Suzano Papel e Celulose S.A.

Suzano Trading Ltd.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BB
Senior Notes	BB

Local Currency

Long-Term IDR	BB

National

Long-Term Rating	A+(bra)
Third Debenture	A+(bra)

Rating Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable
National Long-Term Rating	Stable

Financial Data

Suzano Papel e Celulose S.A.

(BRL Mil.)	9/30/11	12/31/10
Net Revenues	4,707	4,514
EBITDA	1,223	1,677
EBITDA Margin (%)	26.0	37.2
Funds from Operations	989	1,228
Total Debt	8,442	7,333
Cash and Marketable Securities	2,959	3,735
Total Debt/ EBITDA (x)	6.9	4.4
Net Debt/ EBITDA (x)	4.5	2.1

Related Research

Fitch Assigns Suzano 'BB' IDR; Affirms 'A+(bra)' Rating, Dec. 22, 2011

2012 Outlook: Latin America Pulp, Paper, and Forest Products Companies, Jan. 10, 2012

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Key Rating Drivers

Leading Position: Suzano Papel e Celulose S.A.'s (Suzano) credit ratings reflect the company's leading position in Brazil's printing and writing paper and paperboard markets, and its strong position in the bleached eucalyptus kraft market pulp (BEKP) industry.

Forestry Base: The ratings also take into consideration Suzano's large forestry base, which assures it of a competitive production cost structure in the future and provides it with organic growth opportunities. The value of the company's land and forests as of Sept. 30, 2011 was BRL6 billion. As a result of this forestry base and modern equipment, Suzano enjoys a production cost structure that is among the lowest in the world. This enables Suzano to generate positive cash flows during troughs in the pulp and paper cycle.

High Leverage: Suzano's ratings are constrained by high leverage ratios and by the expectation that leverage will remain high during 2012 as capital expenditures for the pulp mills rise, reaching a peak in 2013 when the start-up of the Maranhao pulp mill is expected. Fitch projects the net debt-to-EBITDA ratio to exceed 4.0x during 2012 and 2013 as the company expands its market pulp capacity to 3.4 million tons per year by 2013 from 1.9 million tons per year during 2011.

Strong Liquidity: Suzano has historically maintained a strong liquidity position. As of Sept. 30, 2011, Suzano had BRL3 billion of cash and marketable securities. This compares with about BRL2.5 billion of debt maturing by the end of 2012. Maturities of BRL1.2 billion in 2013 and BRL1.1 billion in 2014 should also be manageable.

Suzano Trading Ltd: Suzano Trading Ltd. is a wholly owned subsidiary of Suzano and is incorporated in the Cayman Islands. The credit quality of Suzano and Suzano Trading Ltd. has been linked according to Fitch's "Parent and Subsidiary Rating Linkage" criteria report dated Aug. 12, 2011.

What Could Trigger a Rating Action

Higher Leverage and Weaker Liquidity: Suzano's credit ratings could be negatively affected by a further increase in leverage ratios or by a significant reduction in liquidity. Negative rating actions could also be driven by additional debt-financed acquisitions.

Lower Debt: Suzano's credit ratings could be positively affected by management's decision to maintain lower total debt levels for a sustained period of time. A change in the company's capital structure, following an equity increase to support the aggressive expansion project would also be viewed positively by Fitch.

Recent Events

In January 2011, Suzano concluded the acquisition of 50% of Consorcio Paulista de Papel e Celulose (Conpacel) from Fibria Celulose S.A. (Fibria) for BRL1,450 million. In February 2011, the company closed the acquisition of the paper distribution company, KSR Distribuidora (KSR), for BRL50 million. The acquisition of Conpacel added 170,000 tons of market pulp and 190,000 tons of paper.

Liquidity and Debt Structure

Suzano has historically maintained a strong liquidity position. As of Sept. 30, 2011, Suzano had BRL3 billion of cash and marketable securities and BRL8.4 billion of total debt, resulting in net debt of BRL5.5 billion. These figures compare with net debt of BRL3.6 billion at the end of 2010 and BRL4.2 billion at the end of 2009. The increase in net debt was due to the negative impact of BRL depreciation versus the U.S. dollar (52% of total debt is dollar denominated), and, to a lesser extent, new debt.

