

***Financial Statements***

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

***December 31, 2006 and 2005  
with Report of Independent Auditors***

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

**FINANCIAL STATEMENTS**

December 31, 2006 and 2005

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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.**

**REPORT OF INDEPENDENT AUDITORS**

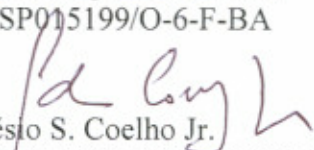
To the Board of Directors and Shareholders of  
**Suzano Papel e Celulose S.A.**

1. We have audited the balance sheets of Suzano Papel e Celulose S.A. (former Suzano Bahia Sul Papel e Celulose S.A.), and the consolidated balance sheets of Suzano Papel e Celulose S.A. and subsidiaries as of December 31, 2006 and 2005, and the related statements of income, shareholders' equity and changes in financial position for the years 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 audits were 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 Papel e Celulose S.A., and the financial position of Suzano Papel e Celulose S.A. and subsidiaries as of December 31, 2006 and 2005, the results of their operations, changes in their shareholders' equity and changes in their financial position for the years then ended in accordance with the accounting practices adopted in Brazil.

4. Our audits were 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 years ended December 31, 2006 and 2005, 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 years ended December 31, 2006 and 2005, taken as a whole.

Salvador, February 28, 2007

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 prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil.**

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

**BALANCE SHEETS**  
**December 31, 2006 and 2005**  
**(In thousands of reais)**

	Note	Parent Company		Consolidated	
		2006	2005	2006	2005
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	4	<b>1,096,487</b>	541,306	<b>1,500,112</b>	1,081,878
Trade accounts receivable	5	<b>808,538</b>	950,072	<b>729,940</b>	695,218
Inventories	6	<b>432,798</b>	368,602	<b>576,073</b>	463,068
Recoverable taxes	7	<b>63,920</b>	87,934	<b>78,563</b>	95,464
Deferred income and social contribution taxes	8	<b>41,185</b>	52,366	<b>56,068</b>	58,257
Dividends		<b>13,994</b>	-	<b>-</b>	-
Other accounts receivable		<b>30,116</b>	16,167	<b>34,646</b>	18,923
Prepaid expenses		<b>5,282</b>	4,451	<b>5,397</b>	4,558
Total current assets		<b>2,492,320</b>	2,020,898	<b>2,980,799</b>	2,417,366
<b>Noncurrent assets</b>					
<b>Long term assets</b>					
Marketable securities	4	<b>24,227</b>	-	<b>24,227</b>	-
Due from related parties	14	<b>2,127</b>	1,524	<b>-</b>	19
Recoverable taxes	7	<b>89,022</b>	16,444	<b>100,374</b>	22,538
Deferred income and social contribution taxes	8	<b>134,214</b>	111,575	<b>158,758</b>	140,505
Advances to suppliers	9	<b>150,286</b>	116,367	<b>150,286</b>	116,367
Judicial deposits		<b>25,342</b>	23,172	<b>25,449</b>	23,172
Other accounts receivable		<b>12,871</b>	21,973	<b>23,228</b>	26,389
Long term assets		<b>438,089</b>	291,055	<b>482,322</b>	328,990
<b>Permanent assets</b>					
Investments	10	<b>1,717,572</b>	1,091,708	<b>749,862</b>	484,978
Property, plant and equipment	11	<b>5,028,250</b>	3,587,811	<b>5,943,201</b>	4,085,334
Deferred charges		<b>690</b>	1,022	<b>4,397</b>	3,728
Total permanent assets		<b>6,746,512</b>	4,680,541	<b>6,697,460</b>	4,574,040
Total noncurrent assets		<b>7,184,601</b>	4,971,596	<b>7,179,782</b>	4,903,030
Total assets		<b>9,676,921</b>	6,992,494	<b>10,160,581</b>	7,320,396

	Note	Parent Company		Consolidated	
		2006	2005	2006	2005
<b>Liabilities and shareholders' equity</b>					
Current liabilities					
Trade accounts payable		197,095	130,425	190,345	158,593
Loans and financing	12	487,189	942,109	556,004	982,020
Debentures	13	29,284	27,793	29,284	27,793
Taxes payable other than on income		18,159	14,221	30,323	18,894
Payroll and taxes payable		43,534	47,415	54,565	53,693
Accounts payable		41,006	62,531	63,090	73,276
Payable to related parties	14	563	764	523	504
Dividends and interest on shareholders' equity		50,999	119,265	51,007	119,265
Deferred income and social contribution taxes	8	-	-	5,059	1,382
Income and social contribution taxes		15,572	-	16,354	2,509
Total current liabilities		<u>883,401</u>	<u>1,344,523</u>	<u>996,554</u>	<u>1,437,929</u>
Noncurrent liabilities					
Loans and financing	12	3,818,810	1,873,534	4,145,059	2,082,559
Debentures	13	712,736	464,421	712,736	464,421
Accounts payable		5,016	11,580	8,972	11,580
Deferred income and social contribution taxes	8	17,012	15,064	32,412	23,277
Provision for contingencies and actuarial liabilities	15	204,765	163,804	251,362	191,133
Total noncurrent liabilities		<u>4,758,339</u>	<u>2,528,403</u>	<u>5,150,541</u>	<u>2,772,970</u>
Shareholders' equity					
Capital	19	2,054,388	1,479,990	2,054,388	1,479,990
Capital and income reserves		1,980,793	1,639,578	1,959,098	1,629,507
Total shareholders' equity		<u>4,035,181</u>	<u>3,119,568</u>	<u>4,013,486</u>	<u>3,109,497</u>
Total liabilities and shareholders' equity		<u>9,676,921</u>	<u>6,992,494</u>	<u>10,160,581</u>	<u>7,320,396</u>

See accompanying notes.

## SUZANO PAPEL E CELULOSE S.A.

### STATEMENTS OF INCOME Years Ended December 31, 2006 and 2005 (In thousands of reais)

	Note	Parent Company		Consolidated	
		2006	2005	2006	2005
Gross sales		3,107,038	2,875,888	3,609,375	3,201,048
Sales deductions		(424,965)	(367,744)	(510,385)	(414,057)
Net sales		<u>2,682,073</u>	<u>2,508,144</u>	<u>3,098,990</u>	<u>2,786,991</u>
Cost of goods sold		(1,557,092)	(1,436,646)	(1,950,569)	(1,763,987)
Gross profit		<u>1,124,981</u>	<u>1,071,498</u>	<u>1,148,421</u>	<u>1,023,004</u>
Operating income (expense)					
Selling expenses		(261,056)	(272,710)	(191,070)	(170,145)
General and administrative expenses		(168,791)	(159,163)	(215,687)	(191,719)
Management' fees		(27,120)	(28,187)	(28,350)	(28,763)
Financial expenses	21	(105,831)	(11,842)	(178,674)	(49,742)
Financial income	21	66,922	74,154	125,876	83,152
Equity pickup in subsidiaries and affiliates	10	27,857	(48,989)	(391)	(351)
Amortization of goodwill		(54,683)	-	(71,431)	(37,679)
Other operating income, net		(5,718)	22,012	8,162	29,863
Operating income		<u>596,561</u>	<u>646,773</u>	<u>596,856</u>	<u>657,620</u>
Nonoperating income, net	20	1,360	(4,288)	778	(10,677)
Income before income and social contribution taxes		<u>597,921</u>	<u>642,485</u>	<u>597,634</u>	<u>646,943</u>
Income and social contribution taxes	8	(142,607)	(146,543)	(153,944)	(147,294)
Net income for the year		<u>455,314</u>	<u>495,942</u>	<u>443,690</u>	<u>499,649</u>
Net earnings per share		1.45411	1.74573		
Number of outstanding shares at year end		<u>313,121,658</u>	<u>284,088,094</u>		

See accompanying notes.

## SUZANO PAPEL E CELULOSE S.A.

### STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2006 and 2005

(In thousands of reais)

Parent Company	Capital reserves				Income reserves			Retained earnings	Total
	Capital	Tax incentives	Special goodwill reserve	Treasury shares	Legal reserve	Reserve for capital increase	Special statutory reserve		
<b>Balances at December 31, 2004</b>	1,477,963	233,962	108,723	(15,080)	74,780	791,720	87,969	-	2,760,037
Capital increase	2,027	-	-	-	-	-	-	-	2,027
Net income for the year	-	-	-	-	-	-	-	495,942	495,942
Allocation of net income:									
Interest on shareholders' equity allocated on December 23, 2005, paid on January 4, 2006	-	-	-	-	-	-	-	(138,438)	(138,438)
Tax incentives reserve									
ADENE - Northeast Development Agency	-	36,147	-	-	-	-	-	(36,147)	-
Legal reserve	-	-	-	-	24,797	-	-	(24,797)	-
Reserve for capital increase	-	-	-	-	-	266,904	-	(266,904)	-
Special statutory reserve	-	-	-	-	-	-	29,656	(29,656)	-
<b>Balances at December 31, 2005</b>	1,479,990	270,109	108,723	(15,080)	99,577	1,058,624	117,625	-	3,119,568
Capital increase due to the incorporated shares of Ripasa's non controlling shareholders'	<b>573,630</b>	-	-	-	-	-	-	-	<b>573,630</b>
Capital increase due to conversion of debentures into shares	<b>768</b>	-	-	-	-	-	-	-	<b>768</b>
Net income for the year	-	-	-	-	-	-	-	<b>455,314</b>	<b>455,314</b>
Allocation of net income:									
Interest on shareholders' equity allocated on July 28, 2006, paid on August 11, 2006	-	-	-	-	-	-	-	(56,807)	(56,807)
Interest on shareholders' equity allocated on December 15, 2006, paid on January 4, 2007	-	-	-	-	-	-	-	(50,944)	(50,944)
Proposed dividends	-	-	-	-	-	-	-	(6,348)	(6,348)
Tax incentives reserve									
ADENE - Northeast Development Agency	-	<b>33,398</b>	-	-	-	-	-	(33,398)	-
Legal reserve	-	-	-	-	<b>22,766</b>	-	-	(22,766)	-
Reserve for capital increase	-	-	-	-	-	<b>256,546</b>	-	(256,546)	-
Special statutory reserve	-	-	-	-	-	-	<b>28,505</b>	(28,505)	-
<b>Balances at December 31, 2006</b>	<b>2,054,388</b>	<b>303,507</b>	<b>108,723</b>	<b>(15,080)</b>	<b>122,343</b>	<b>1,315,170</b>	<b>146,130</b>	<b>-</b>	<b>4,035,181</b>

See accompanying notes.



