
Foreign residents	32	4,405,253	20	2,381,730
Clubs, funds and foundations	142	8,389,181	73	10,278,883
	2,482	34,454,445	1,638	34,550,445
Treasury shares	–	96,000	–	297,000
Total	**2,482**	**34,550,445**	**1,638**	**34,847,445**

b) Dividends

The Company will pay mandatory minimum dividends for each fiscal year in the amount of 25% of the annual net income adjusted as per article 202 of Law No. 6404/76.

Dividends paid or proposed during the year were as follows:

Events	Payment began	Total amount	Amount per share R$
Extraordinary and Annual Shareholders' Meeting on 04/07/06 (*)	04/26/06	1,382	0.04
Board of Directors' Meeting on 04/07/06	04/26/06	1,382	0.04
Board of Directors' Meeting on 07/07/06	07/26/06	1,728	0.05
Board of Directors' Meeting on 10/25/06	11/08/06	2,412	0.07
Board of Directors' Meeting on 02/28/07 (*)	03/12/07	17,572	0.51
Total		**24,476**	

(*) Retained earnings from prior years were distributed in the amount of R$1,900, as follows: R$1,382 at the Annual and Extraordinary Shareholders' Meeting on April 7, 2006, and R$5,692 at the Board of Directors' Meeting on February 28, 2007.

c) Interest on capital
The Board of Directors may approve the distribution of profits in the form of interest on capital, in accordance with prevailing legislation.

Interest on capital paid during the year were as follows:

Events	Payment began	Total amount	Amount per share R$
Board of Directors' Meeting on 04/07/06	04/26/06	4,837	0.14
Board of Directors' Meeting on 07/07/06	07/26/06	4,492	0.13
Board of Directors' Meeting on 10/25/06	11/08/06	4,135	0.12
Board of Directors' Meeting on 12/19/06	03/12/07	3,445	0.10
Total		**16,909**	

d) Treasury shares
At the Board of Directors' Meeting held on June 21, 2006, the Board approved the repurchase by the Company of 500,000 outstanding common shares to be held in treasury for subsequent sale or cancellation. The operation is intended to create value for the Company's shareholders. These purchase operations should be made until May 31, 2007, at market price, with Planner Corretora de Valores S.A. and Bradesco S.A. Corretora de Títulos e Valores Mobiliários as brokers. As of December 31, 2006, 96,000 shares were acquired for R$914 (297,000 common shares for R$1,688 in 2005) and recorded in shareholders' equity.

There was a cancellation of 297,000 common shares held in treasury in the amount of R$1,688. These shares were reacquired pursuant to the resolution of the Board of Directors' Meeting held on November 17, 2005.

14. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Reconciliation of income and social contribution taxes

Reconciliation of tax charges between effective and statutory rates for the years ended December 31, 2006 and 2005 is as follows:

	Company		Consolidated	
	2006	2005	2006	2005
Income before income and social contribution taxes	21,527	34,821	26,465	41,095
Statutory rate (%)	34	34	34	34
Income and social contribution taxes at statutory rates	(7,319)	(11,839)	(8,998)	(13,972)
Reconciliation:				
Amortization of goodwill	(2,070)	(2,070)	(2,070)	(2,070)
Equity in earnings of subsidiaries	8,581	12,855	–	–
Other permanent additions and deductions, net	6,707	(1,333)	5,908	490
Income and social contribution tax charges	**5,899**	**(2,387)**	**(5,160)**	**(15,552)**

b) Effective income and social contribution taxes

	Company		Consolidated	
	2006	2005	2006	2005
Current	(1,403)	(2,387)	(11,427)	(16,536)
Deferred	7,302	–	6,267	984
Total	**5,899**	**(2,387)**	**(5,160)**	**(15,552)**

c) Deferred taxes
Deferred tax credits, recorded in current and noncurrent assets, arise from temporary differences in determination of taxable income and tax loss carryforwards, as shown below:

