

*Financial Statements*

*Suzano Bahia Sul Papel e  
Celulose S.A.*

*December 31, 2004 and 2003  
with Report of Independent Auditors*

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**FINANCIAL STATEMENTS**

December 31, 2004 and 2003

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**A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in accordance with the accounting practices adopted in Brazil**

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**REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Shareholders  
**Suzano Bahia Sul Papel e Celulose S.A.**

1. We have audited the balance sheet of Suzano Bahia Sul Papel e Celulose S.A., and the consolidated balance sheet of Suzano Bahia Sul Papel e Celulose S.A. and subsidiaries as of December 31, 2004, and the related statements of income, shareholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audit was conducted in accordance with generally accepted auditing standards in Brazil and included: a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company and its subsidiaries; b) the examination, on a test basis, of documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and c) an assessment of the accounting practices used and significant estimates made by management of the Company and its subsidiaries, as well as an evaluation of the financial statement presentation, taken as a whole.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Suzano Bahia Sul Papel e Celulose S.A., and the financial position of Suzano Bahia Sul Papel e Celulose S.A. and subsidiaries as of December 31, 2004, the results of their operations, changes in their shareholders' equity and changes in their financial position for the year then ended in accordance with the accounting practices adopted in Brazil.
4. Our audit was conducted to allow us to express an opinion on the financial statements referred to above. The statements of cash flows and value added for the year ended December 31, 2004, prepared in accordance with the accounting practices adopted in Brazil, are being presented as supplementary information for the Company and its subsidiaries, and are not required as an integral part of the financial statements. Such statements were submitted to the audit procedures described in the second paragraph above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements for the year ended December 31, 2004, taken as a whole.

5. The financial statements and the supplementary statements of cash flows and value added for the year ended December 31, 2003 were audited by other independent auditors, who expressed an unqualified opinion thereon, dated February 16, 2004.

Salvador, February 4, 2005

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP015199/O-6-F-BA

Idésio S. Coelho Jr.  
Accountant CRC-1SP163904/O-0-S-BA

**A free translation from Portuguese into English of financial statements in accordance with the accounting practices adopted in Brazil**

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**BALANCE SHEETS**  
December 31, 2004 and 2003  
(In thousands of reais)

	Company		Consolidated	
	2004	2003	2004	2003
<b>Assets</b>				
Current assets:				
Cash and marketable securities	<b>654,159</b>	670,437	<b>1,086,220</b>	1,332,451
Trade accounts receivable	<b>771,397</b>	328,029	<b>560,260</b>	412,148
Inventories	<b>352,978</b>	104,894	<b>405,995</b>	383,841
Recoverable taxes	<b>30,885</b>	13,089	<b>30,885</b>	45,147
Deferred income and social contribution taxes	<b>95,176</b>	26,163	<b>106,075</b>	62,137
Other accounts receivable	<b>12,051</b>	3,039	<b>12,314</b>	24,315
Prepaid expenses	<b>5,166</b>	2,546	<b>5,286</b>	10,649
Total current assets	<b>1,921,812</b>	1,148,197	<b>2,207,035</b>	2,270,688
Noncurrent assets:				
Due from related parties	<b>6,232</b>	-	<b>11</b>	-
Deferred income and social contribution taxes	<b>137,853</b>	93,354	<b>137,853</b>	187,899
Judicial deposits	<b>29,308</b>	15,042	<b>29,308</b>	23,979
Recoverable taxes	<b>25,527</b>	3,654	<b>25,532</b>	26,345
Advances to suppliers	<b>81,001</b>	46,250	<b>81,001</b>	49,354
Other accounts receivable	<b>20,895</b>	3,074	<b>24,025</b>	10,767
Total noncurrent assets	<b>300,816</b>	161,374	<b>297,730</b>	298,344
Permanent assets:				
Investments	<b>336,767</b>	106,470	<b>25,796</b>	23,622
Property, plant and equipment	<b>3,380,621</b>	2,051,816	<b>3,459,870</b>	3,060,498
Deferred charges	<b>1,373</b>	15,753	<b>1,418</b>	345,340
Total permanent assets	<b>3,718,761</b>	2,174,039	<b>3,487,084</b>	3,429,460
Total assets	<b>5,941,389</b>	3,483,610	<b>5,991,849</b>	5,998,492

	Company		Consolidated	
	2004	2003	2004	2003
<b>Liabilities and shareholders' equity</b>				
Current liabilities:				
Trade accounts payable	127,471	42,069	133,730	152,479
Loans and financing	779,059	862,012	789,680	1,444,468
Debentures	24,784	-	24,784	-
Taxes payable other than on income	15,785	3,210	16,220	8,978
Payroll and taxes payable	51,234	14,772	52,207	46,459
Accounts payable	59,388	49,854	67,251	84,115
Payable to related parties	771	-	504	1,613
Dividends and interest on shareholders' equity	81,836	40,230	81,836	120,503
Income and social contribution taxes	1,828	4,816	2,897	5,975
Total current liabilities	1,142,156	1,016,963	1,169,109	1,864,590
Noncurrent liabilities:				
Loans and financing	1,375,047	437,128	1,412,330	1,533,347
Debentures	475,384	-	475,384	-
Accounts payable	29,538	32,842	29,538	32,842
Deferred income and social contribution taxes	13,147	-	13,147	27,713
Provision for contingencies	146,080	24,478	146,080	105,501
Total noncurrent liabilities	2,039,196	494,448	2,076,479	1,699,403
Minority interests	-	-	-	115,606
Shareholders' equity				
Capital	1,477,963	1,238,024	1,477,963	1,287,737
Capital reserves	342,685	169,462	342,685	26,741
Treasury shares	(15,080)	-	(15,080)	(24)
Revaluation reserve	-	-	-	34,281
Income reserves	954,469	564,713	940,693	970,158
Total shareholders' equity	2,760,037	1,972,199	2,746,261	2,318,893
Total liabilities and shareholders' equity	5,941,389	3,483,610	5,991,849	5,998,492

See accompanying notes.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**STATEMENTS OF INCOME**

December 31, 2004 and 2003

(In thousands of reais)

	<b>Company</b>		<b>Consolidated</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Gross sales	<b>2,109,273</b>	1,121,968	<b>3,017,532</b>	2,708,258
Sales deductions	<b>(149,110)</b>	(54,050)	<b>(377,598)</b>	(230,335)
Net sales	<b>1,960,163</b>	1,067,918	<b>2,639,934</b>	2,477,923
Cost of goods sold	<b>(973,369)</b>	(438,736)	<b>(1,448,832)</b>	(1,347,294)
Gross profit	<b>986,794</b>	629,182	<b>1,191,102</b>	1,130,629
Operating income (expense)				
Selling expenses	<b>(194,034)</b>	(97,083)	<b>(152,971)</b>	(140,471)
General and administrative expenses	<b>(137,292)</b>	(50,102)	<b>(201,934)</b>	(182,066)
Management fees	<b>(15,351)</b>	(6,667)	<b>(22,777)</b>	(19,346)
Financial expenses	<b>43,773</b>	97,567	<b>(141,510)</b>	94,795
Financial income	<b>35,701</b>	15,201	<b>73,967</b>	(17,942)
Equity pickup in subsidiaries and affiliates	<b>(34,036)</b>	(49,441)	<b>(286)</b>	(1,054)
Amortization of goodwill	<b>-</b>	-	<b>-</b>	(41,687)
Other operating income, net	<b>11,040</b>	6,613	<b>25,093</b>	33,221
Operating income	<b>696,595</b>	545,270	<b>770,684</b>	856,079
Nonoperating income, net	<b>16,444</b>	5,931	<b>30,072</b>	13,592
Income before income and social contribution taxes	<b>713,039</b>	551,201	<b>800,756</b>	869,671
Income and social contribution taxes	<b>(161,159)</b>	(148,325)	<b>(197,797)</b>	(258,988)
Income before result from downstream merger	<b>551,880</b>	402,876	<b>602,959</b>	610,683
Result from downstream merger (Notes 1 and 3)	<b>36,309</b>	-	<b>-</b>	-
Income before minority interests	<b>588,189</b>	402,876	<b>602,959</b>	610,683
Minority interests	<b>-</b>	-	<b>-</b>	(24,165)
Net income for the year	<b>588,189</b>	402,876	<b>602,959</b>	586,518
Net earnings per share - R\$	<b>2.07168</b>	0.12504		
Number of outstanding shares at year end	<b>283,918,754</b>	3,221,859,700		

See accompanying notes.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**STATEMENTS OF SHAREHOLDERS' EQUITY**  
 Years ended December 31, 2004 and 2003  
 (In thousands of reais)