## SUZANO PAPEL E CELULOSE S.A.

### STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2006 and 2005

(In thousands of reais)

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Working capital provided by:</b>				
<b>Operations</b>				
Net income for the year	455,314	495,942	443,690	499,649
<b>Items not affecting working capital:</b>				
Depreciation, depletion and amortization	224,319	212,867	318,025	250,642
Net book value of permanent assets disposed of	31,859	19,439	39,069	20,985
Deferred income and social contribution taxes	(20,691)	28,194	(12,681)	15,511
Equity pickup in subsidiaries and affiliates	(27,857)	48,989	391	(351)
Amortization of goodwill	54,683	-	71,431	37,679
Provision for contingencies	41,239	25,339	65,974	25,798
Exchange and monetary variations and long-term interest, net	(117,796)	(168,586)	(126,506)	(176,092)
	<u>641,070</u>	<u>662,184</u>	<u>799,393</u>	<u>673,821</u>
<b>From shareholders':</b>				
Capital increase in cash	-	2,027	-	2,027
Capital increase due to the incorporated shares of Ripasa's non controlling shareholders'	573,630	-	573,630	-
Capital increase due to conversion of debentures into shares	768	-	768	-
	<u>574,398</u>	<u>2,027</u>	<u>574,398</u>	<u>2,027</u>
<b>Third parties:</b>				
Long-term financings and loans	2,677,916	1,175,562	2,852,484	1,384,821
Increase in noncurrent liabilities	5,016	-	4,117	44,465
Transfer from long term assets to current assets	-	-	3,822	2,133
Transfer from permanent assets to current assets	-	-	9,019	-
	<u>2,682,932</u>	<u>1,175,562</u>	<u>2,869,442</u>	<u>1,431,419</u>
<b>Total working capital provided</b>	<u>3,898,400</u>	<u>1,839,773</u>	<u>4,243,233</u>	<u>2,107,267</u>
<b>Working capital used for:</b>				
Permanent assets				
Increase in investments	652,690	803,930	337,916	497,376
Increase in property, plant, equipment and deferred charges	1,696,285	439,142	2,223,729	899,303
Long term assets	124,803	24,222	145,722	64,076
Transfer from noncurrent to current liabilities, net	377,979	537,322	416,959	566,563
Dividends and interest on shareholders' equity	114,099	138,438	114,099	138,438
	<u>2,965,856</u>	<u>1,943,054</u>	<u>3,238,425</u>	<u>2,165,756</u>
<b>Total working capital used</b>	<u>2,965,856</u>	<u>1,943,054</u>	<u>3,238,425</u>	<u>2,165,756</u>
<b>Increase (decrease) in working capital</b>	<u>932,544</u>	<u>(103,281)</u>	<u>1,004,808</u>	<u>(58,489)</u>
Current assets:				
At the end of the year	2,492,320	2,020,898	2,980,799	2,417,366
At the beginning of the year	<u>2,020,898</u>	<u>1,921,812</u>	<u>2,417,366</u>	<u>2,207,035</u>
	471,422	99,086	563,433	210,331
Current liabilities:				
At the end of the year	883,401	1,344,523	996,554	1,437,929
At the beginning of the year	<u>1,344,523</u>	<u>1,142,156</u>	<u>1,437,929</u>	<u>1,169,109</u>
	<u>461,122</u>	<u>(202,367)</u>	<u>441,375</u>	<u>(268,820)</u>
<b>Increase (decrease) in working capital</b>	<u>932,544</u>	<u>(103,281)</u>	<u>1,004,808</u>	<u>(58,489)</u>

See accompanying notes.

# SUZANO PAPEL E CELULOSE S.A.

## STATEMENTS OF CASH FLOWS Years ended December 31, 2006 and 2005 (In thousands of reais)

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Cash flows from operating activities</b>				
Net income for the year	455,314	495,942	443,690	499,649
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation, depletion and amortization	224,319	212,867	318,025	250,642
Income on sale of property, plant and equipment	(1,360)	4,288	4,537	5,834
Equity pickup in subsidiaries and affiliates	(27,857)	48,989	391	(351)
Amortization of goodwill	54,683	-	71,431	37,679
Deferred income and social contribution taxes	(9,510)	71,005	(3,257)	62,179
Interest, foreign exchange and monetary variation, net <sup>(1)</sup>	134,283	(20,701)	196,370	(43,314)
Provision for contingencies	41,239	25,339	61,301	25,798
Changes in assets and liabilities, related to operations current and noncurrent:				
Decrease (increase) in accounts receivable	141,534	(178,675)	(90,262)	(135,465)
Decrease (increase) in other current and noncurrent assets	(169,402)	(100,167)	(223,187)	(189,107)
(Decrease) increase in other current and noncurrent liabilities <sup>(1)</sup>	54,009	(19,079)	101,145	67,223
<b>Net cash provided by operating activities</b>	<b>897,252</b>	<b>539,808</b>	<b>880,184</b>	<b>580,767</b>
<b>Cash flows used in investing activities</b>				
Noncurrent marketable securities	(24,227)	-	(24,227)	-
Increase in investments	(652,690)	(803,930)	(337,916)	(497,376)
Increase in property, plant, equipment and deferred charges	(1,696,285)	(439,142)	(2,223,729)	(899,303)
Decrease in permanent assets due to transfer to current and long term assets	-	-	8,542	-
Proceeds generated by sale of permanent assets	33,219	15,151	34,532	15,151
<b>Net cash used in investing activities</b>	<b>(2,339,983)</b>	<b>(1,227,921)</b>	<b>(2,542,798)</b>	<b>(1,381,528)</b>
<b>Cash flows provided by financing activities</b>				
Capital increase in cash	-	2,027	-	2,027
Capital increase due to the incorporated shares of Ripasa's non controlling shareholders'	573,630	-	573,630	-
Capital increase due to conversion of debentures into shares	768	-	768	-
Payment of dividends and interest on shareholders' equity	(182,365)	(101,009)	(182,365)	(101,009)
Proceeds from financing and loans	2,817,865	1,740,653	3,039,383	1,999,264
Payment of financing and loans <sup>(1)</sup>	(1,211,986)	(1,066,411)	(1,308,090)	(1,084,077)
<b>Net cash provided by financing activities</b>	<b>1,997,912</b>	<b>575,260</b>	<b>2,123,326</b>	<b>816,205</b>
<b>Effects on exchange rate variation on cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>(42,478)</b>	<b>(19,786)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>555,181</b>	<b>(112,853)</b>	<b>418,234</b>	<b>(4,342)</b>
<b>Changes in cash and cash equivalents</b>				
At the beginning of the year	541,306	654,159	1,081,878	1,086,220
At the end of the year	1,096,487	541,306	1,500,112	1,081,878
<b>Increase (decrease) in cash and cash equivalents</b>	<b>555,181</b>	<b>(112,853)</b>	<b>418,234</b>	<b>(4,342)</b>

(1) – Includes reclassifications for 2005.

See accompanying notes.

## SUZANO PAPEL E CELULOSE S.A.

### STATEMENTS OF VALUE ADDED Years Ended December 31, 2006 and 2005 (In thousands of reais)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>				
Sale of products and services	3,107,038	2,875,888	3,609,375	3,201,048
Other operating income	18,745	30,295	43,868	50,547
Allowance for doubtful accounts	(2,414)	(10,561)	(5,809)	(10,863)
Nonoperating income	13,440	15,722	9,655	9,332
	<u><b>3,136,809</b></u>	<u><b>2,911,344</b></u>	<u><b>3,657,089</b></u>	<u><b>3,250,064</b></u>
<b>Inputs acquired from third parties</b>				
Raw materials consumed	703,559	685,997	761,897	829,743
Materials, electricity, outsourced services received	1,008,718	853,103	1,201,070	900,453
Loss / recovery of asset amounts	18,586	26,250	18,586	26,250
	<u><b>1,405,946</b></u>	<u><b>1,345,994</b></u>	<u><b>1,675,536</b></u>	<u><b>1,493,618</b></u>
<b>Gross value added</b>				
	<u><b>1,405,946</b></u>	<u><b>1,345,994</b></u>	<u><b>1,675,536</b></u>	<u><b>1,493,618</b></u>
<b>Retentions</b>				
Depreciation, depletion e amortization	224,319	212,867	318,025	250,642
	<u><b>1,181,627</b></u>	<u><b>1,133,127</b></u>	<u><b>1,357,511</b></u>	<u><b>1,242,976</b></u>
<b>Net value added generated by the Company</b>				
	<u><b>1,181,627</b></u>	<u><b>1,133,127</b></u>	<u><b>1,357,511</b></u>	<u><b>1,242,976</b></u>
<b>Value added received in transfer</b>				
Equity pickup in subsidiaries and affiliates	27,857	(48,989)	(391)	(351)
Amortization of goodwill	(54,683)	-	(71,431)	(37,679)
Dividends received from investments at cost	418	1,235	421	1,238
Financial income	66,719	73,073	88,264	51,371
	<u><b>1,221,938</b></u>	<u><b>1,158,446</b></u>	<u><b>1,374,374</b></u>	<u><b>1,257,555</b></u>
<b>Value added to be distributed</b>				
	<u><b>1,221,938</b></u>	<u><b>1,158,446</b></u>	<u><b>1,374,374</b></u>	<u><b>1,257,555</b></u>
<b>Value added distribution</b>				
Payroll and social charges	283,497	284,937	379,009	344,224
Taxes, charges and contributions	340,302	331,917	368,361	359,753
Interest and financial changes, net	105,825	11,840	146,265	19,840
Rental	36,999	33,810	37,050	33,915
Dividends and interest on shareholders' equity	114,059	138,438	114,059	138,438
Retained earnings	341,256	357,504	329,630	361,385
	<u><b>1,221,938</b></u>	<u><b>1,158,446</b></u>	<u><b>1,374,374</b></u>	<u><b>1,257,555</b></u>

See accompanying notes.

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

### **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2006 and 2005

(In thousands of reais)

#### **1. Operations**

The core business of Suzano Papel e Celulose S.A. (hereinafter referred to as the Company or Suzano) and its subsidiaries, with headquarter in Salvador (Bahia State) and operating production units in Bahia State and São Paulo State, consists in manufacturing and trading, domestically and abroad, short-fiber pulp eucalyptus and paper, in addition to the formation and exploitation 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.

In the Special General Meeting held on July 6, 2006, the company name Suzano Bahia Sul Papel e Celulose S.A. was changed to Suzano Papel e Celulose S.A.