	Company		Consolidated	
	2006	2005	2006	2005
Current:				
Tax loss carryforwards	198	–	198	–
Provision for loss on inventories	–	–	1,465	1,474
Accrual for employees' future benefits (*)	391	–	730	205
Other	717	–	717	–
	1,306	**–**	**3,110**	**1,679**
Noncurrent:				
Tax loss carryforwards	4,894	–	4,894	–
Accrual for employees' future benefits (*)	4,783	–	7,668	3,311
Provision for losses on compulsory loans	–	–	–	435
Allowance for doubtful accounts	–	–	1,690	1,690
Accrual for contingencies	1,493	–	2,229	736
Other	–	–	105	403
	11,170	–	16,586	6,575

(*) The deferred tax asset from the accrual for employees' future benefits, calculated by the Company, was recorded directly in shareholders' equity since the amount had already been recorded in prior years, in accordance with CVM Resolution 273/98.

d) Estimate of realization of tax credits
(i) Tax loss carryforwards
Based on the Company's projections of future taxable income, deferred income and social contribution tax assets arising from tax loss carryforwards are expected to be realized as follows:

	Company
2007	198
2008	533
2009	521
2010	456
2011	544
2012 to 2016	2,840
	5,092

The asset recorded is limited to amounts whose utilization is supported by projections of taxable income, discounted at present value, until the next 10 years, also considering that utilization of tax loss carryforwards is limited to 30% of annual income before income and social contribution taxes, determined in accordance with prevailing legislation.

The balance of deferred income tax asset as of December 31, 2006 includes the partial effects of tax loss carryforwards of the Company, which do not have expiration date and can be offset against future taxable income. The Company has tax loss carryforwards that are available for offset against future taxable income, for an indefinite period, under the conditions established by prevailing legislation, as shown below:

	Company			
	Calculation basis		Tax credits	
	2006	2005	2006	2005
Income tax loss carryforwards	40,446	42,952	10,112	10,738
Social contribution tax loss carryforwards	89,208	88,199	8,029	7,938
			18,141	**18,676**

(ii) Temporary differences

Deferred taxes arising from temporary differences as of December 31, 2006 are expected to be realized as follows:

	Company	Consolidated
2007	1,108	2,912
2008	701	2,835
2009	778	1,853
2010	997	1,336
2011	701	1,040
2012 to 2016	3,098	4,628
	7,384	**14,604**

The estimate of realization of deferred taxes arising from temporary differences as of December 31, 2006 may change, because most of them are dependent on judicial decisions, on which the Company does not have any control and it is not possible to forecast when the final decision will be rendered.

The projections of future taxable income include several estimates related to the performance of Brazil's and international economies, selection of exchange taxes, sales volume, sales price, tax rates, and others, which may change in relation to actual data and amounts.

As the amount of income and social contribution taxes is derived not only from taxable income but also from the Company's tax and corporate structure, existence of nontaxable income, nondeductible expenses and other variables, there is no significant correlation between the Company's net income and the amount of income and social contribution taxes on income. Therefore, projection of future taxable income used to estimate the utilization of tax loss carryforwards should not be considered indicative of future income.

15. PROFIT SHARING

It is Company and its subsidiaries practice to pay a share of their profits to their employees, computed according to the terms of the agreement between the labor union and the Company. As of December 31, 2006, the Company recorded an accrual for profit sharing of R$2,693 (R$3,305 in 2005) – Company and R$4,461 (R$4,924 in 2005) – Consolidated, charged to general and administrative expenses.

16. ACCRUAL FOR CONTINGENCIES

The Company and its subsidiaries are involved in several civil and labor lawsuits.

Based on an individual analysis of lawsuits made by the Company's legal counsel, the Company recorded a reserve for probable losses.