	Capital reserves			Treasury shares	Income reserves			Retained earnings	Total
	Capital	Tax incentives	Special goodwill reserve		Legal reserve	Reserve for capital increase	Special statutory reserve		
Balances at December 31, 2002	1,238,024	91,783	-	-	25,227	261,500	29,055	-	1,645,589
Net income for the year	-	-	-	-	-	-	-	402,876	402,876
Allocation of the net income:									
Proposed dividends									
Paid on May 30, 2003	-	-	-	-	-	-	-	(36,300)	(36,300)
Proposed	-	-	-	-	-	-	-	(39,966)	(39,966)
Tax incentives reserve	-	77,679	-	-	-	-	-	(77,679)	-
Legal reserve	-	-	-	-	20,144	-	-	(20,144)	-
Reserve for capital increase	-	-	-	-	-	205,908	-	(205,908)	-
Special dividends reserve	-	-	-	-	-	-	22,879	(22,879)	-
<b>Balances at December 31, 2003</b>	<b>1,238,024</b>	<b>169,462</b>	<b>-</b>	<b>-</b>	<b>45,371</b>	<b>467,408</b>	<b>51,934</b>	<b>-</b>	<b>1,972,199</b>
Capital increase in cash	1,669	-	-	-	-	-	-	-	1,669
Transfer of preferred shares class "B" ( FINOR ) to treasury	-	-	-	(1,741)	-	-	-	-	(1,741)
Net income for the year	-	-	-	-	-	-	-	588,189	588,189
From downstream merger:									
Special goodwill reserve	-	-	108,723	-	-	-	-	-	108,723
Purchase of own shares	-	-	-	(13,339)	-	-	-	-	(13,339)
Capital increase	238,270	-	-	-	-	-	-	-	238,270
Allocation of the net income:									
Proposed dividends	-	-	-	-	-	-	-	(29,756)	(29,756)
Interest on shareholders' equity	-	-	-	-	-	-	-	-	-
Paid on September 30, 2004	-	-	-	-	-	-	-	(50,337)	(50,337)
Allocated on December 23, 2004, payable on February 28, 2005	-	-	-	-	-	-	-	(60,022)	(60,022)
Tax incentives reserve									
ADENE - Northeast Development Agency	-	58,318	-	-	-	-	-	(58,318)	-
FINOR - Northeast Investment Fund	-	6,182	-	-	-	-	-	-	6,182
Legal reserve	-	-	-	-	29,409	-	-	(29,409)	-
Reserve for capital increase	-	-	-	-	-	324,312	-	(324,312)	-
Special statutory reserve	-	-	-	-	-	-	36,035	(36,035)	-
<b>Balances at December 31, 2004</b>	<b>1,477,963</b>	<b>233,962</b>	<b>108,723</b>	<b>(15,080)</b>	<b>74,780</b>	<b>791,720</b>	<b>87,969</b>	<b>-</b>	<b>2,760,037</b>

See accompanying notes.



**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

Years ended December 31, 2004 and 2003

(In thousands of reais)

	<b>Company</b>		<b>Consolidated</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Working capital provided by:</b>				
<b>Operations:</b>				
Net income for the year	<b>588,189</b>	402,876	<b>602,959</b>	586,518
<b>Items not affecting working capital:</b>				
Depreciation, depletion and amortization	<b>152,342</b>	95,648	<b>200,430</b>	178,255
Net book value of permanent assets disposed of	<b>30,893</b>	14,738	<b>42,531</b>	21,418
Deferred income and social contribution taxes	<b>105,246</b>	52,711	<b>35,480</b>	74,712
Provision for contingencies	<b>33,274</b>	(4,872)	<b>40,579</b>	16,276
Equity pickup in subsidiaries and affiliates	<b>34,036</b>	49,441	<b>286</b>	1,054
Minority interests	-	-	-	24,165
Amortization of goodwill	-	-	-	41,687
Exchange and monetary variations and long-term interest, net	<b>(153,781)</b>	(153,079)	<b>(88,048)</b>	(308,601)
<b>Total working capital provided by operations</b>	<b>790,199</b>	457,463	<b>834,217</b>	635,484
<b>Shareholders:</b>				
Capital increase in cash	<b>1,669</b>	-	<b>1,669</b>	150,000
Capital increase due to downstream merger	<b>238,270</b>	-	-	-
Equity increase due to elimination of minority interests due to downstream merger	-	-	<b>115,606</b>	-
<b>Total working capital provided by shareholders</b>	<b>239,939</b>	-	<b>117,275</b>	150,000
<b>Third parties:</b>				
Proceeds from long-term financing and loans	<b>420,423</b>	217,072	<b>734,695</b>	1,000,830
Proceeds from debentures	<b>483,580</b>	-	<b>483,580</b>	-
Long-term suppliers	-	-	<b>15,000</b>	-
Special goodwill reserve from downstream merger	<b>108,723</b>	-	<b>108,723</b>	-
Profit on intercompany fixed asset disposals no longer eliminated due to the downstream merger	-	-	<b>53,862</b>	-
Capital decrease of subsidiary	-	370,267	-	-
Income tax incentives	<b>6,182</b>	-	<b>6,182</b>	-
Decrease in noncurrent assets	-	-	-	8,771
<b>Total working capital provided by third parties</b>	<b>1,018,908</b>	587,339	<b>1,402,042</b>	1,009,601
<b>Total working capital provided</b>	<b>2,049,046</b>	1,044,802	<b>2,353,534</b>	1,795,085

See accompanying notes.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**STATEMENTS OF CHANGES IN FINANCIAL POSITION (Continued)**

Years ended December 31, 2004 and 2003

(In thousands of reais)

	<b>Company</b>		<b>Consolidated</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Working capital used for:</b>				
Permanent assets				
Investments	<b>35,993</b>	64	<b>3,011</b>	1,718
Property, plant and equipment	<b>376,825</b>	145,041	<b>617,936</b>	540,804
Deferred charges	-	1,571	<b>248</b>	3,975
	<b>412,818</b>	146,676	<b>621,195</b>	546,497
Noncurrent assets	<b>9,951</b>	34,237	<b>48,466</b>	37,590
Dividends / interest on shareholders' equity paid and proposed	<b>140,115</b>	76,266	<b>140,115</b>	177,265
Transfer of preferred shares class "B" - FINOR - to treasury	<b>1,741</b>	-	<b>1,741</b>	-
Elimination of minority interests due to downstream merger	-	-	<b>115,606</b>	-
Transfer from noncurrent to current liabilities	<b>486,702</b>	705,716	<b>794,583</b>	1,198,555
Total working capital used	<b>1,051,327</b>	962,895	<b>1,721,706</b>	1,959,907
Increase (decrease) in working capital	<b>997,719</b>	81,907	<b>631,828</b>	(164,822)
Effect on working capital due to downstream merger	<b>(349,297)</b>	-	-	-
Increase (decrease) in working capital after the effect of downstream merger	<b>648,422</b>	81,907	<b>631,828</b>	(164,822)
Increase (decrease) in working capital				
Current assets:				
At end of the year	<b>1,921,812</b>	1,148,197	<b>2,207,035</b>	2,270,688
At beginning of the year	<b>1,148,197</b>	687,551	<b>2,270,688</b>	2,765,093
	<b>773,615</b>	460,646	<b>(63,653)</b>	(494,405)
Current liabilities:				
At end of the year	<b>1,142,156</b>	1,016,963	<b>1,169,109</b>	1,864,590
At beginning of the year	<b>1,016,963</b>	638,224	<b>1,864,590</b>	2,194,173
	<b>(125,193)</b>	(378,739)	<b>695,481</b>	329,583
Increase (decrease) in working capital	<b>648,422</b>	81,907	<b>631,828</b>	(164,822)

See accompanying notes.