Liquidy is adequate. Suzano has about BRL2.5 billion of debt maturing by the end of 2012. Maturities of BRL1.2 billion in 2013 and BRL1.1 billion in 2014 should also be manageable.

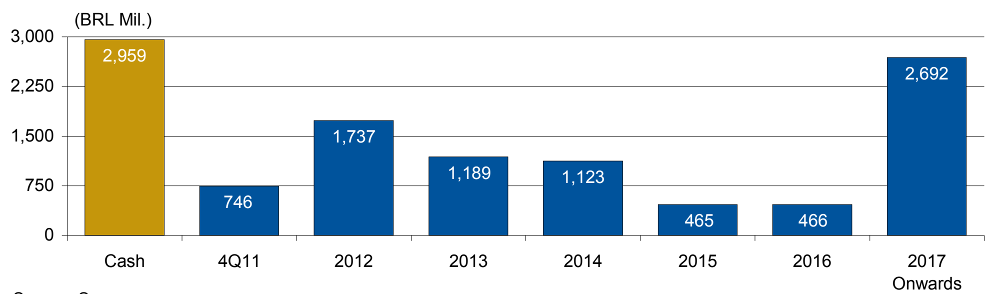
Total debt is composed of export and import financing, loans from the Brazilian National Development Bank (BNDES), debentures, and senior notes. BNDES loans were obtained to finance the construction of plants and purchase forestry land. Nearly all of BNDES debt is denominated in reais and has an interest rate that is indexed to the Brazilian Central Bank's long-term interest rate. The debt with BNDES is secured. Suzano's senior notes, in the amount of USD650 million, were issued in September 2010 and are due on Jan. 23, 2021. As of Sept. 30, 2011, about 52% of total debt was denominated in foreign currency.

Debt Composition

	September 2011		December 2010		December 2009	
Type	**BRL Mil.**	**%**	**BRL Mil.**	**%**	**BRL Mil.**	**%**
Senior Notes	1,189	14	1,072	15	—	—
Working Capital	3,403	40	2,964	40	3,159	47
BNDES	2,574	30	2,224	30	2,278	34
Others	455	5	448	6	488	7
Debentures	820	10	625	9	800	12
Total Debt	**8,442**		**7,333**		**6,725**	
Short-Term Debt	1,938	23	1,448	20	1,463	22
Long-Term Debt	6,504	77	5,885	80	5,262	78
Local Currency Debt	4,083	48	3,727	51	3,956	59
Foreign Currency Debt	4,359	52	3,606	49	2,768	41
Total Cash	**2,959**		**3,735**		**2,533**	
Total Cash/Short-Term Debt (%)	**153**		**258**		**173**	

Source: Suzano.

Total Debt Amortization Schedule
(September 2011)



Source: Suzano.

Related Criteria

Corporate Rating Methodology, Aug. 12, 2011

National Ratings Criteria, Jan. 19, 2011

Cash Flow/Debt Service Coverage

Suzano's strong cash flow generation capacity is pressured a by high investment plan. Suzano generated BRL1.2 billion of EBITDA and BRL989 million of funds from operations (FFO) during the LTM ended Sept. 30, 2011. This compares with BRL1.7 billion of EBITDA and BRL1.2 billion of FFO during 2010. With investments of BRL2.4 billion and dividends of BRL162 million, free cash flow was negative BRL1.6 billion during the LTM.