Management believes that the accrual for contingencies, less related escrow deposits, pursuant to CVM Resolution 489/05, is sufficient to cover losses on lawsuits, as shown below:

	Company		Consolidated	
	2006	2005	2006	2005
Labor claims	3,797	1,298	5,067	2,569
Civil lawsuits	869	–	869	–
Other	226	–	231	4
Accrual for contingencies	4,892	1,298	6,167	2,573
Escrow deposits	(1,039)	–	(1,039)	–
Accrual for contingencies, net	**3,853**	**1,298**	**5,128**	**2,573**

Changes in consolidated accrual for contingencies are as follows:

	Consolidated				
	2005	Addition	Baixa	Transfer from current	2006
Labor claims	2,569	2,498	–	–	5,067
Civil lawsuits	–	869	–	–	869
Other	4	–	–	227	231
Accrual for contingencies	2,573	3,367	–	227	6,167
Escrow deposits	–	(1,039)	–	–	(1,039)
Accrual for contingencies, net	**2,573**	**2,328**	**–**	**227**	**5,128**

The Company makes escrow deposits not linked to the accrual for contingencies, which are classified in a specific caption in long-term assets, when necessary.

As of December 31, 2006, the Company had an ongoing civil lawsuit in São Paulo regarding occupational health of former employees of the old plant in Osasco. The legal counsel assessed the risk of loss on this lawsuit as possible and, therefore, the Company considered unnecessary to record an accrual.

On the same date, the Company and its subsidiaries had a lawsuit in Goiás and another in Minaçu regarding CFEM (Financial Compensation for Exploration of Mineral Resources), and a lawsuit in Poções, state of Bahia, involving environmental matters. The legal counsel assessed the risk of loss on these lawsuits as remote.

These lawsuits are still at the initial stage and their resolution will take a long time, thus it is not practicable to determine the amount of any possible obligations.

17. PENSION PLAN

The Company and its subsidiaries have a pension plan for all their employees administered by an authorized private pension entity. Contributions are made to this plan, called PGBL, with characteristics of a defined contribution plan.

	Company		Consolidated	
	2006	2005	2006	2005
Contributions to the plan	1,191	1,083	2,182	2,022

18. FINANCIAL INCOME (EXPENSES)

a) Financial income (expenses)

	Company		Consolidated	
	2006	2005	2006	2005
Financial expenses:				
Exchange variation	–	(21)	(18,073)	(10,828)
Interest on financing	–	–	(658)	–
Discounts granted	(124)	(108)	(5,143)	(7,059)
CPMF (tax on banking transactions)	(1,284)	(1,289)	(2,481)	(2,544)
Taxes on financial income	(566)	(638)	(583)	(638)
Other	(430)	(269)	(2,106)	(1,809)
	(2,404)	(2,325)	(29,044)	(22,878)
Financial income:				
Income from temporary cash investments	5,851	4,243	9,288	7,233
Discounts obtained	7,629	3,882	342	4,523
Monetary variation	1,935	1,563	1,965	1,674
Exchange variation	23	3	16,126	4,646
Other	809	788	1,005	1,205
	16,247	10,479	28,726	19,281
	13,843	**8,154**	**(318)**	**(3,597)**

b) Interest on capital

	Company		Consolidated	
	2006	2005	2006	2005
Interest on capital received	6,121	6,891	–	–
Interest on capital paid	(16,909)	(8,638)	(16,909)	(8,638)
	(10,788)	**(1,747)**	**(16,909)**	**(8,638)**

19. INFORMATION BY INDUSTRY SEGMENT

	Consolidated			
	Net sales		Gross profit	
	2006	2005	2006	2005
Line of products:				
Chrysotile asbestos	126,592	132,322	88,530	97,610
Fiber cement roofing tiles	185,032	178,511	42,222	44,459
Other products	43,146	38,193	13,299	11,742
	354,770	**349,026**	**144,051**	**153,811**

20. INSURANCE

The insurance coverage maintained by the Company and its subsidiaries as of December 31, 2006 is considered sufficient by Management to cover potential risks.