#### **2. Presentation of the Financial Statements**

The financial statements was prepared in accordance with the accounting practices derived from Brazilian Corporation Law and regulations established by the Brazilian Securities and Exchange Commission – CVM which are presented according to CVM Resolution No. 488/05 and IBRACON pronouncement NPC 27 – Financial Statements – Presentation and Disclosures, approved by CVM. The financial statements as of December 31, 2005, when necessary, are presented according to the referred to instruction, for comparison purposes.

The authorization for the issuance of these financial statements was granted in the meeting of the Board of Directors, held on February 28, 2007.

##### *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 statement of income when all risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding its realization.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 2. Presentation of the Financial Statement (Continued)

##### *Summary of principal accounting practices (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 include: the definition of useful lives of property, plant and equipment; allowance for doubtful accounts; inventory losses; valuation allowance for investments; the analysis of impairment of property, plant and equipment and goodwill; deferred income and social contribution taxes; provision for contingencies and actuarial liabilities 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 dates. Foreign currency translation gains and losses are recognized in the statements 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 dates and the results of operations were translated at the average exchange rate for the years.
- d) Derivative financial instruments: Derivative financial instruments, such as swaps, are recorded in the balance sheets of the Company and its subsidiaries initially at cost, and subsequently revalued according to the contractual terms, to reflect amounts accrued to the balance sheet dates. Derivative financial instruments aim to minimize the risks involved in loans and financing denominated in foreign currency. According to its Treasury department's policy, the Company does not hold or issue derivative financial instruments for non hedge purposes.
- e) Marketable securities: These are recorded at cost, plus income accrued to the balance sheet dates, not exceeding market value. For purposes of these financial statements, short-term investments are classified under cash and cash equivalents and are redeemable within 90 days as from balance sheet dates.
- f) Allowance for doubtful accounts: This is established at an amount considered sufficient by Management to cover any possible losses on the collection of accounts receivable.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 2. Presentation of the Financial Statement (Continued)

##### *Summary of principal accounting practices (Continued)*

- g) Inventories: Inventories are stated at their average acquisition or production cost, not exceeding market value.
- h) Investments: Investments in subsidiaries and affiliates are valued under the equity method, increased by goodwill and decreased by amortization, when applicable. Other investments are stated at acquisition cost, net of a valuation allowance, where applicable.
- i) Property, plant and equipment: These are recorded at the acquisition, development or construction cost, including interest and other financial charges directly related to the project or construction, restated by inflation rates until December 31, 1995. Depreciation is calculated using the straight-line method based on the depreciation rates mentioned in Note 11, 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 harvested area. Property, plant and equipment are stated net of PIS/COFINS credits, which are classified as recoverable taxes.
- j) Rights and obligations: These are restated based on exchange rates or indices and interest rates specified in the contracts in force, to reflect amounts receivable and payable at the balance sheet dates.
- k) Provisions: These are recognized in the balance sheets 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.
- l) Non-cumulative PIS/COFINS: Tax debits arising from the sale of products are presented as sales deductions in the statement of income. Tax credits deriving from: (i) purchase of raw materials; (ii) services and other materials to be used in production, as established by Laws No. 10,637/02 and No. 10,833/03, are presented in the statement of income as a reduction of cost of goods sold. Credits resulting from purchase of fixed assets are recorded in recoverable taxes.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

## 2. Presentation of the Financial Statement (Continued)

### *Summary of principal accounting practices (Continued)*

- m) Income and social contribution taxes: Income and social contribution taxes on net income for the years comprise current and deferred taxes.

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

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.

- n) Statements of cash flows and value added: As supplementary information, the Company is presenting the statements of cash flows, prepared in accordance with NPC 20 – Statement of Cash Flows, issued by the Brazilian Institute of Independent Auditors – IBRACON, and the statements of value added, prepared in accordance with the provisions of Official Circular Letter/CVM/SNC/SEP No. 01/2007, which aims to show the wealth generated by the Company and its subsidiaries and how the value added has been used to reward those contributing to its generation.

## 3. Consolidated Financial Statements

The accounting policies have been consistently applied by the consolidating companies and are consistent with those used in the previous year.

The consolidated financial statements include the financial statements of Suzano Papel e Celulose S.A. and the following direct and indirect subsidiaries: Suzano America Inc, Suzano Trading Ltd., Suzano Europe S.A., Bahia Sul Holdings GmbH, Suzanopar Investimentos Ltd, Comercial e Agrícola Paineiras Ltda. (Paineiras), Nemo International, Clear Springs Holding Corp., Sun Paper and Board Limited, Stenfar S.A. - Ind.Com.Imp. y Exp (Stenfar) and Ripasa S.A. Celulose e Papel (Ripasa).

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

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

December 31, 2006 and 2005

(In thousands of reais)

#### **3. Consolidated Financial Statement (Continued)**

Due to the acquisition of interest in Ripasa as of March 31, 2005 (see Note 10), the financial statements of such company started to be proportionally consolidated into Company financial information. The proportional consolidation is justified under the shareholders' agreement entered into with Votorantim Celulose e Papel (VCP), which meets the requirements established by CVM Instruction No. 247/96. Therefore, comparison of consolidated financial statements must take into consideration this proportional consolidation. Another factor to be considered when comparing the financial statements is the consolidation of the financial statements of Ripasa, which were consolidated proportionally, until April 30, 2006, based on the interest of 23.03%. As a result of the corporate restructuring mentioned in Note 10, since May 1<sup>st</sup>, 2006, the financial statements of Ripasa has been proportionally consolidated based on the interest of 50.00%. As supplementary information, the Company is presenting the statements of Ripasa's proportional consolidation, including the balance sheet and the statements of income of Suzano Papel e Celulose before this proportional consolidation.

In February 2006, a new direct subsidiary was formed abroad, denominated Suzano Europe S.A. and in December 2006, was approved the closing of the indirect subsidiaries Nemo International and Clear Springs Holding Corp.

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



## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

### 3. Consolidated Financial Statement (Continued)

#### *Description of the 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;
- d) Elimination of tax charges due on unearned income, shown as deferred taxes in the consolidated balance sheets.

#### *Reconciliation of net income for the years and shareholders' equity between consolidated and Parent Company*

	Net income		Shareholders' equity	
	2006	2005	2006	2005
Parent Company	455,314	495,942	4,035,181	3,119,568
Elimination of (unrealized) realized income recorded by the parent company in transactions with subsidiaries	(17,612)	8,722	(29,755)	(12,144)
Income and social contribution taxes on the elimination above	5,988	(2,965)	10,117	4,123
Sale of other assets from the parent company to subsidiaries	-	(1,757)	(1,757)	(1,757)
Others	-	(293)	(300)	(293)
Consolidated	443,690	499,649	4,013,486	3,109,497

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 4. Cash and Cash Equivalents

	Parent Company		Consolidated	
	2006	2005	2006	2005
Cash and banks	9,499	10,336	158,630	174,650
Marketable securities	1,111,215	530,970	1,365,709	907,228
	<u>1,120,714</u>	<u>541,306</u>	<u>1,524,339</u>	<u>1,081,878</u>
Less current assets	1,096,487	541,306	1,500,112	1,081,878
Noncurrent assets	24,227	-	24,227	-

Marketable securities refer substantially to bank deposit certificates and compromised transactions. At December 31, 2006 these marketable securities were remunerated at rates that vary from 99.0% to 103.0% of the Brazilian Interbank Deposit Certificate -CDI rate and foreign marketable securities, at an average rate of 5.18% per annum plus exchange variation of the US dollar rate.

#### 5. Trade Accounts Receivable

	Parent Company		Consolidated	
	2006	2005	2006	2005
Domestic receivables	442,441	431,780	534,116	501,973
Foreign receivables				
- Subsidiaries	364,406	520,474	-	-
- Third parties	11,265	9,878	212,914	210,804
Discounted export receivables	(356)	(390)	(356)	(390)
Allowance for doubtful accounts	(9,218)	(11,670)	(16,734)	(17,169)
	<u>808,538</u>	<u>950,072</u>	<u>729,940</u>	<u>695,218</u>

The Parent Company had, at December 31, 2006, outstanding vendor operations with its customers in the amount of R\$ 107,618 (R\$ 44,053 in December 31, 2005), in which the Company acts as an intervening guarantor. At December 31, 2006 this amount is R\$ 133,835 in the consolidated financial statements (R\$ 61,402 in December 31, 2005).

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 6. Inventories

	Parent Company		Consolidated	
	2006	2005	2006	2005
Finished goods				
Pulp				
- In Brazil	23,046	17,811	23,870	18,570
- Abroad	-	-	24,768	12,497
Paper				
- In Brazil	152,475	113,274	162,778	127,366
- Abroad	-	-	58,543	43,109
Work in process	23,532	18,949	26,621	21,516
Raw materials	93,774	86,505	111,918	92,985
Maintenance and other materials	148,871	135,947	177,809	150,909
Provision for inventories losses	(8,900)	(3,884)	(10,234)	(3,884)
	<b>432,798</b>	<b>368,602</b>	<b>576,073</b>	<b>463,068</b>

#### 7. Recoverable Taxes

	Parent Company		Consolidated	
	2006	2005	2006	2005
Recoverable social contribution tax	-	18,932	695	19,482
Recoverable income tax	3,153	46,575	6,091	47,545
Recoverable PIS / COFINS	95,033	3,242	102,975	4,418
Value added tax (ICMS) on acquisition of property, plant and equipment	53,932	33,609	68,042	43,268
Others	824	2,020	1,134	3,289
	<b>152,942</b>	<b>104,378</b>	<b>178,937</b>	<b>118,002</b>
Less current assets	<b>63,920</b>	<b>87,934</b>	<b>78,563</b>	<b>95,464</b>
Noncurrent assets	<b>89,022</b>	<b>16,444</b>	<b>100,374</b>	<b>22,538</b>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

**8. 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 for assets and liabilities and their book values, and on income and social contribution tax losses carryforward.