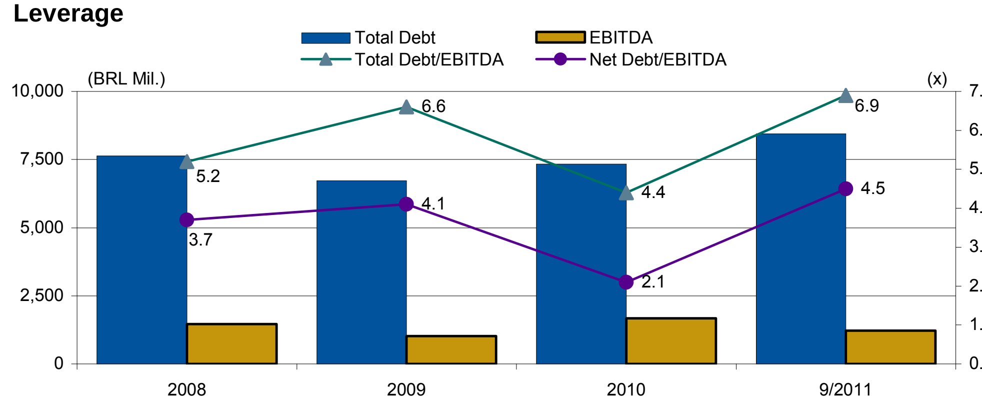
The high level of investments was due to expansion projects (Maranhao and Piaui units) and the acquisition of a 50% interest in Conpacel, as well as the acquisition of KSR. Suzano's aggressive capex plan will further pressure free cash flow for the next 18 months. The company's cash position could benefit from the sale of noncore assets or partnerships. Suzano has strong access to long-term debt financing in both the local banking market and the debt capital markets and is expected to fund much of its growth with debt.

As expected by Fitch, leverage increased during 2011 and should continue to rise. During the LTM ended Sept. 30, 2011, Suzano's total debt-to-EBITDA ratio was 6.9x, while its net debt-to-EBITDA ratio was 4.5x, as calculated by Fitch. These ratios compare with 4.4x and 2.1x, respectively, in 2010, and 6.6x and 4.1x in 2009. Suzano's leverage has historically been higher than most of its peers in Latin America. Between 2005 and 2008, Suzano's net leverage averaged 3.5x.

Leverage should remain high in the next couple of years as Suzano plans to invest about BRL4 billion in 2012 and BRL2.2 billion in 2013, not considering the sale of assets. Leverage should also be pressured by the expectation of relatively weak pulp prices due to a sluggish global recovery, excess paper capacity in China, and additional pulp capacity. Higher leverage ratios led to a covenant breach of the third debenture issuance. The company received a waiver and paid a waiver fee to debenture holders.

Suzano is currently analyzing several actions to reduce leverage. The following are being studied by the company: divestment of nonstrategic land; energy presale; the possibility of outsourcing activities: port, branch rail line, water, and effluent treatment; sale of certain assets in the paper segment; sale of interest in new projects in the pulp segment; and equity.

Leverage



Source: Suzano.

Company Profile

The Feffer family owns 95% of Suzano's voting shares and 53.9% of its total capital. About 45% of Suzano's capital is publicly traded. The company has five production facilities located in the states of Bahia and São Paulo, with a total production capacity of 1.3 million tons of paper and 1.9 million tons of market pulp.

The largest production facility is located at Mucuri in the state of Bahia. This facility has two pulp lines with an annual production capacity of 1.5 million tons of pulp and 250,000 tons of uncoated printing and writing paper. These mills are very modern. The pulp and paper produced by these mills are primarily destined for export markets.

Suzano has four production sites in the state of São Paulo. The Suzano unit operates a pulp mill that has an annual production capacity of 40,000 tons of market pulp and four paper machines that have a combined annual production capacity of 270,000 tons of uncoated paper, 90,000 tons of coated paper, and 200,000 tons of paperboard. The Rio Verde unit has two small machines that are capable of producing 50,000 tons of uncoated paper per year.

Conpacel has a production capacity of 340,000 tons of market pulp, 280,000 tons of uncoated paper, and 100,000 tons of coated paper. Suzano also has 50,000 tons of paperboard capacity through a mill called Embú.