## SUZANO BAHIA SUL PAPEL E CELULOSE S.A.

### STATEMENTS OF CASH FLOWS Years ended December 31, 2004 and 2003 (In thousands of reais)

	Company		Consolidated	
	2004	2003	2004	2003
<b>Cash flows from operating activities:</b>				
Net income for the year	<b>588,189</b>	402,876	<b>602,959</b>	586,518
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation, depletion and amortization	<b>152,342</b>	95,648	<b>200,430</b>	178,255
Gain on sale of property, plant and equipment	<b>(33,611)</b>	(5,931)	<b>(47,560)</b>	(12,520)
Equity pickup in subsidiaries and affiliates	<b>34,036</b>	49,441	<b>286</b>	1,054
Amortization of goodwill	-	-	-	41,687
Minority interests	-	-	-	24,165
Interest, foreign exchange and monetary variation, net	<b>(246,491)</b>	(185,766)	<b>(45,827)</b>	(291,575)
Provision for contingencies	<b>33,274</b>	(4,872)	<b>40,579</b>	16,276
Deferred income and social contribution taxes	<b>66,077</b>	110,666	<b>(8,458)</b>	141,661
Changes in assets and liabilities related to operations				
Decrease (increase) in accounts receivable	<b>21,199</b>	(21,437)	<b>(148,112)</b>	(3,326)
Increase in other current and noncurrent assets	<b>(22,443)</b>	(67,906)	<b>(39,960)</b>	(132,698)
(Decrease) increase in other current and noncurrent liabilities	<b>(32,021)</b>	(12,122)	<b>(68,781)</b>	59,513
Net cash provided by operating activities	<b>560,551</b>	360,597	<b>485,556</b>	609,010
Cash flows from investing activities				
Increase in investments	<b>(35,993)</b>	(64)	<b>(3,011)</b>	(1,718)
Increase in property, plant and equipment	<b>(376,825)</b>	(145,041)	<b>(617,936)</b>	(540,804)
Increase in deferred charges	-	(1,571)	<b>(248)</b>	(3,975)
Net effect of downstream merger	<b>(200,264)</b>	-	-	-
Capital decrease in subsidiary	-	37,267	-	-
Elimination of minority interests	-	-	<b>(115,606)</b>	-
Credit from disposal of investments	-	-	-	503,287
Losses on credit from investment disposal	-	-	-	(83,330)
Income tax incentives	<b>6,182</b>	-	<b>6,182</b>	-
Proceeds generated from sale of permanent assets	<b>64,504</b>	20,669	<b>90,091</b>	33,938
Net cash (used in) from investing activities	<b>(542,396)</b>	244,260	<b>(640,528)</b>	(92,602)

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**STATEMENTS OF CASH FLOWS (Continued)**

Years ended December 31, 2004 and 2003

(In thousands of reais)

	Company		Consolidated	
	2004	2003	2004	2003
Cash flows from financing activities				
Capital increase in cash	1,669	-	1,669	150,000
Capital increase due to downstream merger	238,270	-	-	-
Special goodwill reserve due to downstream merger	108,723	-	108,723	-
Equity increase due to elimination of minority interests upon downstream merger	-	-	115,606	-
Profit on intercompany fixed asset disposals no longer eliminated due to downstream merger	-	-	53,862	-
Transfer of preferred shares type "B" - FINOR - to treasury	(1,741)	-	(1,741)	-
Payment of dividends and interest on shareholders' equity	(98,778)	(80,032)	(178,782)	(126,990)
Proceeds from financing and loans	1,195,590	414,834	1,638,757	1,428,762
Payment of financing and loans to parent company	-	-	-	(653,309)
Payment of financing and loans to third parties	(1,478,166)	(476,164)	(1,803,889)	(1,302,924)
Net cash used in financing activities	(34,433)	(141,362)	(65,795)	(504,461)
Effects of exchange rate changes on cash and marketable securities	-	-	(25,464)	(21,558)
Net increase (decrease) in cash an marketable securities	(16,278)	463,495	(246,231)	(9,611)
At beginning of the year	670,437	206,942	1,332,451	1,342,062
At end of the year	654,159	670,437	1,086,220	1,332,451

See accompanying notes.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**STATEMENTS OF VALUE ADDED**  
**Years ended December 31, 2004 and 2003**  
(In thousands of reais)

	Company		Consolidated	
	2004	2003	2004	2003
<b>Revenues</b>				
Sale of products and services	2,109,273	1,121,968	3,017,532	2,708,258
Other operating income	13,704	8,218	36,737	37,262
Allowance for doubtful accounts	(9,408)	(1,581)	(9,600)	3,793
Nonoperating income, net	16,444	5,931	30,072	13,592
	<b>2,130,013</b>	<b>1,134,536</b>	<b>3,074,741</b>	<b>2,762,905</b>
<b>Inputs acquired from third parties</b>				
Raw materials consumed	475,582	152,879	682,263	609,021
Materials, electricity, outsourced services received	544,635	262,665	855,989	697,579
	<b>1,109,796</b>	<b>718,992</b>	<b>1,536,489</b>	<b>1,456,305</b>
<b>Retentions</b>				
Depreciation, depletion and amortization	152,342	95,648	200,430	178,255
	<b>957,454</b>	<b>623,344</b>	<b>1,336,059</b>	<b>1,278,050</b>
<b>Value added received in transfer</b>				
Equity pickup in subsidiaries and affiliates	(34,036)	(49,441)	(286)	(1,054)
Amortization of goodwill	-	-	-	(41,687)
Dividends received from investments at cost	316	-	886	61
Financial income	39,084	15,201	78,642	(13,366)
Result from downstream merger	36,309	-	-	-
	<b>999,127</b>	<b>589,104</b>	<b>1,415,301</b>	<b>1,222,004</b>
<b>Value added distribution</b>				
Payroll and social charges	182,619	85,382	288,976	280,304
Taxes, charges and contributions	249,701	185,551	346,983	399,010
Interest and financial changes, net	(40,075)	(97,567)	147,150	(90,368)
Rental	18,693	12,862	29,233	22,375
Dividends and interest on shareholders' equity	140,115	76,266	140,115	177,265
Retained earnings	448,074	326,610	462,844	433,418
	<b>999,127</b>	<b>589,104</b>	<b>1,415,301</b>	<b>1,222,004</b>

See accompanying notes.

## **SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2004 and 2003

(In thousands of reais)

#### **1. Downstream Merger between Companhia Suzano de Papel e Celulose and Bahia Sul Celulose S.A.**

The Extraordinary General Meetings of the shareholders held on June 29 and 30, 2004 approved the downstream merger (DSM) between Companhia Suzano de Papel e Celulose (Suzano) and Bahia Sul Celulose S.A. (Bahia Sul), resulting in the winding-up of operations of Suzano, the net assets of which were added to Bahia Sul's assets, which will be successor in all its assets, rights and liabilities.

The corporate name of Bahia Sul was changed to Suzano Bahia Sul Papel e Celulose S.A. (Company or Suzano Papel e Celulose).

This merger operation was an important step in the Companies' operating and corporate integration, which began after the purchase, by Suzano, in May 2001, of the totality of the shares with voting rights issued by Bahia Sul in May 2001. The main phases that marked the evolution of the restructuring process were: (i) the implementation, in October 2001, of the Companies' unified management, resulting in significant gains from the mingle of synergies; (ii) the spin-off of petrochemical assets owned by Suzano, which occurred in November 2001, with the objective of enhancing dynamism and transparency in the different business areas, and (iii) public offer of Bahia Sul shares, made by Suzano, and payment with its own shares in September 2002, through which Suzano started to hold 94% of Bahia Sul's total capital.

The main effects of the DSM on the Company's financial statements were as follows:

- a) Goodwill resulting from increased shareholding of Suzano in Bahia Sul: in the DSM process, the goodwill resulting from increases in shareholding of Suzano in Bahia Sul was fully accrued at Suzano before the DSM process, generating a reduction by R\$ 319,772 in shareholders' equity, with a matching entry to the investment account. In order to benefit from the goodwill tax-wise, deferred income and social contribution taxes credits were recorded in current and noncurrent assets, against an increase in shareholders' equity in the amount of R\$108,723, in the account "special goodwill reserve" on DSM, the amortization of which will occur over 60 months, as per Brazilian Securities Commission CVM Instruction No. 349/01;

## SUZANO BAHIA SUL PAPEL E CELULOSE S.A.

### NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

#### 1. Downstream Merger between Companhia Suzano de Papel e Celulose and Bahia Sul Celulose S.A. (Continued)

- b) Profit on intercompany fixed asset disposals no longer eliminated: in the consolidated financial statements of Suzano, the elimination of R\$ 53,862 used to be recorded in the shareholders' equity, referring to profit on intercompany fixed asset disposals. With the DSM, the consolidation between the company benefiting from the profit and the asset owner no longer takes place, thus such elimination no longer occurs; and
- c) Elimination of minority interests: minority interests in Bahia Sul's shareholders' equity were segregated in the consolidated financial statements with Suzano. With the DSM, minority shareholders now belong to the same shareholder base, with a new addition to the Company's shareholders' equity, in the amount of R\$ 115,606.

#### 2. Operations

The main business purpose of the Company and its subsidiaries is the manufacturing and trading, domestically and abroad, of short-fiber pulp of eucalyptus and paper, in addition to the formation and exploration of eucalyptus forests for own use and sale to third parties.