The recorded deferred income and social contribution taxes derive from:

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Assets</b>				
Income tax loss carryforward	-	10,356	-	12,611
Social contribution tax loss carryforward	-	402	-	402
Temporary differences:				
- On provisions	73,516	62,481	112,943	82,236
- On goodwill amortization	101,883	90,702	101,883	103,513
	<u>175,399</u>	<u>163,941</u>	<u>214,826</u>	<u>198,762</u>
Less current assets	<u>41,185</u>	<u>52,366</u>	<u>56,068</u>	<u>58,257</u>
Noncurrent assets	<u>134,214</u>	<u>111,575</u>	<u>158,758</u>	<u>140,505</u>

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Liabilities</b>				
Accelerated depreciation	17,012	15,064	17,728	16,106
Deferred exchange variation	-	-	14,269	6,433
Temporary exclusions	-	-	5,474	2,120
	<u>17,012</u>	<u>15,064</u>	<u>37,471</u>	<u>24,659</u>
Less current liabilities	<u>-</u>	<u>-</u>	<u>5,059</u>	<u>1,382</u>
Noncurrent liabilities	<u>17,012</u>	<u>15,064</u>	<u>32,412</u>	<u>23,277</u>

The taxes losses carryforward are composed as follows:

	Parent Company		Consolidated	
	2006	2005	2006	2005
Income tax losses carryforward	-	41,422	-	47,902
Social contribution tax losses carryforward	-	4,470	-	4,470

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 8. Income and Social Contribution Taxes (Continued)

In accordance with CVM Instruction No. 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 temporary differences, 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 profits from tax incentive activities of the Mucuri plant.

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

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
2006	-	52,366	-	58,257
2007	<b>41,185</b>	31,576	<b>56,068</b>	35,450
2008	<b>134,214</b>	51,353	<b>140,670</b>	51,724
2009	-	19,709	<b>482</b>	31,583
2010 to 2014	-	8,937	<b>17,606</b>	21,748
	<b><u>175,399</u></b>	<u>163,941</u>	<b><u>214,826</u></b>	<u>198,762</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 on the balance sheet dates. Accordingly, these estimates may differ from the effective taxable income in the future due to the underlying uncertainties involved.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

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

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

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

This income tax reduction from this tax benefit is recorded as expense in the statement of income. 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, in accordance with the legal provision establishing that such tax benefit is not to be distributed. Tax savings in 2006 amounted to R\$ 33,398 (R\$ 36,147 in 2005).

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

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

*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 tax expenses charged to statements of income is presented as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Income before income and social contribution taxes	<b>597,921</b>	642,485	<b>597,634</b>	646,943
Reversal of equity pickup	<b>(27,857)</b>	48,989	<b>391</b>	351
Income after reversal of equity pickup	<b>570,064</b>	691,474	<b>598,025</b>	647,294
Income and social contribution taxes calculated at the combined nominal tax rate of 34%	<b>(193,822)</b>	(235,101)	<b>(203,329)</b>	(220,080)
Analysis of the effective income and social contribution tax rates:				
Profits from foreign subsidiaries	<b>(2,878)</b>	(38)	-	-
Exchange variation on investments abroad	-	-	<b>(7,779)</b>	(12,965)
Interest on shareholders' equity	<b>36,636</b>	47,067	<b>36,636</b>	47,067
Tax incentives - ADENE	<b>33,398</b>	36,147	<b>33,398</b>	36,147
Others	<b>(15,941)</b>	5,382	<b>(12,871)</b>	2,537
Income and social contribution taxes	<b>(142,607)</b>	(146,543)	<b>(153,944)</b>	(147,294)
<i>Effective tax rate</i>	<b>25.0%</b>	21.2%	<b>25.7%</b>	22.8%

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 9. Advances to Suppliers – Timber Development Program

This incentive program, under which local independent farmers plant eucalyptus in their own land, reached 73.7 thousand hectares, with 755 contracts, in 47 cities. At December 31, 2006 timber from these farmers represents 13.2%\* of total Company timber consumption (10.5%\* in December 31, 2005).

\* Not audited by the independent auditors.

On December 31, 2006 the Company granted advances to farmers related to this incentive program in the total amount of R\$ 154,702 (R\$ 118,305 in December 31, 2005).

#### 10. Investments

	Parent Company		Consolidated	
	2006	2005	2006	2005
Investments in subsidiaries and affiliates	<b>968,531</b>	1,072,404	<b>746</b>	915
Goodwill on the acquisition of Ripasa	<b>730,440</b>	-	<b>730,440</b>	464,686
Other investments	<b>24,151</b>	26,026	<b>24,226</b>	26,099
Provision for losses	<b>(5,550)</b>	(6,722)	<b>(5,550)</b>	(6,722)
	<b><u>1,717,572</u></b>	<u>1,091,708</u>	<b><u>749,862</u></b>	<u>484,978</u>



## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

#### 10. Investments (Continued)

##### *Details of investments*

	2006						
	Data from subsidiary / affiliate						
	Shareholders' equity	Net income (loss) for the year	Interest	Equity pickup		Investments	
			2006	2005	2006	2005	
<b>Parent Company</b>							
Ripasa S.A. Celulose e Papel	1,193,413	117,590	50%	26,749	-	594,153	735,310
Ripasa Participações S.A.	-	4,974	-	2,504	(6,785)	-	129,257
Suzanopar Investimentos Ltd.	123,388	5,326	100%	(5,873)	(31,208)	123,388	19,090
Nemo International	21,915	4,483	100%	2,825	(2,047)	21,915	105,232
Comercial e Agrícola Paineiras Ltda.	144,733	1,001	100%	1,001	4,977	144,733	1,989
Stenfar S.A., Ind. Com. Imp. Y Exp.	12,902	1,930	15.7%	37	1,509	2,026	73,911
Suzano Trading Ltd.	74,798	7,293	100%	552	(14,593)	74,462	6,809
Suzano America, Inc.	10,186	567	64.5%	(239)	(518)	6,569	62
Bahia Sul Holdings GmbH	6	(11)	100%	(53)	(11)	6	-
Suzano Europe S.A.	782	605	100%	601	-	782	-
Pakprint S.A.	2,489	(1,231)	20%	(247)	(313)	497	744
Total investments in subsidiaries and affiliates				<u>27,857</u>	<u>(48,989)</u>	<u>968,531</u>	<u>1,072,404</u>
Goodwill determined on the acquisition of Ripasa						730,440	-
Other investments, net of valuation allowance						18,601	19,304
Total investments				<u>27,857</u>	<u>(48,989)</u>	<u>1,717,572</u>	<u>1,091,708</u>
<b>Consolidated</b>							
Pakprint S.A.	2,489	(1,231)	20%	(391)	(351)	746	915
Goodwill determined on the acquisition of Ripasa						730,440	464,686
Other investments, net of valuation allowance						18,676	19,377
Total investments						<u>749,862</u>	<u>484,978</u>

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 10. Investments (Continued)

##### *Acquisition of Ripasa*

On November 10, 2004, Suzano Papel e Celulose S.A and Votorantim Celulose e Papel S.A. entered into an agreement for acquisition of controlling interest of Ripasa.

On March 31, 2005, the acquisition of controlling interest of Ripasa through Ripasa Participações S.A. (hereinafter “Ripar”), a subsidiary of Suzano and VCP, was carried out, with the purchase of 129,676,966 common shares and 41,050,819 preferred shares, representing 77.59% of the voting capital and 46.06% of total capital, for the total amount of R\$ 1,484,190 (equivalent to US\$ 549,151 thousand).

In April 2006, Suzano and VCP entered into a judicial agreement with a group of preferred shareholders of Ripasa, with the objective of eliminating judicial claims that questioned the corporate reorganization of said company, as addressed below. The payment of this additional amount by Suzano and VCP to said group of shareholders took place on July 4, 2006 and such agreement was extended to the remaining minority shareholders, which, on June 29, 2006, signed the “Adhesion, Approval and Transaction Agreement”. Such payments were priced at R\$1.0538 per preferred share issued by Ripasa, and were remunerated by interest of 100% of the DI rate, during the period from May 23 to July 3, 2006, totaling R\$ 153,920, half of which is incumbent upon Suzano.

On May 23, 2006, the Special General Meeting approved the transfer of shares issued by Ripasa, held by non-controlling shareholders, to Ripar equity, occasion when non-controlling Ripasa shareholders became Ripar shareholders, based on the replacement relation established in the “Agreement and Justification for Transfer of Shares and Spin-off”.

After the absorption of Ripasa shares by Ripar, the Special General Meetings held by Suzano, VCP and Ripar approved the spin-off of Ripar, and its net assets were transferred equally to Suzano and VCP, resulting in (i) capital increase at Suzano and VCP, with issue of new shares, which were distributed to non-controlling shareholders of Ripar, based on the replacement relation defined in item 3 of the Significant Event Notice published on May 5, 2006; and (ii) dissolution of Ripar.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 10. Investments (Continued)

##### *Acquisition of Ripasa (Continued)*

The reorganization has the following justifications: (a) non-controlling shareholders of Ripasa migrated to Suzano and VCP, the shares of which offer higher liquidity, and (b) represents a necessary step for a future reorganization at Ripasa, which will enable activity rationalization, cost reduction, operating gains, higher competitiveness and company growth.

After the above corporate restructuring, Suzano and VCP hold 100% of Ripasa shares. Suzano portion corresponds to 50% of the Ripasa shares, equivalent to 83,563,025 common shares and 101,759,330 preferred shares, in the total amount of R\$ 1,315,724, of which R\$ 762,387 refers to goodwill on acquisition.

The Company is carrying out the amortization of the referred goodwill based on future profitability, over a period of 10 years. Such period of amortization will be maintained until the conclusion of Ripasa reorganization, after which the terms will be reviewed.

The transaction was presented to relevant authorities within the established dates, including to the Brazilian Antitrust Agency (CADE). Management believes that such transaction will be approved.