Type	Insured assets	Coverage
Engineering risks, operational risks and civil liability	Buildings, installations, equipment and other	313,933

21. FINANCIAL INSTRUMENTS

As of December 31, 2006, the Company and its subsidiaries had the following financial instruments:

a) Fair value of financial instruments

• Fixed-yield investment funds and bank certificates of deposit (CDB) had an average yield of 106% of the CDI (interbank deposit rate).

• The Company holds agricultural debt securities (TDA) with annual redemptions subject to the TR (a managed prime rate) and final maturity in 2009, in the amount of R$652. The securities should be held by the Company until their maturity.

• Financing at that date, obtained by the subsidiary SAMA, is subject to market interest rates and carrying amounts approximate settlement amounts.

• A significant portion of accounts receivable of the subsidiary SAMA is represented by foreign customers less advances on export contracts. SAMA recorded as accessory obligations the freight and commissions payable abroad, adjusted at respective exchange rates as of December 31, 2006, as shown below:

	Adjusted balance in local currency - R$	Currency	Exchange rate as of December 31, 2006 (US$1 = R$)
Foreign customers	40,874	US dollar	2.1372
Advances on export contracts – ACE	(20,459)	US dollar	2.1372
Commissions abroad	(1,191)	US dollar	2.1372
International freight	(462)	US dollar	2.1433

The Company and its subsidiaries do not have unrecorded financial instruments as of December 31, 2006.

b) Credit risk

The Company's customer base is well diversified and no single customer accounts for more than 2.4% of the balance of trade accounts receivable as of December 31, 2006. Since there are ongoing credit and collection monitoring and controls, actual losses on trade receivables are not historically material.

22. SUPPLEMENTAL INFORMATION

Following are the statements of cash flows prepared using the indirect method and accounting information, in accordance with Accounting Standards and Procedures No. 20 issued by the Brazilian Institute of Independent Auditors (IBRACON), considering the main operations that had an effect on cash and cash equivalents and temporary cash investments of the Company, and the statements of value added prepared in accordance with CVM Circular 01/00.

a) Statements of cash flows

	Note	Company 2006	Company 2005	Consolidated 2006	Consolidated 2005
Cash flows from operating activities:					
Net income		38,214	34,181	38,214	34,181
Items not affecting cash:					
Equity in earning of subsidiaries	7b	(25,237)	(37,808)	–	–
Dividends and interest on capital received		34,697	35,237	–	–
Depreciation, amortization and depletion		6,880	6,756	17,316	16,781
Goodwill amortization	7b	8,279	8,279	8,279	8,279
Write-off of permanent assets		(74)	(10)	(171)	(5,075)
Eletrobrás adjustment resulting from conversion of shares		–	–	466	–
Deferred taxes		(7,302)	–	(6,267)	(984)
Allowance for doubtful accounts		633	376	814	462
Accrual for labor contingencies	16	2,498	–	2,498	–
Accrual for civil contingencies	16	869	–	869	–
Accrual for employees' future benefits	12	1,563	5,985	2,302	4,321
Reversal of provision for losses on property, plant and equipment		–	–	(60)	–
Reversal of provision for losses on inventories		–	(309)	–	(309)
Reversal of provision for losses on Eletrobrás		–	–	(1,299)	–
Sales to foreign market not shipped		–	–	–	(3,238)
Inventory adjustment due to sales to foreign market not shipped		–	–	–	1,325
Interest on financing		–	–	804	958
Monetary and exchange variations, net		(2,024)	(1,849)	(2,438)	(3,514)
		58,996	50,838	61,327	53,187
Changes in assets and liabilities:					
Trade accounts receivable		(4,094)	(4,639)	(12,850)	18,037
Recoverable taxes		1,602	7,982	2,532	7,732
Inventories		187	(1,818)	(2,251)	(8,805)
Other assets		(611)	910	5,333	(6,070)
Trade accounts payable		(358)	7,708	2,291	3,255
Advances from customers		(278)	(221)	(275)	(532)
Taxes payable		(1,190)	(549)	(1,185)	(6,077)
Payroll and related charges		64	133	75	231
Accrual for employees' future benefits		(1,602)	(911)	(2,599)	(1,749)
Other liabilities		(934)	2,572	(1,522)	2,595
Net cash provided by operating activities		51,782	62,005	50,876	61,804
Cash flows from investing activities:					
Capital increase in subsidiary	7b	(629)	–	–	–
Sale of property, plant and equipment		90	37	205	9,323
Additions to property, plant and equipment		(6,895)	(6,500)	(13,430)	(15,540)
Increase in deferred charges		–	(171)	–	(1,066)
Net cash used in investing activities		(7,434)	(6,634)	(13,225)	(7,283)
Cash flows from financing activities:					
Advances on export contracts – ACE		–	–	5,365	8,259
Advance on foreign exchange contracts – ACC		–	–	4,549	–
Financing received		–	–	257	2,390
Financing paid		–	–	(3,986)	(3,189)
Payment of dividends and interest on capital		(28,598)	(27,963)	(28,598)	(27,963)
Repurchase of stocks	13d	(914)	(1,146)	(914)	(1,146)
Capital reduction		–	(17,375)	–	(17,375)
Net cash used in financing activities		(29,512)	(46,484)	(23,327)	(39,024)
Net increase in cash and cash equivalents		**14,836**	**8,887**	**14,324**	**15,497**
Cash and cash equivalents:					
At beginning of year		38,993	30,106	59,014	43,517
At end of year		53,829	38,993	73,338	59,014
		14,836	**8,887**	**14,324**	**15,497**