Production Capacity

(000 Tons, As of Sept. 30, 2011)	Market Pulp	Total Paper	Uncoated Paper	Coated Paper	Paperboard
Mucuri (Bahia)	1,540	250	250	—	—
Suzano (São Paulo)	40	550	270	90	200
Rio Verde (São Paulo)	—	50	50	—	—
Limeira (São Paulo)	340	380	280	100	—
Embú (São Paulo)	—	50	—	—	50
Total	**1,920**	**1,280**	**850**	**190**	**250**

Source: Suzano.

The company supports its production facilities with fiber from the eucalyptus plantations it owns in the states of Bahia, Minas Gerais, São Paulo, and Espirito Santo. As of September 2011, Suzano owned 800,000 hectares of land in Brazil, of which 343,000 are used for the development of eucalyptus plantations to support production facilities and future expansions.

Business Segments

During the LTM ended September 2011, net revenues were BRL4.7 billion, compared to BRL4.5 billion in 2010 and BRL4.0 billion in 2009. The domestic market accounted for 46% of net revenues during this period and exports for 54%, compared to 42% and 58%, respectively, in 2010.

The participation of the pulp segment to Suzano's revenue mix was 43% during the nine months ended Sept. 30, 2011, compared to 45% in 2010 and 41% in 2009, and remained an important generator of foreign exchange. Pulp exports represented 80% of pulp sales during this period. Shipments to China offset part of declining demand from Europe. During the LTM ended September 2011, Asia represented 34% of pulp sales, Europe 34%, Brazil 20% and North America 11%.

Pulp prices increased during the end of 2009 due to strong demand from China and the temporary or permanent closing of many less efficient mills. Market pulp prices continued to

Shareholders

(As of Sept. 2011)	% of Total Capital
Feffer Family	53.90
BNDESPAR	4.40
Others	6.80
Free Float	34.90

Source: Suzano.

rise during 2010 due to low inventory levels, strong demand from China, the strike of transport workers in Finland, and the Chilean earthquake. Prices have remained high during the first half of 2011 as capacity has been relatively constrained.

Evolution Operating Performance

	9M11	2010	2009	2008
Pulp Production Capacity (000 Tons)	1,920	1,750	1,750	1,650
Paper Production Capacity (000 Tons)	1,290	1,100	1,100	1,100
Pulp Production (000 Tons)	1,321	1,617	1,590	1,524
% Production Capacity (%)	91.7	92.4	90.9	92.4
Paper Production (000 Tons)	948	1,128	1,088	1,140
% Production Capacity (%)	98.0	102.5	98.9	103.6
Pulp Sales (000 Tons)	1,300	1,607	1,780	1,320
Paper Sales (000 Tons)	934	1,156	1,116	1,162
Net Revenues (BRL Mil.)	3,512	4,514	3,953	4,064
Domestic Market (%)	46	42	42	46
Exports (%)	54	58	58	54
Pulp — Net Revenues (BRL Mil.)	1,504	2,018	1,609	1,539
Pulp — Domestic Market (%)	20	18	14	17
Pulp — Exports (%)	80	82	86	83
Paper — Net Revenues (BRL Mil.)	2,008	2,496	2,344	2,525
Paper — Domestic Market (%)	66	63	53	63
Paper — Exports (%)	34	38	47	37
EBITDA (BRL Mil.)	887	1,703	1,021	1,469
EBITDA Margin (%)	25.2	37.7	25.8	36.2

Source: Suzano.

For the first nine months of 2011, the paper segment accounted for 57% of Suzano's sales. About 66% of paper sales were from the domestic market. Due to a weaker global environment, paper exports decreased 34% in terms of paper sales from 47% of paper sales in 2009.

Sector

A sovereign debt crisis in Europe that results in a recession would harm pulp producers. Market conditions in Europe are already extremely difficult due to secular trends and declining demand for paper caused by economic concerns. The combination of these factors has led some integrated paper companies to close their paper facilities and export pulp.