Upon acquisition of the Ripasa shares on March 31, 2005, a Purchase and Sale Option Agreement was signed with one of the three groups of former controlling shareholders of Ripasa, referring to their interest, to be exercised during a period of up to six years. In view of the incorporation of such shares into Ripasa Participações S.A. and its subsequent spin-off, with transfer of net assets to Suzano and VCP equity, such option now refers to 5,428,955 common shares and 1,795,986 preferred shares issued by Suzano. During the first five years, the sellers have the option to sell and, in the last year, the buyers have the option to purchase. The amount referring to the Company, established by the option agreement, was originally of R\$ 216,628, equivalent to US\$ 80 million, restated by the SELIC (Central Bank Overnight rate), calculated cumulatively, from March 31, 2005 until the effective payment and transfer of ownership. At December 31, 2006, the restated amount totaled R\$ 276,308 (R\$ 247,550 in December 31, 2005). Based on the BOVESPA (São Paulo Stock Exchange) quotation of preferred shares at December 31, 2006, since common shares have not been traded in the stock exchange or been object of any recent known transaction, the market value of such shares under option would be R\$ 153,747. The Company will register such option upon the effective exercise, should it occur.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 11. Property, Plant and Equipment

##### *Parent Company*

	Average annual depreciation rate	2006			2005
		Cost	Depreciation	Net	Net
Buildings	3.37%	663,906	(290,473)	373,433	363,765
Machinery and equipment	4.47%	3,700,773	(1,652,821)	2,047,952	2,065,011
Other depreciable assets	17.17%	190,227	(135,419)	54,808	57,714
Land and farms	-	428,798	-	428,798	393,063
Timber resources	-	551,782	-	551,782	502,518
Construction in progress	-	1,571,477	-	1,571,477	205,740
		<u>7,106,963</u>	<u>(2,078,713)</u>	<u>5,028,250</u>	<u>3,587,811</u>

##### *Consolidated*

	Average annual depreciation rate	2006			2005
		Cost	Depreciation	Net	Net
Buildings	3.37%	817,460	(351,088)	466,372	408,955
Machinery and equipment	4.47%	4,614,790	(2,284,335)	2,330,455	2,217,744
Other depreciable assets	17.17%	357,396	(162,191)	195,205	82,263
Land and farms	-	564,826	-	564,826	452,541
Timber resources	-	647,986	-	647,986	543,514
Construction in progress	-	1,738,357	-	1,738,357	380,317
		<u>8,740,815</u>	<u>(2,797,614)</u>	<u>5,943,201</u>	<u>4,085,334</u>

At December 31, 2006, construction in progress consisted mainly of the Expansion Project for the Mucuri Plant – R\$ 1,508,679 (R\$ 122,991 in December 31, 2005).

In February 2006, the first turbine of the Capim Branco I project was launched, and the remaining turbines started operating during 2006, enabling that the hydroelectric complex operate and generate electric energy to its consortium members. The launch of the three turbines of the Capim Branco II project is estimated for the first half of 2007 (see Note 25).

In accordance with CVM Resolution No. 193/93, the Company records on the permanent assets the financial charges of financing related to improvements on its projects, during the construction period of such assets. The balances of these charges net of foreign exchange variations at December 31, 2006 amounts to R\$ 62,213 (R\$ 4,573 in 2005).

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

#### 12. Financing and Loans

	Index	Average annual interest rate	Parent Company		Consolidated	
			2006	2005	2006	2005
<b>To acquire property, plant and equipment:</b>						
BNDES - Finem	TJLP (1) (2)	8.65%	<b>1,329,515</b>	478,196	<b>1,416,404</b>	546,820
BNDES - Finem	Basket of currencies (2)	8.66%	<b>262,262</b>	113,709	<b>262,262</b>	113,709
BNDES - Finame	TJLP (1) (2)	10.11%	<b>26,748</b>	36,683	<b>26,935</b>	36,683
BNDES - Automatic	TJLP (1) (2)	8.00%	<b>1,041</b>	2,657	<b>75,519</b>	49,179
FNE - BNB	Fixed rate	11.90%	<b>102,114</b>	-	<b>102,114</b>	-
FINEP	TJLP	6.00%	<b>12,036</b>	7,200	<b>12,036</b>	7,200
Rural credit		8.75%	<b>2,071</b>	4,074	<b>2,071</b>	4,074
<b>For working capital:</b>						
Export financing	US\$	5.81%	<b>2,000,860</b>	2,092,711	<b>2,204,910</b>	2,209,403
Foreign onlending	US\$	8.90%	<b>5,649</b>	23,422	<b>5,649</b>	23,422
Imports financing	US\$ (3)	5.74%	<b>304,421</b>	56,991	<b>333,179</b>	73,919
Nordic Investment Bank	US\$ (4)	7.07%	<b>107,129</b>	-	<b>107,803</b>	-
Export and industrial credit note	TJLP	11.33%	<b>86,759</b>	-	<b>86,759</b>	-
Export and industrial credit note	US\$	6.65%	<b>64,140</b>	-	<b>64,140</b>	-
Others			<b>1,254</b>	-	<b>1,282</b>	170
			<b>4,305,999</b>	2,815,643	<b>4,701,063</b>	3,064,579
Less current liabilities (includes interest payable)			<b>487,189</b>	942,109	<b>556,004</b>	982,020
Noncurrent liabilities			<b>3,818,810</b>	1,873,534	<b>4,145,059</b>	2,082,559
Long-term loans and financing mature as follows:						
2007			-	378,647	-	411,709
2008			<b>476,482</b>	466,318	<b>591,541</b>	517,706
2009			<b>799,654</b>	560,943	<b>890,119</b>	608,301
2010			<b>768,972</b>	340,734	<b>818,437</b>	368,342
2011			<b>545,990</b>	65,947	<b>567,628</b>	79,523
2012			<b>260,501</b>	39,885	<b>278,242</b>	51,495
2013 onwards			<b>967,211</b>	21,060	<b>999,092</b>	45,483
			<b>3,818,810</b>	1,873,534	<b>4,145,059</b>	2,082,559

- (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 of plant; (ii) rural properties and timberland; (iii) guarantees of the financed assets; (iv) sureties from shareholders and (v) bank guarantee.
- (3) In October 2006, the BNP Paribas and Société Générale granted a financing contract to the Company in the amount of US\$150 million (50% for each bank), for the financing of equipment for Mucuri's Expansion Project. This contract owns clauses specifying maximum levels of indebtedness and leverage, which were totally accomplished at December 31, 2006.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

#### 12. Financing and Loans (Continued)

(4) In November 2006, the Nordic Investment Bank granted a Credit Facility Agreement to the Company, up to US\$50 million, for the financing of equipment and skilled labor related to the Mucuri's Expansion Project. This contract includes clauses specifying maximum indebtedness and leverage levels, which were accomplished at December 31, 2006.

#### 13. Debentures

Issue	Series	Units	2006		Current and Noncurrent	2005	Index	Interest	Due date
			Current	Noncurrent		Current and Noncurrent			
3 <sup>rd</sup>	1 <sup>st</sup>	333,000	24,525	345,749	370,274	354,504	IGP-M	10% *	04/01/2014
3 <sup>rd</sup>	2 <sup>nd</sup>	167,000	3,093	122,755	125,848	137,710	USD	10.38%	04/01/2014
4 <sup>th</sup>	1 <sup>st</sup>	80,000	555	81,410	81,965	-	TJLP	2.50%	12/01/2012
4 <sup>th</sup>	2 <sup>nd</sup>	160,000	1,111	162,822	163,933	-	TJLP	2.50%	12/01/2012
			<u>29,284</u>	<u>712,736</u>	<u>742,020</u>	<u>492,214</u>			

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

#### *Third issuance of debentures*

The 3<sup>rd</sup> issue, in August 2004, in the amount of R\$ 500,000, comprises two series, the first of which amounting to R\$ 333,000 and the second one amounting to R\$ 167,000, both falling due in 2014, in a sole installment. The first series 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) Instruction N° 404, by granting premium and discount on the issue price. The second series, not traded on the market, was fully purchased by Banco Votorantim and is indexed to the foreign exchange variation of purchased U.S. dollar plus 10.38% p.a., paid semi-annually.

Third issue debentures has clauses determining the level of indebtedness and leverage indicators based on the Company's consolidated financial statements. As of December 31, 2006, the Company had not defaulted on any covenants.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 13. Debentures (Continued)

##### *Fourth issuance of debentures*

The 4<sup>th</sup> issue, made in August 2006 with date of issuance as of December 1<sup>st</sup>, 2005, comprises two series, the first of which amounting to R\$ 80,000 and the second one amounting to R\$ 160,000, both convertible into shares, for private placement and with preemptive right to subscription given to shareholders. Minority shareholders subscribed the amount of R\$ 18,081, and the remaining amount of R\$ 221,919 was subscribed by BNDES PARTICIPAÇÕES S.A. – BNDESPAR, accordingly to the agreement signed with this BNDES’ subsidiary. Fourth issue debentures have final maturity in December 2012, and will be amortized in three annual installments, after a grace period of four years, on December 1<sup>st</sup>, 2010, 2011 and 2012. Annual interest amounts to 2.5%, plus TJLP (up to 6%), payable on a half-year basis, on the 1<sup>st</sup> of June and December of each year. The TJLP percentage exceeding 6% p.a. will be capitalized for amortization with the principal amount. Debentures are convertible into shares, at any moment, at the owner’s discretion, for the following conversion prices: (a) up to December 31, 2006, for R\$ 14.83 per share; (b) from January 1<sup>st</sup>, 2007 onwards, for R\$ 17.30 per share. For common shares resulting from the conversion, BNDESPAR has the obligation to sell and the Company’s controlling shareholder has the obligation to buy such shares for the same conversion price, plus interest calculated from the conversion date to the effective payment.

Until December 31, 2006, 251 debentures of the 1<sup>st</sup> series and 502 debentures of the 2<sup>nd</sup> series, both related to the 4<sup>th</sup> issue, were converted. They resulted in the issue of 17,273 common shares and 34,541 preferred shares - Class “A” of the Company (see Note 19).

There are contractual clauses for the fourth-issue debentures, which are restrictive and non-financial. If such clauses are not observed, the resulting effect is that the debt is immediately redeemable. As of December 31, 2006, the Company had not defaulted on any covenants.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 14. Transactions with Related Parties

*Balances and transactions as of and for the year ended December 31, 2006*

	Assets			Liabilities	2006
	Current	Noncurrent		Current	Revenues (expenses)
<b>Consolidated companies</b>					
Suzano Trading Ltd.	353,182	-		-	1,112,391
Suzano Europe S.A.	-	727	(3)	-	-
Comercial e Agrícola Paineiras Ltda.	-	36	(2)	40	(16,495)
Suzanopar Investimentos Ltd.	-	1,364		-	-
Ripasa S.A. Celulose e Papel	7,206	-		48,406	(4) (128,611)
Stenfar S/A Indl. Coml. Imp. Y. Exp.	11,224	-		-	31,501
	<u>371,612</u>	<u>2,127</u>		<u>48,446</u>	<u>998,786</u>
<b>Nonconsolidated companies</b>					
IPLF Holding S.A.	-	-		523	-
SPP Agaprint Indl. e Coml. Ltda.	6,470	(1) -		-	16,339
Central Distribuidora de Papéis Ltda.	11,867	-		-	33,632
Nova Mercante de Papéis Ltda.	4,560	-		-	54,334
Suzano Petroquímica S.A.	19	-		-	-
<b>Consolidated</b>	<u>22,916</u>	<u>-</u>		<u>523</u>	<u>104,305</u>
<b>Parent Company</b>	<u>394,528</u>	<u>2,127</u>		<u>48,969</u>	<u>1,103,091</u>