b) Statements of value added

	Consolidated 2006	%	2005	%
Revenues:				
Sale of products, goods and services	457,860		447,803	
Allowance for doubtful accounts	(814)		(462)	
Nonoperating income	172		5,075	
	457,218		452,416	
Inputs purchased:				
Raw materials consumed	(137,035)		(128,256)	
Cost of products and services	(4,643)		(2,207)	
Materials, electricity, outside services and other	(134,853)		(133,996)	
Loss/recovery of assets	893		–	
	(275,638)		(264,459)	
Gross value added	181,580		187,957	
Less-				
Depreciation, amortization and depletion	(25,595)		(25,060)	
Net value added	155,985		162,897	
Value added received in transfer	28,804		19,282	
Income from investments stated at cost	78		1	
Financial income	28,726		19,281	
Total value added	**184,789**		**182,179**	
Distribution of value added	184,789	100.00	182,179	100.00
Human resources	60,518	32.75	56,738	31.14
Taxes	60,247	32.60	71,569	39.28
Interest on capital	25,810	13.97	19,691	10.81
Shareholders (dividends)	34,311	18.57	29,488	16.19
Retained earnings	3,903	2.11	4,693	2.58

Independent auditors' report

To the Shareholders and Board of Directors of
Eternit S.A.
São Paulo – SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Eternit S.A. and subsidiaries as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Eternit S.A. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.
4. Our audits were conducted for purpose to expressing an opinion on the basic financial statements referred to in paragraph 1 taken as a whole. The statements of cash flows and value added, included in note 22, are presented for purposes of additional analysis and are not a required part of the basic financial statements in accordance with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements for the years ended December 31, 2006 and 2005 taken as a whole.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 22, 2007
DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC nº 2 SP 011609/O-8

Nourival C. Pedroso Filho
Engagement Partner
CRC nº 1 RJ 065177/T-6

Board of Directors
Sérgio Alexandre Melleiro
(Chairman)
Guilherme Affonso Ferreira
Lírio Albino Parisotto
Mário Fleck
Silvia Maria Affonso Ferreira de Almeida Prado
Victor Adler

Executive Board
Élio Antonio Martins (CEO and Investor Relations Director)
Flávio Grisi
Marcelo Vinhola
Nelson Pazikas
Peter Spring
Rubens Rela Filho

Accountant
Gilberto Cominato
CRC-TC 1SP188839/O-0

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