The trading of the products abroad is made through wholly-owned subsidiaries located abroad. Subsidiaries abroad do not have industrial plants.

#### 3. Presentation of the Financial Statements

The financial statements were prepared in accordance with the accounting practices derived from Brazilian Corporation Law and the regulations established by the Brazilian Securities Commission (CVM).

##### Presentation of the financial statements due to the DSM

In relation to the Company information, the financial statements were disclosed as in the Company's statutory accounting records, for both the current year and 2003, thus showing the financial situation and the result of operations in a distinct manner, once the current year includes dropdown of net assets in connection with the DSM and the previous year does not include such net assets. As such, the comparability of the Company's financial statements is impaired due to the effects of the DSM occurred in 2004.

## SUZANO BAHIA SUL PAPEL E CELULOSE S.A.

### NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

#### 3. Presentation of the Financial Statements (Continued)

In the statement of income, the effect of downstream merger is separately disclosed in a single line, corresponding to the net result of operations of Suzano for the first half of 2004 appropriated by Suzano Papel e Celulose, with the denomination of “Result from downstream merger” (in the standardized financial statements – DFP, this amount is being presented in line 3.11.01 of the chart 03.01 – Statement of income, due to lack of a specific line for this purpose).

In the case of the consolidated financial statements, since the post-DSM information matched against the consolidated Bahia Sul does not reflect the economic and financial information of the economic conglomerate, management is presenting the consolidated financial statements of Suzano for purposes of comparison with the previous year (instead of the Bahia Sul consolidated financial statements). For the current year, management is presenting the consolidated financial statements of Suzano Papel e Celulose (post-DSM), which normally include the figures of the acquirer (Bahia Sul), plus the original assets of the acquiree (Suzano), combined with the figures of the subsidiaries (from the Bahia Sul subsidiaries before the DSM and that coming from Suzano, due to the DSM), observing that, in the statements of income, the revenues, costs and expenses for 2004 of Suzano, Bahia Sul and all subsidiaries were added line by line, as if Suzano were being consolidated. Such procedure was adopted for all consolidated accounting and financial information presented for 2003 and 2004.

The above procedure was adopted based on the following: (a) The objective of the consolidated financial statements is to reflect the economic and financial position of an economic entity that includes two or more companies, not considering the corporate entity’s own limitation; (b) The DSM herein conducted basically produces the same result had Bahia Sul been merged into Suzano (subsidiary merges into Company), that would represent the same assets, liabilities and shareholders’ equity and shareholders and the respective capital interest proportion.

#### Summary of Principal Accounting Practices

##### a) Statement of income

Revenues and expenses are recognized on the accrual basis. Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding its realization.



**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**3. Presentation of the Financial Statements (Continued)**

b) Accounting estimates

Accounting estimates were based on objective and subjective aspects, considering management's opinion of the appropriate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include the definition of useful lives of property, plant and equipment, allowance for doubtful accounts, deferred income taxes, contingencies and valuation of derivative financial instruments. Actual results may significantly differ from these estimates due to the underlying inaccuracy of the determination process. The Company reviews its estimates and assumptions at least on a quarterly basis.

c) Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into reais at the foreign exchange rate in effect at the balance sheet date. Foreign currency translation gains and losses are recognized in the statement of income. Assets and liabilities of foreign subsidiaries and affiliates were translated into reais at the foreign exchange rate in force at the balance sheet date and results of operations were translated at the average exchange rate for the year.

d) Derivative financial instruments

Derivative financial instruments, such as swaps, are recorded initially at cost and subsequently revalued according to the contractual terms, to reflect amounts accrued to the balance sheet date. Derivative financial instruments aim to minimize the risks involved in loans and financing in foreign currency. According to its Treasury department's policy, the Company does not hold or issue derivative financial instruments for trading purposes.

e) Marketable securities

Marketable securities are recorded at cost plus income accrued to the balance sheet date, not exceeding market value.

f) Allowance for doubtful accounts

Allowance for doubtful accounts is established at an amount considered sufficient by management to cover any possible losses on the collection of accounts receivable.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**3. Presentation of the Financial Statements (Continued)**

g) Inventories

Inventories are stated at average acquisition or production cost, not exceeding market value.

h) Investments

Investments in subsidiaries are valued using the equity method, considering any premiums or discounts, as applicable. Other investments were stated at acquisition cost, net of a valuation allowance, where applicable.

i) Property, plant and equipment

Property, plant and equipment are recorded at the acquisition, development or construction cost, restated by inflation rates until December 31, 1995, (including interest and other financial charges, during construction). Depreciation is calculated using the straight-line method based on the depreciation rates mentioned in Note 12, considering the estimated useful lives of the assets. Timber resources include acquisition, development and maintenance costs. Depletion is calculated in accordance with the harvests, based on the average cost of the forests.

j) Deferred charges

Deferred charges are recorded at purchase and development cost, less amortization, which is calculated using the straight-line method over a maximum period of 5 years.

k) Rights and obligations

Rights and obligations are restated according to the exchange rates or indices and interest rates specified in the contracts in force, to reflect amounts receivable and payable at the balance sheet date.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**3. Presentation of the Financial Statements (Continued)**

l) Provisions

Provisions are recognized in the balance sheet whenever the Company has a legal or acquired obligation as a result of a past event, and it is probable that an outflow of economic benefits is required to settle the obligation. Provisions are recorded considering the best estimates for the risk of each specific liability.

m) Non-cumulative PIS/COFINS

Tax debits arising from the sale of products are presented as sales deductions in the statement of income. Tax credits are related to: (i) purchase of raw materials; (ii) services and other materials to be used in production; (iii) initial inventory balances; (iv) and to depreciation costs, as established by Laws No. 10637/02 and No. 10833/03, and are presented in the statement of income as a reduction of cost of goods sold. Tax debits and credits referring respectively to financial income and expenses are deducted from these items in the statement of income.

The Company considered up to the 3rd 2004 quarter closing, the credits resulting from purchase of raw materials, services and other inputs used in production, from initial inventories and depreciation balances, provided for in Laws No. 10637/02 and No. 10833/03, as sales deductions. In order to improve accounting classification of these credits, the criterion for the allocation thereof was changed, and the amount of these credits for the 9 first months of 2004 of R\$ 89,816 was reclassified from sales deductions to cost of goods sold in the statement of income, of which R\$ 22,841 refers to the 1st 2004 quarter, R\$ 33,218 to the 2nd 2004 quarter and R\$ 33,759 to the 3rd 2004 quarter. The total of credits to cost of goods sold for the year ended December 31, 2004 amounted to R\$128,899.

n) Income and social contribution taxes

Income and social contribution taxes on income for the year comprise current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year, using tax rates in force at the balance sheet date. Current tax rates are as follows: (i) income tax is computed at the rate of 25% (15% of taxable income, plus a 10% surtax); and (ii) social contribution tax is computed at the rate of 9% of adjusted net income.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**3. Presentation of the Financial Statements (Continued)**

n) Income and social contribution taxes (Continued)

The deferred tax asset resulting from income and social contribution taxes losses carryforward and temporary differences was determined in accordance with CVM Instruction No. 371/02.

o) Statements of cash flows

The statements of cash flows (prepared in accordance with NPC 20 - Statement of Cash Flows, issued by IBRACON - Brazilian Institute of Independent Auditors) are being presented as supplementary information.

p) Statements of value added

The Company is disclosing, in accordance with the provisions of Official Circular Letter /CVM/SNC/SEP No. 01/00, the statements of value added aiming at showing wealth generated by the Company and its subsidiaries and the distribution thereof to those who contributed for this generation.

**4. Consolidated Financial Statements**

The accounting policies have been consistently applied by the consolidated companies and are consistent with those used in the previous year, except for the comments in Note 1.

The consolidated financial statements include the financial statements of Suzano Bahia Sul Papel e Celulose S.A. and the following direct and indirect subsidiaries: Bahia Sul America Inc, Bahia Sul International Trading Ltd, Suzanopar Investimentos Ltd, Suzanopar International S.A., CSPC Overseas Ltd, Comercial e Agrícola Paineiras Ltda, Nemo International, Sun Paper and Board Limited, Nemotrade Corporation and Stenfar S.A. - Ind.Com.Imp. y Exp.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**4. Consolidated Financial Statements (Continued)**

The financial period of the subsidiaries included in the consolidated financial statements is the same as that of the parent company.

***Description of main consolidation procedures***

- a) Elimination of intercompany asset and liability account balances;
- b) Elimination of investment in the subsidiaries' capital, reserves and retained earnings;
- c) Elimination of intercompany income and expense balances and unearned income arising from intercompany transactions; and
- d) Elimination of tax charges due on unearned income, shown as deferred taxes in the consolidated balance sheet.