*Balances and transactions as of and for the year ended December 31, 2005*

	Assets			Liabilities	2005
	Current	Noncurrent		Current	Revenues (expenses)
<b>Consolidated companies</b>					
Suzano Trading Ltd.	512,887	-		-	929,254
Comercial e Agrícola Paineiras Ltda.	-	12		251	(2,522)
Suzanopar Investimentos Ltd.	-	1,493	(2)	-	-
CSPC Overseas Ltd.	-	-		-	185,402
Ripasa S.A. Celulose e Papel	-	-		506	(7,610)
Stenfar S.A. Indl. Coml. Imp. Y. Exp.	7,587	-		7	27,511
	<u>520,474</u>	<u>1,505</u>		<u>764</u>	<u>1,132,035</u>
<b>Nonconsolidated companies</b>					
Suzano Holding S.A.	-	-		36,809	(8,127)
IPLF Holding S.A.	-	-		504	-
SPP Agaprint Indl. e Coml. Ltda.	13,435	(1) -		266	21,180
Central Distribuidora de Papéis Ltda.	10,331	-		-	31,425
Nova Mercante de Papéis Ltda.	16,377	-		-	46,596
Suzano Petroquímica S.A.	-	19		-	-
<b>Consolidated</b>	<u>40,143</u>	<u>19</u>		<u>37,579</u>	<u>91,074</u>
<b>Parent Company</b>	<u>560,617</u>	<u>1,524</u>		<u>38,343</u>	<u>1,223,109</u>

- (1) With respect to such affiliate, the Company has outstanding "vendor" operations in the amount of R\$ 5,710 (R\$ 12,228 in December 31, 2005);
- (2) Loan denominated in US dollars maturing on December 31, 2009.
- (3) Advances for future capital increases.
- (4) As from September 1st, 2006, the Americana plant of Ripasa concentrates the sale of its finished products to Suzano and VCP, in the proportion of 50% to each controlling company.



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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

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

The transactions with related parties were realized under normal market conditions.

**15. Provision for Contingencies and Actuarial Liabilities**

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

	2006			Parent Company 2005		
	Judicial deposits	Provision	Net liabilities	Judicial deposits	Provision	Net liabilities
Taxes	1,710	(150,091)	(148,381)	1,587	(125,294)	(123,707)
Social security	-	(1,766)	(1,766)	-	-	-
Labor and civil	6,144	(25,132)	(18,988)	5,989	(25,060)	(19,071)
Actuarial liabilities	-	(35,630)	(35,630)	-	(21,026)	(21,026)
	<b>7,854</b>	<b>(212,619)</b>	<b>(204,765)</b>	<b>7,576</b>	<b>(171,380)</b>	<b>(163,804)</b>
	2006			Consolidated 2005		
	Judicial deposits	Provision	Net liabilities	Judicial deposits	Provision	Net liabilities
Taxes	25,904	(212,669)	(186,765)	12,731	(158,759)	(146,028)
Social security	-	(1,766)	(1,766)	-	-	-
Labor and civil	7,580	(29,681)	(22,101)	6,568	(26,974)	(20,406)
Actuarial liabilities	-	(40,730)	(40,730)	-	(24,699)	(24,699)
	<b>33,484</b>	<b>(284,846)</b>	<b>(251,362)</b>	<b>19,299</b>	<b>(210,432)</b>	<b>(191,133)</b>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

**15. Provision for Contingencies and Actuarial Liabilities (Continued)**

Below we present a statement of movement concerning provision for contingencies:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
At beginning of the year	<b>171,380</b>	146,081	<b>210,432</b>	175,956
New proceedings	<b>31,108</b>	38,534	<b>79,198</b>	52,761
Monetary restatement	<b>13,408</b>	10,504	<b>17,207</b>	10,504
Transfers between current and noncurrent	-	448	<b>(4,465)</b>	448
Write-off of proceedings	<b>(3,277)</b>	(24,187)	<b>(17,526)</b>	(29,237)
At end of the year	<b>212,619</b>	171,380	<b>284,846</b>	210,432

Significant proceedings are commented below:

PIS/COFINS – A provision recognized for unpaid PIS and COFINS in view of the legal challenge regarding the tax calculation basis (charge over other income). The Company has judicial deposits in the amount of R\$ 17,611.

PIS half-yearly computation - 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 offset such related credit 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.

Income tax on profits from foreign subsidiaries – In September 2005, the Company received a tax assessment regarding the taxation on profits from foreign subsidiaries available for distribution (Laws 9,249/95 and 9,532/97) and on the exchange variation included in equity pick-up of foreign investments (Brazilian IRS Regulatory Ruling No. 213/2002). Amounts assessed are R\$ 51,226 and R\$ 122,643, respectively. The Company's management, based on the opinion of its legal advisors, believes that the probability of an unfavorable outcome is remote, and has not accrued a provision for such contingency.

## SUZANO PAPEL E CELULOSE S.A.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
December 31, 2006 and 2005  
(In thousands of reais)

### 15. Provision for Contingencies and Actuarial Liabilities (Continued)

The proportional amount of Ripasa's tax and labor contingencies and actuarial liabilities disclosed in the consolidated financial statements ended in December 31, 2006 amounted to R\$ 72,227 (R\$ 39,052 at December 31, 2005), and it basically refers to questioning concerning increase in rate and expansion of PIS/COFINS tax bases.

Balance Sheet Monetary Restatement (Summer Plan) – The Company is discussing in Court the right of deducting the expenses with income and social contribution taxes, depreciation, write-offs and items controlled in the Taxable Profit Control Register (LALUR), from the debt balance related to Balance Sheet Monetary Restatement, in connection with inflationary understatements occurred in 1989, in the percentage of 51.87% or alternately, 35.58%, by using the Consumer Price Index (IPC) as the restatement index. For purposes of offset against other taxes, the Company used the percentage of 35.58%.

According to modification of understanding of the 1<sup>st</sup> District of the Superior Court of Justice (STJ), the index for monetary restatement regarded as valid and legal is Federal Treasury Bond (OTN), and no longer IPC. In this new context, the lawyers in charge of those proceedings changed the evaluation of unfavorable outcome from remote to possible for the percent of 35.58%. The restated amount as of December 31, 2006 is R\$96,971, and was not accrued by the Company, since an unfavorable outcome is possible and not probable. The portion related to 16.29% was not used by the Company to offset other taxes.

#### **Medical assistance to retired employees**

In an agreement reached with the Workers' Union of Paper, Pulp and Wood Paste for Paper of the São Paulo State, the Company commits to permanently bear medical assistance costs to former employees who retired until June 30, 2003 and to their dependents until they are persons of full age, and to spouses, on a lifetime basis. At December 31, 2006 this group was made up of 3,522 members in use of the benefit (3,160 members in December 31, 2005).

The Company also ensures the medical assistance costing with Bradesco Saúde, for the formers employees that, exceptionally, following criterion and resolution of the Company, acquired rights associated with the accomplish of the chapters 30 and 31 of Law No. 9658/98. At December 31, 2006, this group was made up of 189 participants members in use of the benefit (108 at December 31, 2005).

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

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

December 31, 2006 and 2005

(In thousands of reais)

#### **15. Provision for Contingencies and Actuarial Liabilities (Continued)**

##### **Medical assistance to retired employees (Continued)**

The Company accrued the future obligation calculated by an independent actuary, amounted to R\$ 33,774 at December 31, 2006 (R\$ 19,812 at December 31, 2005). The actuary methods adopted comply with NPC N° 26/2000, issued by the Brazilian Institute of Independent Auditors (IBRACON), validated by CVM Resolution N° 371/2000. The economic and biometric assumptions used for calculation were as follows: discount rate of 9.12% p.a., increase in medical costs of 2.0% p.a. and biometric general mortality table AT-83.

The Company recognized the effects of this obligation in accordance with CVM Resolution No. 371/200 and Official Circular Letter/CVM/SNC/SEP No. 01/2007. At the year ended December 31, 2006, the amount recorded as expense amounted R\$ 13.962.

#### **16. Defined Contribution Private Pension Plan**

In January 2005, Suzano Prev, a defined contribution private pension plan was established by the Company on behalf of its employees, to be administered by a financial institution engaged for such purpose. When setting up Suzano Prev, the Company agreed to match employees' contributions relating to prior years in consideration for their services to the Company prior to the plan setup (past service). Such disbursement will take place over the next years and will be individually calculated until each employee starts using the benefits of the plan. The Company's contributions for the year ended December 31, 2006 amounted to R\$ 5,371, and the employees' contributions amounted to R\$ 4,706 (R\$ 5,714 and R\$ 4,599 for the year ended December 31, 2005, respectively).

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 17. Accounts Payable – Land and Forests

In 2002, the Company purchased from Companhia Vale do Rio Doce, jointly and on an equally shared basis with Aracruz Celulose S/A, assets comprising 40 thousand hectares of land and eucalyptus forests therein planted, in the region of São Mateus, Espírito Santo State, payable in installments due by the end of 2007. At December 31, 2006, the due amounts related to this acquisition, classified as current liabilities, amounted to R\$ 7,724 (R\$ 7,823 classified as current liabilities and R\$ 6,182 classified as non current liabilities at December 31, 2005).

In 2005, the Company acquired the farms São Miguel and São Bento from the companies Orban Agrícola and Nova Empreendimentos Imobiliários. At December 31, 2006, payables arising from these acquisitions, classified as current liabilities, amounted to R\$ 6,090 (R\$ 7,644 classified as current liabilities and R\$ 5,398 classified as non current liabilities at December 31, 2005).

#### 18. Financial Instruments

##### a) *Valuation*

The financial instruments included in the balance sheets, such as cash and cash equivalents, loans and financing, are stated at their contractual values, which approximate their fair values. To determine fair value, management used available and applicable valuation methodologies for each situation. Estimated market value does not mean that the assets and liabilities could be realized or settled in the amounts presented. The use of different market information and/or valuation methodologies may have a significant effect on the determination of market value.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

**18. Financial Instruments (Continued)**

a) *Valuation (Continued)*

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

	Consolidated			
	2006		2005	
	Carrying amount	Fair market value	Carrying amount	Fair market value
		(Unaudited)		(Unaudited)
<b>Assets</b>				
Cash and cash equivalents	1,500,112	1,500,112	1,081,878	1,081,878
Noncurrent marketable securities	24,227	24,227	-	-
<b>Liabilities</b>				
Loans and financing (current and noncurrent)	4,701,063	4,713,598	3,064,579	3,056,656
Debentures	742,020	742,020	492,214	492,214

The fair market value of cash and cash equivalents, loans, financing and debentures, 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 to client portfolio, which takes into consideration their payment capacity (credit analysis) and the diversification of sales (risk spread).

c) *Exchange and interest rate risk*

Income and expenses recorded by the Company are subject to significant variations, as part of its loans and financing and a portion of its debenture balance are linked to the foreign exchange rate fluctuation, particularly the US dollar.