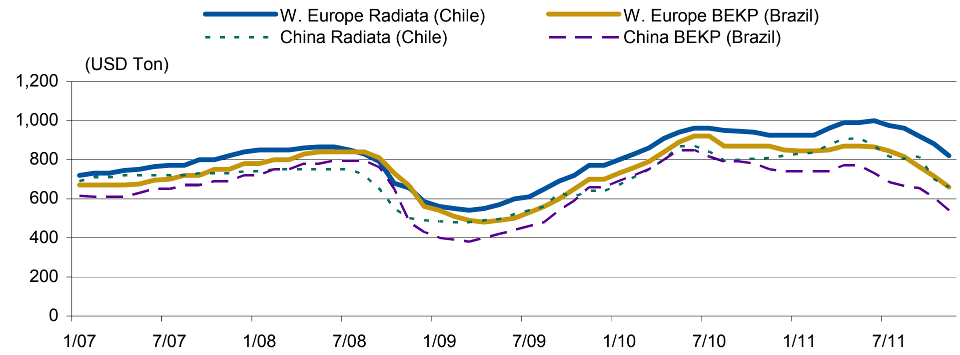
For Latin America market pulp producers, the dynamics of the Chinese market are complex, but China is an overall positive for the companies in the near to long term. On the positive side, income in China is rising, which supports growing demand for paper and tissue products. Millions of tons of paper capacity are being added annually to meet this demand, and there is a lack of domestic pulp. Conversely, excess paper capacity limits the ability of pulp producers to raise prices. Prices are also negotiated on a spot basis more frequently than in other regions, and market demand can disappear for weeks at a time.

The market pulp industry consists of pulp that is primarily sold to paper and tissue producers. It is a market of more than 50 million tons of pulp per year, which is divided almost evenly between hardwood and softwood pulp. Several of the world's leading market pulp companies are based in Latin America.

Latin America producers enjoy cost structures that place them at the lowest end of the industry cost curve. Their position is viewed to be sustainable due to very productive forests — a result of a very favorable climate for growing trees — and modern pulp mills. Profitability measures of these Latin America pulp producers are among the highest within the industry globally.

Several Latin America market pulp projects have been announced or are being discussed. The growth of the market could not absorb these projects in the best of times. Absent the closure of existing mills or the delayed start of new projects, prices would creep even lower and the rebuilding of healthier balance sheets would be postponed.

Pulp and Paper Price History



Source: Pulpwatch.

Strategy

The company plans to increase its annual pulp production capacity to 3.4 million tons in 2013 from 1.9 million tons in 2011, and to maintain its paper production capacity at 1.3 million tons. Suzano plans to develop a pulp mill at Maranhao (targeted start-up date at the end of 2013), with an annual production capacity of 1.5 million tons. The company recently postponed its decision to purchase industrial equipment for an additional new pulp mill located in Piaui until the first half of 2014. Fitch supports the decision in light of current market conditions.

Suzano's market shares of 31% in uncoated printing and writing paper and 26% in paperboard allow it to be a price leader in Brazil. Suzano also produces 1.9 million tons of market pulp, which makes it one of the 10 largest producers of market pulp in the world.

Suzano and other Brazilian pulp producers' competitive advantages are viewed to be sustainable in the short to medium term. It is primarily the result of having access to low-cost fiber due to the productivity of its eucalyptus trees. Unlike other hardwood species in different parts of the world, which may take 12−40 years to mature, eucalyptus trees grown in Brazil are harvested after six to seven years of growth. As a result, the company's cost of wood is among the lowest in the industry. This enables Suzano to generate positive cash lows during troughs in the pulp and paper cycle. The productivity of these forests also minimizes the amount of land Suzano needs to own vis-à-vis its Northern Hemisphere competitors and helps to contain the company's transportation expenditures.

The company furthers its fiber and transportation cost advantages by controlling its need to purchase power from external vendors. Suzano satisfies 100% of its electrical energy requirements at Mucuri and about two-thirds of the total needs of its operations through cogeneration. Labor costs for the company are also substantially less than those of its competitors in Europe and North America.