***Reconciliation of net income for the year and shareholders' equity between consolidated and Parent Company (the Company):***

	<u>2004</u>	
	<u>Net income</u>	<u>Shareholders' equity</u>
Company	588,189	2,760,037
Elimination of unrealized (realized) income recorded by the Parent Company in transactions with subsidiaries	22,376	(20,870)
Income and social contribution taxes on the eliminations above	(7,606)	7,094
	<u>602,959</u>	<u>2,746,261</u>
Consolidated	<u>602,959</u>	<u>2,746,261</u>

There is no presented reconciliation for the year ended December 31, 2003, due to the events commented in Note 1.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**5. Cash and Marketable Securities**

	Company		Consolidated	
	2004	2003	2004	2003
Cash and banks	11,853	2,781	176,974	199,516
Marketable securities	642,306	667,656	909,246	1,132,935
	<u>654.159</u>	<u>670.437</u>	<u>1.086.220</u>	<u>1.332.451</u>

The marketable securities refer substantially to bank deposit certificates remunerated at rates that vary from 99.5% to 101.3% of the Brazilian Interbank Deposit Certificate (CDI) rate, export notes and foreign marketable securities, at an average rate of 2.01% per annum plus exchange variation of the US dollar.

**6. Trade Accounts Receivable**

	Company		Consolidated	
	2004	2003	2004	2003
Domestic receivable	406,512	73,374	406,811	256,699
Foreign receivable				
Subsidiaries	387,185	246,029	-	-
Third parties	18,204	13,541	199,024	204,902
Discounted export receivable	(16,988)	(2,889)	(16,988)	(27,796)
Allowance for doubtful accounts	(23,516)	(2,026)	(28,587)	(21,657)
	<u>771.397</u>	<u>328.029</u>	<u>560.260</u>	<u>412.148</u>

The Company had, at December 31, 2004, outstanding vendor operations with its customers in the amount of R\$ 89,096 (R\$ 96,136 in December 2003) in which the Company acts as an intervening guarantor.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**7. Inventories**

	Company		Consolidated	
	2004	2003	2004	2003
Finished goods				
Pulp				
Domestic	13,052	13,651	13,052	22,302
Foreign	-	-	12,179	16,046
Paper				
Domestic	123,052	20,065	123,052	116,953
Foreign	-	-	40,747	52,618
Work in process	18,032	1,232	18,032	15,475
Raw materials	79,523	21,009	79,523	59,365
Maintenance and other materials	119,319	48,937	119,410	101,082
	<u>352,978</u>	<u>104,894</u>	<u>405,995</u>	<u>383,841</u>

**8. Recoverable Taxes**

	Company		Consolidated	
	2004	2003	2004	2003
Recoverable social contribution tax	177	-	177	4,956
Recoverable income tax	5,470	8,730	5,470	23,712
Recoverable PIS/COFINS	6,687	2,688	6,687	2,809
Value added tax (ICMS) on acquisition of property, plant and equipment	42,409	4,872	42,409	39,031
Other	1,669	453	1,674	984
	<u>56,412</u>	<u>16,743</u>	<u>56,417</u>	<u>71,492</u>
Less current assets	30,885	13,089	30,885	45,147
Noncurrent assets	25,527	3,654	25,532	26,345

**9. Income and Social Contribution Taxes**

*Deferred income and social contribution taxes*

The deferred income and social contribution taxes are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values, and on fiscal losses of income tax and negative basis of social contribution taxes.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**9. Income and Social Contribution Taxes (Continued)**

The recorded deferred income and social contribution taxes derive from:

Assets

	Company		Consolidated	
	2004	2003	2004	2003
Income tax loss carryforward	45,154	83,618	45,154	112,935
Social contribution tax loss carryforward	13,790	30,336	13,790	44,785
Temporary differences:				
- On provisions	57,468	5,563	68,367	69,588
- On goodwill	116,617	-	116,617	22,728
	<u>233,029</u>	<u>119,517</u>	<u>243,928</u>	<u>250,036</u>
Less current assets	<u>95,176</u>	<u>26,163</u>	<u>106,075</u>	<u>62,137</u>
Noncurrent assets	<u>137,853</u>	<u>93,354</u>	<u>137,853</u>	<u>187,899</u>

NONCURRENT LIABILITIES

	Company		Consolidated	
	2004	2003	2004	2003
Accelerated depreciation	13,147	-	13,147	11,064
Revaluation reserve	-	-	-	16,413
Negative goodwill	-	-	-	236
	<u>13,147</u>	<u>-</u>	<u>13,147</u>	<u>27,713</u>

The taxes losses carryforward are composed as follows:

	Company		Consolidated	
	2004	2003	2004	2003
Income tax losses carry forward	180,618	373,726	180,618	476,809
Social contribution tax losses carryforward	153,221	348,703	153,221	495,379



**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**9. Income and Social Contribution Taxes (Continued)**

In 2003, income and social contribution tax losses carryforward were recorded considering a reduction of R\$ 10,861 for both taxes, as a conservative approach in relation to possible future events affecting realization of these deferred taxes.

In accordance with CVM Instruction 371/02, and based on expected future taxable income, as determined in a technical study approved by the Board of Directors, the Company recognized tax credits on income and social contribution taxes losses carryforward, which have no statutory limitation in time. The carrying value of the deferred tax asset is reviewed annually by the Company and the related adjustments have not been significant in relation to management's initial estimate. The technical study considers the income tax reduction incentive of 75% on profit from tax incentive activities of the Mucuri unit (former Bahia Sul).

Based on this technical analysis of future taxable income, the Company expects to recover these tax credits in the following years:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
2004	-	26,163	-	62,137
2005	95,176	20,672	106,075	54,008
2006	49,783	17,898	49,783	57,598
2007	67,669	9,414	67,669	21,761
2008	20,401	10,512	20,401	11,629
2009 to 2012		34,858	-	42,903
	<u>233,029</u>	<u>119,517</u>	<u>243,928</u>	<u>250,036</u>

The expected recoverability of the tax credits is based on the projections of future taxable income, taking into consideration various business and financial assumptions at years ended December 31, 2004 and 2003. Accordingly, these estimates may differ from the effective taxable income in the future due to the underlying uncertainties involved.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**9. Income and Social Contribution Taxes (Continued)**

***Income Tax - Reduction of 75% ADENE – Mucuri Unit***

In the second quarter of 2003, the Company obtained from ADENE (former SUDENE) a tax incentive reduction of 75% of the income tax expense until 2011 for pulp and 2012 for paper. Such incentive, calculated based on exploration profit, is proportional to Mucuri Unit net sales revenues.

The income tax saved with this reduction is not recorded as expense in the income statement. However, at the end of each financial year, after net income has been determined, the reduction obtained for the year is allocated to capital reserve as a partial destination of the net income determined, and thus in accordance with the legal provision that establishes the non-distribution of the reduction obtained to shareholders. Such reduction in 2004 amounted to R\$ 58,318 (R\$77,679 in 2003).

***Reconciliation between income and social contribution tax expenses***

The reconciliation between the tax expense as calculated by the combined statutory rates and the income and social contribution taxes expense charged to statements of income is presented as follows:

	<b>Company</b>		<b>Consolidated</b>	
	2004	2003	2004	2003
Income before income and social contribution taxes	713,039	551,201	800,756	869,671
Reversal of the equity pickup in subsidiaries	34,036	49,441	286	1,054
Income after reversal of the equity pickup	<u>747,075</u>	<u>600,642</u>	<u>801,042</u>	<u>870,725</u>
Income and social contribution taxes calculated at the combined rates of 34%	(254,006)	(204,218)	(272,354)	(296,047)
Analysis of the effective income and social contribution tax rates:				
Profits from foreign subsidiaries	(1,995)	(13,132)	-	-
Exchange variation on investments abroad	-	-	(5,397)	(43,250)
Interest to shareholders on own capital	37,521	-	37,521	18,700
Nondeductible expenses	(12,005)	(8,667)	(18,311)	(3,650)
Addition (exclusion) of prior years credits	10,857	13	3,893	(15,530)
Tax incentives – ADENE	58,318	77,679	58,318	77,679
Others	151	-	(1,467)	3,110
Income and social contribution taxes	<u>(161,159)</u>	<u>(148,325)</u>	<u>(197,797)</u>	<u>(258,988)</u>
Effective tax rate	21,6%	24,7%	24,7%	29,7%

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**10. Advances to Suppliers – Timber Development Program**

The incentive program under which local independent farmers plant eucalyptus in their own land, reached 55.7 thousand hectares, with 441 contracts, in 45 cities. Timber from these farmers represents 8% of total Company timber needs.