In order to reduce certain effects of foreign exchange rate fluctuations, the Company entered into operations involving derivatives. As of December 31, 2006, they were represented by the following outstanding contracts: i) US dollar-CDI swap, in the amount of US\$ 1.2 million; ii) US dollar-real NDF, in the amount of US\$ 20.0 million, and iii) euro-US dollar NDF, in the amount of EUR 14.0 million.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 18. Financial Instruments (Continued)

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

In order to minimize interest rate risks, the Company performed swap operations, limiting the interest rates on certain foreign currency loans, in the amount of US\$ 105.0 million and contracting operations directly denominated in fixed rate, amounting to US\$ 287.5 million.

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

#### 19. Shareholders' Equity

##### *Capital*

The Company's subscribed and paid-in capital as of December 31, 2006 totals R\$2,054,388, divided into 314,480,077 shares (285,446,513 shares in 2005), with no par value, 107,820,686 of which are common and nominative, 205,118,512 are book-entry preferred class "A" shares and 1,540,879 are book-entry preferred class "B" shares. From the total preferred class "B" shares, 1,358,419 were held in treasury at December 31, 2006 e 2005.

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

The Special General Meeting held on May 24, 2006 approved the Company capital increase by R\$573,630, with the issuance of 5,428,955 new common shares and 23,552,795 new class "A" preferred shares in connection with the spin-off of Ripasa Participações S.A. into two equal parts, and transfer of one of these parts to the Company (see Note 10).

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 19. Shareholders' Equity (Continued)

##### *Capital (Continued)*

In December 2006, the Company's capital increase was approved, in the amount of R\$ 768, represented by issuance of 17,273 common shares and 34,541 preferred shares - Class "A", at the unit price of R\$ 14.83, as a result of conversion of 251 debentures of the 1<sup>st</sup> series and 502 debentures of the 2<sup>nd</sup> series, related to the 4<sup>th</sup> issue of the Company, as per the agreement concerning the 4<sup>th</sup> Issue of Debentures Convertible into Shares.

##### *Dividends and Interest on shareholders' equity*

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. 6,404/76.

Under the provisions of Law No. 9249/95 and article 32 of the Company's articles of incorporation, management calculated interest on shareholders' equity, limited to the long-term interest rate – TJLP variation, on a pro rata basis, as follow: i) R\$ 56,807, which, after the effect of withholding income tax of R\$ 7,575, resulted in R\$ 49,232 net shareholders value, credited on July 28, 2006 and paid on August 11, 2006; ii) R\$ 50,944, which, after the effect of withholding income tax of R\$ 6,736, resulted in R\$ 44,208 net shareholders value, credited on December 15, 2006 and paid on January 4, 2007.

Pursuant CVM Resolution No. 207/96, interest on shareholders' equity was allocated to the minimum compulsory dividend account, net of withholding income tax, recorded as financial interest and reversed to a specific account, flowing then back to profit and losses accounts and not affecting net income, except for the tax effects recognized in the income and social contribution taxes account.



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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
December 31, 2006 and 2005  
(In thousands of reais)

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

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

Dividends and interest on shareholders' equity were calculated as follows:

	<u>2006</u>	<u>2005</u>
Net income for the year - parent company	455,314	495,942
Tax incentive reserve related to income tax reduction - ADENE	(33,398)	(36,147)
Legal reserve	(22,766)	(24,797)
	<u>399,150</u>	<u>434,998</u>
Adjusted net income		
Minimum compulsory dividend - 25%	99,788	108,750
Withholding income tax (IRRF) on interest on shareholders' equity applied to dividends, pursuant to CVM Resolution No 207/96	14,311	
	<u>114,099</u>	<u>108,750</u>
Minimum dividends after withholding income tax		
Interest on shareholders' equity paid (including IRRF of R\$ 7,575)	56,807	-
Interest on shareholders' equity payable (including IRRF of R\$ 6,736)	50,944	-
Interest on shareholders' equity payable (including IRRF of R\$ 19,515)	-	138,438
Minimum compulsory dividend balance	6,348	-
	<u>114,099</u>	<u>138,438</u>
Total dividends and interest on shareholders' equity		

*Income reserve*

The reserve for capital increase consists of 90% of the remaining balance of net income for the year and aims to ensure the Company adequate operating conditions, and the especial statutory reserve contains the remaining 10% and aims to guarantee continuity of dividend distribution.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 20. Nonoperating Result

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Provision for actuarial liabilities	(13,962)	(19,812)	(13,962)	(19,812)
Gain (Loss) on other investments	1,842	(197)	1,842	278
Gain on sale of property, plant and equipment (1)	13,237	13,964	12,655	8,857
Gain on sale of investments	243	1,757	243	-
Nonoperating result	<u>1,360</u>	<u>(4,288)</u>	<u>778</u>	<u>(10,677)</u>

(1) Refers mainly to sale of “standing wood” to non-related companies. See Note 23.

#### 21. Net Financial Result

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Interest expenses	(236,871)	(217,869)	(271,175)	(232,460)
Monetary and exchange rate variation	172,023	242,020	132,776	220,559
Gain (Loss) on swap transactions	4,237	(8,935)	4,237	(8,935)
Other financial expenses	(45,220)	(27,058)	(44,512)	(28,906)
Total financial expenses	<u>(105,831)</u>	<u>(11,842)</u>	<u>(178,674)</u>	<u>(49,742)</u>
Interest income	95,246	105,838	124,995	126,075
Monetary and exchange rate variation	(28,324)	(31,684)	881	(42,923)
Total financial income	<u>66,922</u>	<u>74,154</u>	<u>125,876</u>	<u>83,152</u>
Financial results, net	<u>(38,909)</u>	<u>62,312</u>	<u>(52,798)</u>	<u>33,410</u>

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### 22. Statement of adjusted EBITDA (Not audited)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating income	596,561	646,773	596,856	657,620
Financial expenses	105,831	11,842	178,674	49,742
Financial income	(66,922)	(74,154)	(125,876)	(83,152)
Equity pickup	(27,857)	48,989	391	351
Goodwill amortization	54,683	-	71,431	37,679
Depreciation, depletion and amortization	224,319	212,867	318,025	250,642
Earnings before equity pickup, income and social contribution taxes, interest, depreciation, depletion and amortization (Adjusted EBITDA)	<u>886,615</u>	<u>846,317</u>	<u>1,039,501</u>	<u>912,882</u>

#### 23. Commitments

##### *Sale of "standing wood"*

The Company entered into a loan agreement with Aracruz Celulose S.A. with the objective of lending 1,900 thousand m<sup>3</sup> of eucalyptus wood. The agreement establishes the return of the same volume of wood under similar operating conditions, between 2006 and 2008. As of December 31, 2006, the Company had recorded as current and non current assets the receivable related to the volume of wood already delivered to Aracruz Celulose S.A., in the amount of R\$ 5,160 and R\$ 8,522 respectively (R\$ 15,402 as non current assets at December 31, 2005).

##### *Mucuri Project*

In October 2005, the Mucuri Project was launched, aiming to expand pulp production by 1.0 million tons. As a result, several agreements related to equipment packages have already been negotiated. As of December 31, 2006 the total of commitments related to such agreements amounted to R\$ 2.2 billions\*, of which R\$ 1,508,679 have already been disbursed.

\* Not audited by the independent auditors.

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

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

December 31, 2006 and 2005

(In thousands of reais)

#### **24. Guarantees**

The Company guarantees the obligations taken on by Rio Polímeros S.A. and Suzano Petroquímica S.A., in connection with a petrochemical project conducted by Rio Polímeros S.A.

In November 2001, the Company conducted the spin-off of petrochemical assets to focus on paper and pulp sector. The referred assets were transferred to capital increase at Suzano Petroquímica S.A., a company controlled by Suzano Holding, which is the controlling shareholder of the Company. After the spin-off, the Company kept being the guarantor of contractual obligations taken on by Rio Polímeros S.A. up to the maximum limit of approximately US\$ 33.0 million, if Rio Polímeros S.A. presents any cash flow deficiency.

The Company is also the guarantor of contractual obligations taken on by Suzano Petroquímica S.A., in case it fails to make additional contributions that may be necessary in case of increase in the total cost of the investment for that project, considering the limit of 1/3 of the amount equivalent to US\$ 50.0 million.

## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005

(In thousands of reais)

#### **25. Investment in Energy**

Through its wholly-owned subsidiary Comercial e Agrícola Paineiras Ltda, the Company will invest, as part of a consortium, the total amount of approximately R\$ 218,680 in the construction of the hydroelectric complex Capim Branco, located in the State of Minas Gerais. The total investment estimated is R\$ 994,000, and the total power installed will be 450 MW. In 2006, the 3 machines of Capim Branco Plant I will start operating with a total installed power of 240 MW. The 3 turbines of Capim Branco II Plant are planned to start operating with a total installed power of 210 MW during the first half of 2007. After project conclusion, the share of the Company in the energy generated by the complex will be sufficient for the complete supply to Suzano Unit, thus making said unit self-sufficient, and leaving the Company less vulnerable to electric energy market fluctuations. Until December 2006, the Company had invested nearly R\$ 202,100 (R\$ 148,000 until 2005) in the project. The enterprise is being implemented through a consortium consisting of the Company and Cia Vale do Rio Doce (CVRD), Cia Mineradora de Metais (CMM) and Cia Energética de Minas Gerais (CEMIG). The share of the Company in the total production of the electric energy generated will be 17.9%, and its share in the project financing is 22%. The greater share of the Company in the project financing is because CEMIG will provide services upon implementation, operation and maintenance of the hydroelectric complex during the concession period of 35 years, in connection with which, its share in the project financing will be reduced.

#### **26. Insurance (Not audited)**

The Company is insured against operational and other risks to which its property, plant equipment and inventories are subject.

The insurance coverage is considered by the specialist advisors of the Company to be sufficient to cover eventual losses.

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

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

December 31, 2006 and 2005

(In thousands of reais)

#### **27. Subsequent Events**

##### **Secondary offering of shares**

In February 2007, the Company performed a secondary public offering of shares totaling 23,638,957 preferred shares - class "A", and the selling shareholders were BNDES Participações S.A. (BNDESPAR) and Suzano Holding S.A. The Company, through the distribution agreement, took on certain expenses of this offering, in the total amount of R\$ 3.9 million, from which R\$ 2.0 million were incurred and recognized in the year ended December 31, 2006.