The Company granted advances to suppliers related to this incentive program in the total amount of R\$ 81,001 (R\$ 46,354 in 2003).

**11. Investments**

	Company		Consolidated	
	2004	2003	2004	2003
Investments in subsidiaries	317,741	106,470	1,028	1,205
Other investments	26,027	-	31,769	29,217
Provision for losses	(7,001)	-	(7,001)	(6,800)
	<u>336,767</u>	<u>106,470</u>	<u>25,796</u>	<u>23,622</u>

*Details of investments*

Company	Shareholders' Equity	Net income (loss)	Interest	Equity pick-up	Investments	
					2004	2003
Suzanopar Investimentos Ltda. (1)	160,467	8,218	100%	(21,375)	160,467	-
Nemo International (1)	21,136	3,937	100%	(823)	21,136	-
Comercial e Agrícola Paineiras Ltda.(1)	39,207	(6,169)	100%	(1,691)	39,207	-
Stenfar S.A., Ind. Com. Imp. Y Exp. (1) (2)	3,523	24,682	100%	-	-	-
Bahia Sul International Trading Ltd.	88,501	(1,476)	100%	(9,400)	88,501	97,905
Bahia Sul América Inc	7,324	169	100%	(464)	7,324	7,788
Bahia Sul Holding	78	(29)	100%	(100)	78	174
Pakprint S.A.	5,142	(835)	20%	(183)	1,028	603
<b>Total investments in subsidiaries and affiliates</b>				<b>(34,036)</b>	<b>317,741</b>	<b>106,470</b>
Other Investments (1) net of provision for losses				-	19,026	-
<b>Total Investments</b>				<b>(34,036)</b>	<b>336,767</b>	<b>106,470</b>
<b>Consolidated</b>						
Pakprint S.A.	5,142	(835)	20%	(286)	1,028	1,205
Other Investments	-	-	-	-	24,768	22,417
<b>Total Investments</b>					<b>25,796</b>	<b>23,622</b>

(1) Investments received due to the DSM.

(2) This investment is presented as advance for future capital contribution, and is classified as noncurrent assets (see Note 16), since the effectively capital contribution was not incurred yet.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**12. Property, Plant and Equipment**

*Company*

	Average annual depreciation rate	2004			2003
		Cost	Accumulated Depreciation	Net	Net
Buildings	3.23%	631,883	(255,885)	375,998	316,813
Machinery and equipment	4.39%	3,497,031	(1,409,475)	2,087,556	1,184,827
Other depreciable assets	17.60%	163,940	(100,049)	63,891	11,093
Land and farms	-	330,443	-	330,443	216,742
Timber resources	-	432,230	-	432,230	254,132
Construction in progress	-	90,503	-	90,503	68,209
		<u>5,146,030</u>	<u>(1,765,409)</u>	<u>3,380,621</u>	<u>2,051,816</u>

*Consolidated*

	Average annual depreciation rate	2004			2003
		Cost	Accumulated Depreciation	Net	Net
Buildings	3.23%	639,589	(261,782)	377,807	370,520
Machinery and equipment	4.39%	3,497,386	(1,409,752)	2,087,634	1,682,768
Other depreciable assets	17.60%	167,935	(100,721)	67,214	50,517
Land and farms	-	338,646	-	338,646	255,276
Timber resources	-	433,081	-	433,081	392,694
Construction in progress	-	155,488	-	155,488	308,723
		<u>5,232,125</u>	<u>(1,772,255)</u>	<u>3,459,870</u>	<u>3,060,498</u>

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**13. Deferred Charges**

*Company*

	2004		2003
	Cost	Accumulated Amortization	Net
Software implementation expenses (2)	-	-	15,753
Leasehold improvements	1,220	(573)	647
Preoperating expenses	847	(121)	726
	<u>2,067</u>	<u>(694)</u>	<u>1,373</u>
			<u>15,753</u>

*Consolidated*

	2004		2003
	Cost	Accumulated Amortization	Net
Goodwill/discount on investment in subsidiary (1)	-	-	319,772
Software implementation expenses (2)	-	-	23,489
Leasehold improvements	1,220	(573)	647
Preoperating expenses	892	(121)	771
	<u>2,112</u>	<u>(694)</u>	<u>1,418</u>
			<u>345,340</u>

(1) The goodwill on the purchase of shares issued by Bahia Sul by Suzano was generated by the following events: (i) purchase, in May 2001, of shares of Bahia Sul previously held by Companhia Vale do Rio Doce; and (ii) public offer by Suzano through which it acquired shares of Bahia Sul paid by issuing shares of Suzano. With the downstream merger, said goodwill was fully accrued. See Note 1.

(2) In 2004, the Company reclassified software implementation expenses to property, plant and equipment.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**14. Financing and Loans**

	Index	Average annual interest rate	Company		Consolidated	
			2004	2003	2004	2003
<b>To acquire property, plant and equipment:</b>						
BNDES – Finem	TJLP	(1) (2) 10.02%	429,814	196,113	467,487	391,755
	Basket of					
BNDES – Finem	currencies	(1) (2) 10.78%	100,767	18,784	100,767	62,314
BNDES – Finame	TJLP	(1) (2) 9.44%	36,197	5,571	36,197	41,779
BNDES – Automatic	TJLP	(1) (2) 9.14%	4,752	987	4,752	5,327
Rural credit	-	8.75%	3,517	-	3,517	-
<b>For working capital:</b>						
Advances on export contracts	US\$	4.74%	1,456,760	769,212	1,456,760	2,087,253
Syndicated loan	US\$	3.78%	-	-	-	220,744
Eurobonds	US\$	10.625%	-	304,184	-	-
Resolution 63	US\$	2.50%	-	-	-	70,967
Foreign onlending	US\$	8.69%	36,001	-	36,001	39,846
Imports financing	US\$	2.83%	86,298	4,289	86,298	46,062
Others	US\$	5.50%	-	-	10,231	11,768
			2,154,106	1,299,140	2,202,010	2,977,815
Less current liabilities (includes interest payable)			779,059	862,012	789,680	1,444,468
Noncurrent liabilities			1,375,047	437,128	1,412,330	1,533,347
Long-term loans and financing mature as follows:						
2005			-	211,244	-	629,609
2006			534,169	155,348	534,643	438,752
2007			304,964	25,217	308,022	169,709
2008			199,510	10,427	203,651	104,775
2009			147,670	34,892	151,811	88,444
2010			94,036	-	98,177	102,058
2011 onwards			94,698	-	116,026	-
			1,375,047	437,128	1,412,330	1,533,347

- (1) Capitalization agreement that corresponds to the amount in excess of 6% p.a. over the long-term interest rate (TJLP) published by the Brazilian Central Bank;
- (2) Financing is secured, depending on the agreements, by: (i) mortgages on plant; (ii) rural properties and timberland; (iii) guarantees of the financed assets; (iv) and sureties from shareholders.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**15. Debentures**

<u>Emission</u>	<u>Series</u>	<u>Units</u>	<u>Value</u>		<u>Index</u>	<u>Interest</u>	<u>Due date</u>
			<u>Current</u>	<u>Noncurrent</u>			
3rd	1st	333,000	20,937	322,980	IGP-M	10% *	04/01/2014
3rd	2nd	167,000	3,847	152,404	USD	10.38%	04/01/2014
			<u>24,784</u>	<u>475,384</u>			

\* The contractual interest was 8% p.a. The effective interest rate was adjusted considering the premium and discount on the issue price.

On August 23, 2004 the Company completed a R\$ 500,000 two series issue of debentures, the first series amounting to R\$ 333,000 and the second one amounting to R\$ 167,000, both falling due in a 10-year period in a sole installment.

The first issue was offered locally and is indexed to IGP-M (consumer market price index) variation plus 8% p.a., and was priced on the basis of the concepts set forth in Brazilian Securities Commission (CVM) Regulation N° 404, by granting premium and discount on the issue price. Effectively interest defined in this process was equal to 10% p.a. paid semi-annually.

The second serie, not traded on the market, was fully purchased by Banco Votorantim and is indexed to the foreign exchange variation plus 10.38% p.a., paid semi-annually.

Debentures clauses require a determined maximum level of indebtedness and leverage indicators based on the Company's consolidated financial statements. At the end of the year, the Company had not defaulted on any covenants.

This operation was classified under risk level AA – (bra) of “Fitch Atlantic Ratings”.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**16. Transactions with Related Parties**

*Balances and transactions as of and for the year ended December 31, 2004*

	Assets		Liabilities	Sales revenues and financial expenses
	Current	Noncurrent	current	
<b>Consolidated companies</b>				
Bahia Sul International Trading Ltd	253,962	-	-	485,177
Comercial e Agrícola Paineiras Ltda.	-	1,005	255	(2,565)
Suzanopar International S/A	-	1,693	-	-
CSPC Overseas Ltd.	126,407	-	-	344,989
Stenfar S.A. Incl. Coml. Imp. Exp.	6,816	3,523	12	26,352
	<u>387,185</u>	<u>6,221</u>	<u>267</u>	<u>853,953</u>
<b>Nonconsolidated companies</b>				
Suzano Holding S.A.	12	-	-	(5,866)
IPLF Holding S.A.	-	-	504	(504)
SPP Agaprint Incl. e Coml. Ltda.	34,082	-	-	43,401
Central Distribuidora de Papéis Ltda.	16,204	-	-	39,151
Nova Mercante de Papéis Ltda.	12,883	-	-	38,854
Suzano Petroquímica Ltda.	-	11	-	-
Nemonorte Imóveis e Participações Ltda.	-	-	-	(293)
<b>Consolidated</b>	<u>63,181</u>	<u>11</u>	<u>504</u>	<u>114,743</u>
<b>Company</b>	<u>450,366</u>	<u>6,6232</u>	<u>771</u>	<u>968,696</u>

*Balances and transactions as of and for the year ended December 31, 2003*

	Assets		Liabilities	Sales revenues and financial expenses
	Current	Noncurrent	current	
<b>Consolidated companies</b>				
Bahia Sul International Trading Ltd	246,029	-	304,184	466,812
<b>Company</b>	246,029	-	304,184	466,812
<b>Nonconsolidated companies</b>				
Suzano Holding S.A.	46	-	1,558	(7,972)
SPP Agaprint Incl. e Coml. Ltda.	14,005	-	50	33,498
Central Distribuidora de Papéis Ltda.	7,457	-	-	27,037
Nova Mercante de Papéis Ltda.	9,056	-	-	28,070
Nemonorte Imóveis e Partic. Ltda.	-	-	5	-
<b>Consolidated</b>	<u>30,564</u>	<u>-</u>	<u>1,613</u>	<u>80,633</u>

**1** In 2001, the subsidiary Bahia Sul International Trading Ltd, acquired all the Eurobonds issued by Bahia Sul, in US dollars, with interest rate of 10.625% p.a., settled in July 2004;

**2** Advances for future capital increase;

**3** Loan denominated in US dollars maturing on December 31, 2009.

**4** The Company has outstanding "vendor" operations in the amount of R\$ 30,589 ( R\$ 10,986 in 2003)



**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**16. Transactions with Related Parties (Continued)**

The main assets and liabilities balances as of December 31, 2004, and the transactions that affected the statement of income for the year concerning related-party operations, were substantially realized under normal market conditions for the respective types of operations.

**17. Provision for Contingencies**

	Company		Consolidated	
	2004	2003	2004	2003
<u>Taxes</u>				
PIS/COFINS	62,997	14,936	62,997	41,106
PIS half-yearly computation	40,764	-	40,764	37,491
ICMS	<u>15,241</u>	<u>3,000</u>	<u>15,241</u>	<u>7,441</u>
	<u>119,002</u>	<u>17,936</u>	<u>119,002</u>	<u>86,038</u>
<u>Labor and civil</u>				
	27,078	6,542	27,078	19,463
	<u>146,080</u>	<u>24,478</u>	<u>146,080</u>	<u>105,501</u>

These provisions are recognized to provide for probable losses in administrative and judicial suits relating to tax, civil and labor claims considered as probable losses at amounts considered sufficient by management, in accordance with the assessment of its lawyers and legal advisors, as follows:

***PIS/COFINS*** - A provision recognized for unpaid PIS and COFINS in view of the legal discussion regarding the tax calculation basis (charge over other income). As of December 31, 2004, the Company had judicial deposits, in the amount of R\$ 1,586 for PIS and R\$ 16,024 for COFINS.

***PIS half-yearly payment*** - The Company filed a legal suit aiming at recovering the overpaid PIS contribution amounts, since the law that changed the criterion for determination of the referred contribution was considered unconstitutional by the higher court. Judgment in the trial court recognized the Company's right in relation to the contribution. Supported by preliminary court injunction, the Company conducted the offset of said amount against IPI and COFINS debits. A recent decision in intermediate court of appeals recognized that the offsetting could only be made against debits resulting from the current PIS itself. Such new decision is under discussion in the higher courts.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

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**18. Accounts Payable – Land and Forests**

In 2002, the Company purchased from Companhia Vale do Rio Doce lands and eucalyptus forests therein planted, in the region of São Mateus, Espírito Santo State, payable in installments by the end of 2007. At December 31, 2004, the due amounts related to this acquisition, classified as current and noncurrent, amounted to R\$ 20,271 and R\$ 13,856, respectively (R\$ 32,770 and R\$ 32,842 in December 2003).

In June 2004, the Company acquired from Votorantim Celulose e Papel S/A (VCP) eucalyptus wood payable up to December 2006. The restated amount of acquisition is R\$ 15,682 and is classified in noncurrent liabilities. See Note 24.

**19. Financial Instruments**

a) Valuation

The financial instruments included in the balance sheet, such as cash and banks, marketable securities, loans and financing, are stated at their contractual values, which approximate their fair values. To determine the market value, management used information available and applicable valuation methodologies for each situation. The estimates herein do not indicate that they could be performed in the market. The use of different market information and/or valuation methodologies may have a significant effect on the market value.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
December 31, 2004 and 2003  
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**19. Financial Instruments (Continued)**

*a) Valuation*

The estimated market value of financial instruments is set out below:

	Consolidated			
	2004		2003	
	Carrying Amount	Fair Market Value	Carrying Amount	Fair Market Value
<b>Assets</b>				
Cash and banks	1,086,220	1,086,220	1,332,451	1,332,451
<b>Liabilities</b>				
Loans and financing	2,202,010	2,225,898	2,977,815	2,882,885
Debentures	500,168	500,168	-	-

The market value of cash and banks, and loans and financing, when applicable, was determined using available current interest rates for operations under similar conditions and remaining maturities.

*b) Credit risk*

The sales policies adopted by the Company and its subsidiaries comply with the credit policies established by management and attempt to minimize possible losses arising from delinquency in accounts receivable from customers. This objective is reached through a careful selection of its client portfolio, which takes into consideration payment capacity (credit analysis) and diversification of sales (risk spread).

*c) Exchange and interest rate risk*

The income and expenses recorded by the Company and its subsidiaries are subject to significant variations, as their loans and financing are substantially linked to the foreign exchange rate fluctuation, particularly the US dollar.

## SUZANO BAHIA SUL PAPEL E CELULOSE S.A.

### NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

#### 19. Financial Instruments (Continued)

##### c) Exchange and interest rate risk (Continued)

In order to reduce the effects of foreign exchange rate fluctuations, the Company has entered into operations involving derivatives. As of December 31, 2004, there was an open swap position from dollars to CDI in notional amounts of US\$9.4 million.

In order to limit the interest rate risks, the Company performed swap operations, limiting the interest rates on certain foreign currency loans, with notional amounts up to the limit of US\$96.8 million.

Gains and losses arising from operations involving derivatives (closed and open positions) are recognized in the financial statements.

#### 20. Shareholders' Equity

##### *Capital*

The subscribed capital as of December 31, 2004 totals R\$ 1,477,963,325.62, fully paid in and divided into 285,277,173 shares, with no par value of which 102,374,458 are common and nominative, 181,531,176 are book-entry preferred class "A" and 1,371,539 are book-entry preferred class "B". From the total of preferred shares class "B", 1,358,419, are maintained in treasury.

Preferred shares class "A" are non-voting and have priority upon distribution of dividends, which are, at least, 10% higher than those paid on common shares. Preferred shares class "B" are ensured a priority dividend of 6% p.a. on each portion of the capital, or, at least, 10% higher than those paid on common shares. Preferred shares are nonvoting shares, except when provided for in law.