##### **Acquisition of Ripasa plant**

In February 15, 2007, the Company acquired from VCP the total assets referred to Embu manufacturing unit, a plant of its subsidiary jointly-owned Ripasa. VCP will receive for the sale of its indirect ownership interest of 50% in the referred plant, the amount in reais equivalent to US\$ 20.0 million, to be paid until March 30, 2007. The Company Management does not expect negative goodwill in this transaction.

# SUZANO PAPEL E CELULOSE S.A.

## NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

### Supplementary information

#### Balance Sheet – Statement of Proportional Consolidation of Ripasa at December 31, 2006

Assets	Ripasa		Suzano Papel e Celulose excluding		Adjustments	Consolidated
	Ripasa Full	Proportional	Ripasa	Combined		
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Current assets</b>						
Cash and cash equivalents	182,241	91,121	1,408,991	1,500,112	-	1,500,112
Trade accounts receivable	290,082	145,041	640,945	785,986	(56,046)	729,940
Inventories	127,582	63,791	516,152	579,943	(3,870)	576,073
Dividends	-	-	13,994	13,994	(13,994)	-
Recoverable taxes	27,029	13,515	65,048	78,563	-	78,563
Deferred income and social contribution taxes	5,759	2,881	51,871	54,752	1,316	56,068
Other accounts receivable	6,242	3,121	31,525	34,646	-	34,646
Prepaid expenses	-	-	5,397	5,397	-	5,397
<b>Total current assets</b>	<b>638,935</b>	<b>319,470</b>	<b>2,733,923</b>	<b>3,053,393</b>	<b>(72,594)</b>	<b>2,980,799</b>
<b>Noncurrent assets</b>						
Marketable securities	-	-	24,227	24,227	-	24,227
Due from related parties	14,095	7,048	-	7,048	(7,048)	-
Dererred income and social contribution taxes	49,087	24,544	134,214	158,758	-	158,758
Judicial deposits	51,260	25,630	25,449	51,079	(25,630)	25,449
Recoverable taxes	22,702	11,351	89,023	100,374	-	100,374
Advances to suppliers	-	-	150,286	150,286	-	150,286
Other accounts receivable	3,011	1,506	14,674	16,180	7,048	23,228
<b>Total noncurrent assets</b>	<b>140,155</b>	<b>70,079</b>	<b>437,873</b>	<b>507,952</b>	<b>(25,630)</b>	<b>482,322</b>
<b>Permanent assets</b>						
Investments	514	257	1,343,759	1,344,016	(594,154)	749,862
Property, plant and equipment	1,391,412	695,706	5,247,495	5,943,201	-	5,943,201
Deferred charges	7,068	3,534	863	4,397	-	4,397
<b>Total permanent assets</b>	<b>1,398,994</b>	<b>699,497</b>	<b>6,592,117</b>	<b>7,291,614</b>	<b>(594,154)</b>	<b>6,697,460</b>
<b>Total assets</b>	<b>2,178,084</b>	<b>1,089,046</b>	<b>9,763,913</b>	<b>10,852,959</b>	<b>(692,378)</b>	<b>10,160,581</b>

- (1) Full balance sheet of Ripasa, disclosed in compliance with CVM Instruction 247/96;  
(2) Proportional balance sheet considering the Company's interest in total capital (50.00%);  
(3) Consolidated balance sheet of Suzano before Ripasa's proportional consolidation;  
(4) Combined balance sheet (proportional Ripasa plus Suzano before elimination of the investment in Ripasa);  
(5) Consolidation adjustments (elimination of investment and balances with Ripasa);  
(6) Consolidated balance sheet of Suzano in accordance with CVM Instruction No. 247/96.

# SUZANO PAPEL E CELULOSE S.A.

## NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

### Supplementary information (Continued)

#### Balance Sheet – Statement of Proportional Consolidation of Ripasa at December 31, 2006 (Continued)

Liabilities and shareholders' equity	Ripasa		Suzano Papel e Celulose excluding		Adjustments	Consolidated
	Ripasa Full	Proportional	Ripasa	Combined		
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Current liabilities</b>						
Trade accounts payable	84,572	42,286	204,105	246,391	(56,046)	190,345
Loans and financing	123,110	61,555	494,449	556,004	-	556,004
Debentures	-	-	29,284	29,284	-	29,284
Taxes payable other than on income	20,109	10,055	20,268	30,323	-	30,323
Payroll and taxes payable	18,472	9,236	45,329	54,565	-	54,565
Accounts payable	25,276	12,638	50,452	63,090	-	63,090
Payable to related parties	-	-	523	523	-	523
Dividends and interest on shareholders' equity payable	28,003	14,002	50,999	65,001	(13,994)	51,007
Income and social contribution taxes	12	6	16,348	16,354	-	16,354
Deferred income and social contribution taxes	10,117	5,059	-	5,059	-	5,059
<b>Total current liabilities</b>	<b>309,671</b>	<b>154,837</b>	<b>911,757</b>	<b>1,066,594</b>	<b>(70,040)</b>	<b>996,554</b>
<b>Noncurrent liabilities</b>						
Loans and financing	491,835	245,918	3,899,141	4,145,059	-	4,145,059
Debentures	-	-	712,736	712,736	-	712,736
Accounts payable	7,912	3,956	5,016	8,972	-	8,972
Deferred income and social contribution taxes	30,800	15,400	17,012	32,412	-	32,412
Provision for contingencies and actuarial liabilities	144,453	72,227	204,765	276,992	(25,630)	251,362
<b>Total noncurrent liabilities</b>	<b>675,000</b>	<b>337,501</b>	<b>4,838,670</b>	<b>5,176,171</b>	<b>(25,630)</b>	<b>5,150,541</b>
<b>Shareholders' equity</b>						
Capital	807,363	403,682	2,054,388	2,458,070	(403,682)	2,054,388
Capital reserves	-	-	412,230	412,230	-	412,230
Treasury shares	-	-	(15,080)	(15,080)	-	(15,080)
Revaluation reserves	5,379	2,690	-	2,690	(2,690)	-
Income reserves	380,671	190,336	1,561,948	1,752,284	(190,336)	1,561,948
<b>Total shareholders' equity</b>	<b>1,193,413</b>	<b>596,708</b>	<b>4,013,486</b>	<b>4,610,194</b>	<b>(596,708)</b>	<b>4,013,486</b>
<b>Total liabilities</b>	<b>2,178,084</b>	<b>1,089,046</b>	<b>9,763,913</b>	<b>10,852,959</b>	<b>(692,378)</b>	<b>10,160,581</b>

- (1) Full balance sheet of Ripasa, disclosed in compliance with CVM Instruction 247/96;
- (2) Proportional balance sheet considering the Company's interest in total capital (50.00%);
- (3) Consolidated balance sheet of Suzano before Ripasa's proportional consolidation;
- (4) Combined balance sheet (proportional Ripasa plus Suzano before elimination of the investment in Ripasa);
- (5) Consolidation adjustments (elimination of investment and balances with Ripasa);
- (6) Consolidated balance sheet of Suzano in accordance with CVM Instruction No. 247/96.



## SUZANO PAPEL E CELULOSE S.A.

### NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

#### Supplementary information (Continued)

#### Statement of income – Statement of Proportional Consolidation of Ripasa at December 31, 2006

	Ripasa Full (1)	Ripasa Proportional (2)	Suzano Papel e Celulose excluding Ripasa (3)	Combined (4)	Adjustments (5)	Consolidated (6)
Gross sales	1,705,350	711,741	3,117,367	3,829,108	(219,733)	3,609,375
Sales deductions	(336,446)	(143,143)	(424,965)	(568,108)	57,723	(510,385)
<b>Net sales</b>	<b>1,368,904</b>	<b>568,598</b>	<b>2,692,402</b>	<b>3,261,000</b>	<b>(162,010)</b>	<b>3,098,990</b>
Cost of goods sold	(1,017,404)	(424,209)	(1,684,500)	(2,108,709)	158,140	(1,950,569)
<b>Gross profit</b>	<b>351,500</b>	<b>144,389</b>	<b>1,007,902</b>	<b>1,152,291</b>	<b>(3,870)</b>	<b>1,148,421</b>
<b>Operating income (expense)</b>						
Selling expenses	(102,387)	(41,109)	(149,961)	(191,070)	-	(191,070)
General and administrative expenses	(76,854)	(32,241)	(183,446)	(215,687)	-	(215,687)
Management' fees	(2,103)	(870)	(27,480)	(28,350)	-	(28,350)
Financial expenses	(166,013)	(68,268)	(110,389)	(178,657)	(17)	(178,674)
Financial income	164,528	57,148	68,728	125,876	-	125,876
Equity pickup in subsidiaries and affiliates	(246)	(115)	29,006	28,891	(29,282)	(391)
Amortization of goodwill	-	-	(54,683)	(54,683)	(16,748)	(71,431)
Other operating income (expenses), net	19,239	9,755	1,607	11,362	(3,200)	8,162
<b>Operating income</b>	<b>187,664</b>	<b>68,689</b>	<b>581,284</b>	<b>649,973</b>	<b>(53,117)</b>	<b>596,856</b>
Nonoperating income (expenses), net	(7,245)	(3,966)	1,544	(2,422)	3,200	778
<b>Income before income and social contribution taxes</b>	<b>180,419</b>	<b>64,723</b>	<b>582,828</b>	<b>647,551</b>	<b>(49,917)</b>	<b>597,634</b>
Income and social contribution taxes	(62,829)	(21,818)	(139,138)	(160,956)	7,012	(153,944)
<b>Net income for the year</b>	<b>117,590</b>	<b>42,905</b>	<b>443,690</b>	<b>486,595</b>	<b>(42,905)</b>	<b>443,690</b>

(1) Ripasa full statements of income for the year ended December 31, 2006;

(2) Proportional statement of income considering the Company's interest in total capital as follow: 23.03% from January to April 2006 (through Ripasa Participações S.A.), and 50.00% since May 2006;

(3) Consolidated statement of income of Suzano before Ripasa's proportional consolidation;

(4) Combined income statement (proportional Ripasa plus Suzano before Ripasa's proportional consolidation);

(5) Consolidation adjustments (elimination of equity pick up and transactions with Ripasa);

(6) Consolidated statement of income of Suzano for the year ended December 31, 2006, in compliance with CVM Instruction No 247/96.