##### *Dividends and interest to shareholders on own capital*

The Company's articles of incorporation provide for minimum compulsory dividends of 25%, calculated on net income for the year, adjusted as allowed by article 202 of Law No. 6404/76.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004 and 2003

(In thousands of reais)

**20. Shareholders' Equity (Continued)**

*Dividends and interest to shareholders on own capital (Continued)*

Under the provisions of Law No. 9249/95, the Company calculated interest to shareholders on own capital limited to the long-term interest rate – TJLP, in a pro-rata basis in force in the year, in the amount of R\$ 110,359 (on which withholding income tax of R\$ 14,998 was retained) which, observing CVM Resolution No. 207/96, was recorded as financial expense and reversed in a specific account, but is not presented in the statement of income, in order to do not generate effects on net income, except for the tax effects recognized in income and social contribution taxes account. Out of this amount, R\$ 50,337 (on which withholding income tax of R\$ 6,763 was retained) was credited and paid on September 30, 2004 and R\$ 60,022 (on which withholding income tax of R\$ 8,235 was retained) was credited on December 23, 2004 to be paid on February 28, 2005.

Dividends and interest to shareholders on own capital were calculated as follows:

	<u>2004</u>	<u>2003</u>
Net income for the year of the Company	588,189	402,876
Tax incentive reserve related to income tax reduction		
- ADENE	(58,318)	(77,679)
Legal reserve	<u>(29,409)</u>	<u>(20,144)</u>
Adjusted net income	<u>500,462</u>	<u>305,053</u>
Minimum compulsory dividends - 25%	125,116	76,263
Withholding income tax on interest to shareholders on own capital which, under CVM Resolution No.207/96, must be added to the minimum dividend	<u>14,998</u>	<u>-</u>
Minimum dividends after withholding income tax	<u>140,114</u>	<u>76,263</u>
Interest to shareholders on own capital equity paid	50,337	-
Interest to shareholders on own capital credited to be paid	60,022	-
Interim dividends	-	36,300
Compulsory minimum dividend balance	<u>29,755</u>	<u>39,963</u>
Total dividends and interest to shareholders on own capital	<u>140,114</u>	<u>76,263</u>

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**20. Shareholders' Equity (Continued)**

*Dividends and interest on shareholders' equity* (Continued)

Due to rounding and management resolution, the proposed dividend payable, less interest to shareholders on own capital, amounts to R\$ 29,756 (R\$ 39,966 in 2003).

Proposed dividends correspond to R\$ 0.09850 per common share and R\$ 0.10836 per preferred shares classes "A" and "B".

**21. Nonoperating Result**

	Company		Consolidated	
	2004	2003	2004	2003
(Loss) gain on other investments	(648)	-	419	(687)
Gain on sale of property, plant and equipment	(1) 13,887	5,931	26,448	14,745
(Loss) gain on sale of investment	3,205	-	3,205	(466)
	<u>16,444</u>	<u>5,931</u>	<u>30,072</u>	<u>13,592</u>

(1) Refers mainly to sale of "standing wood" to non-related companies. See Note 24.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

(In thousands of reais)

**22. Net Financial Result**

	Company		Consolidated	
	2004	2003	2004	2003
Interest expenses	(145,635)	(99,607)	(182,974)	(206,771)
Monetary and exchange rate variations	236,174	219,839	110,519	447,638
Loss on swap transaction	(14,141)	(14,301)	(19,044)	(102,534)
Other financial expenses	(32,625)	(8,364)	(50,011)	(43,538)
Total financial expenses	<u>43,773</u>	<u>97,567</u>	<u>(141,510)</u>	<u>94,795</u>
Interest income	96,836	89,259	132,631	146,003
Loss on swap operations	(9,563)	(35,229)	(9,563)	(34,823)
Monetary and exchange rate variations	(51,572)	(38,829)	(49,101)	(129,122)
Total financial income	<u>35,701</u>	<u>15,201</u>	<u>73,967</u>	<u>(17,942)</u>
Financial result, net	<u>79,474</u>	<u>112,768</u>	<u>(67,543)</u>	<u>76,853</u>

**23. Statement of EBITDA (Unaudited)**

	Company		Consolidated	
	2004	2003	2004	2003
Operating income	696,595	545,270	770,684	856,079
Financial expenses	(43,773)	(97,567)	141,510	(94,795)
Financial income	(35,701)	(15,201)	(73,967)	17,942
Equity pickup in subsidiaries	34,036	49,441	286	1,054
Amortization of goodwill	-	-	-	41,687
Depreciation, depletion and amortization	152,342	95,648	200,430	178,255
Earnings before income and social contribution taxes, interest, depreciation, depletion and amortization - <i>EBITDA</i> )	<u>803,499</u>	<u>577,591</u>	<u>1,038,943</u>	<u>1,000,222</u>

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

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**24. Commitments**

The Company entered into a loan agreement with Aracruz Celulose S.A. with the objective of loaning 1,900 thousand m<sup>3</sup> of eucalyptus wood, which were harvested by the latter until December 31, 2004. The agreement establishes the return of the same volume of wood under similar operating conditions, between 2006 and 2008. The Company records the amount receivable related to the volume of wood already delivered to Aracruz Celulose S.A. in noncurrent assets, in the amount of R\$ 14,332 (R\$ 2,653 in December 2003).

The Company signed an agreement of purchase and sales of standing wood with Votorantim Celulose e Papel S/A (VCP), by which it sold 500 thousand m<sup>3</sup> of eucalyptus wood, to be harvested by VCP until December 2005, totaling R\$ 15,000, half of which was paid when the agreement was signed and the remaining amount was paid in December 2004. On the other hand, the Company entered into an agreement with VCP by which it purchased the same amount of eucalyptus wood, which will be harvested between June 2006 and December 2008, by the same amount, half of which matures in June and the other half in December 2006. The first agreement is recorded as current assets and nonoperating result, whereas the second one is recorded as permanent assets and noncurrent liabilities.

**25. Insurance (Unaudited)**

The Company has insurance against operating and other risks to which its property, plant equipment and inventories are subject.

The insurance cover at December 31, 2004 is considered by management to be sufficient against the risks involved.



## **SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

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#### **26. Investment in Energy**

The Company, through its wholly-owned subsidiary Comercial e Agrícola Paineiras Ltda. has a commitment to invest, as member of a consortium, the total amount of approximately R\$ 183,200 in the construction of the hydroelectric plant Capim Branco, located in the Minas Gerais State. The total estimated investment amounts to R\$ 818,000 and the total installed power generation capacity is estimated to be 450 MW. This project is expected to be concluded during 2007 and will allow the Company to be self-sufficient in electricity generation for its consumption. Until December 31, 2004 the Company invested approximately R\$ 65,000. The investment was made through a consortium composed by Cia Vale do Rio Doce - CVRD, Cia Mineradora de Metais – CMM and Cia Energética de Minas Gerais - CEMIG. The Company's interest in the total electricity generated will be 17.9% and in the project financing (consortium) will be 22.4%. The higher interest of the Company in the project financing is due to CEMIG, one of the consortium members, which will provide services for the implementation, operation and maintenance of the hydroelectric plant during the concession period of 35 years, which accounts for the decrease in its percentage participation in the project financing. In December 2003, BNDES authorized the grant of a loan, related to the participation of the Company in the Project, amounted to R\$ 116,900, to be repaid over 9 years, with grace period from 3 to 4 years and interest of 3.75% p.a. From the total granted amount, the Company has already received R\$ 39,403.

#### **27. Future Acquisition of the Company**

On November 10, 2004, the Company and Votorantim Celulose e Papel S/A (VCP) entered into an agreement with the controlling shareholder of Ripasa for the acquisition of the controlling interest of such company. The shares will be acquired as follows:

- (i) 111,417,366 common shares and 35,988,899 preferred shares of Ripasa will be acquired for US\$ 480 million and paid until March 31, 2005, representing 66.67% of the voting capital and 39.77% of total capital;
- (ii) 55,708,684 common shares and 17,450,639 preferred shares of Ripasa will be acquired for US\$ 240 million, through the exercise of a purchase and sale option, which will take place within a maximum term of 6 years, representing 33.33% of voting capital and 19.74% of total capital.

**SUZANO BAHIA SUL PAPEL E CELULOSE S.A.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

December 31, 2004 and 2003

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**27. Future Acquisition (Continued)**

As agreed by the parties, the corresponding economic value related to the overall price of the transaction will be appropriated to the preferred shares, to be determined through an appraisal by a specialized company.

The Company and VCP will have equal direct or indirect participation in capital of Ripasa. The transaction was submitted to the relevant authorities, including the Administrative Council for Economic Defense (CADE).

To achieve the above objectives, and subject to a satisfactory conclusion from the preliminary studies, a corporate reorganization may be implemented to allow minority shareholders of Ripasa to migrate to the Company and VCP, respectively based on the economic value of preferred shares held by them.

At the end of this process, aiming to improve synergies, the Company and VCP will (i) request delisting of Ripasa; (ii) change Ripasa to a production unit and (iii) trade the corresponding share of production independently.