Financial Summary — Suzano Papel e Celulose S.A.

(BRL 000, Years Ended Dec. 31)	LTM 9/30/11	2010	2009	2008	2007
Profitability					
Operating EBITDA	1,223,234	1,677,293	1,020,721	1,469,236	1,146,298
Operating EBITDAR	1,223,234	1,677,293	1,020,721	1,469,236	1,146,298
Operating EBITDA Margin (%)	26.0	37.2	25.8	36.2	33.6
Operating EBITDAR Margin (%)	26.0	37.2	25.8	36.2	33.6
FFO Return on Adjusted Capital (%)	8.0	10.2	10.5	13.9	13.4
Free Cash Flow Margin (%)	(34.9)	7.2	12.4	(8.0)	(11.7)
Average Return on Equity (%)	0.6	11.8	21.6	(11.1)	12.9
Coverage (x)					
FFO Interest Coverage	3.2	4.1	2.8	3.8	4.0
Operating EBITDA/Interest Expense	2.7	4.2	2.4	3.5	3.4
Operating EBITDAR/Interest Expense + Rents	2.7	4.2	2.4	3.5	3.4
Operating EBITDA/Debt Service Coverage	0.5	0.9	0.5	0.7	1.1
Operating EBITDAR/Debt Service Coverage	0.5	0.9	0.5	0.7	1.1
FFO Fixed-Charge Coverage	3.2	4.1	2.8	3.8	4.0
FCF Debt Service Coverage	(0.5)	0.4	0.5	0.0	(0.1)
(Free Cash Flow + Cash and Marketable Securities)/Debt Service Coverage	0.7	2.4	1.8	1.1	1.2
Cash Flow from Operations/Capital Expenditures	0.4	2.0	1.8	0.8	0.8
Capital Structure and Leverage (x)					
FFO Adjusted Leverage	5.8	4.5	5.7	4.8	4.2
Total Debt with Equity Credit/Operating EBITDA	6.9	4.4	6.6	5.2	5.0
Total Net Debt with Equity Credit/Operating EBITDA	4.5	2.1	4.1	3.7	3.8
Total Adjusted Debt/Operating EBITDAR	6.9	4.4	6.6	5.2	5.0
Total Adjusted Net Debt/Operating EBITDAR	4.5	2.1	4.1	3.7	3.8
Implied Cost of Funds	5.7	5.7	5.9	6.3	6.0
Secured Debt/Total Debt	—	0.4	0.3	0.3	0.4
Short-Term Debt/Total Debt	0.2	0.2	0.2	0.2	0.1
Balance Sheet					
Total Assets	20,978,621	18,913,509	12,758,969	12,958,479	11,568,393
Cash and Marketable Securities	2,958,938	3,735,438	2,533,285	2,176,312	1,339,920
Short-Term Debt	1,938,324	1,448,060	1,462,761	1,737,326	748,906
Long-Term Debt	6,504,134	5,885,135	5,262,105	5,898,239	4,976,453
Total Debt	**8,442,458**	**7,333,195**	**6,724,866**	**7,635,565**	**5,725,359**
Equity Credit	—	—	—	—	—
Total Debt with Equity Credit	**8,442,458**	**7,333,195**	**6,724,866**	**7,635,565**	**5,725,359**
Off-Balance Sheet Debt	0	0	0	0	0
Total Adjusted Debt with Equity Credit	**8,442,458**	**7,333,195**	**6,724,866**	**7,635,565**	**5,725,359**
Total Equity	9,588,749	8,640,671	4,383,780	3,736,659	4,374,681
Total Adjusted Capital	**18,031,207**	**15,973,866**	**11,108,646**	**11,372,224**	**10,100,040**
Cash Flow					
Funds from Operations	989,028	1,227,766	749,584	1,157,585	1,015,816
Change in Operating Working Capital	(15,631)	(49,899)	435,490	(352,127)	24,436
Cash Flow from Operations	**973,397**	**1,177,867**	**1,185,074**	**805,458**	**1,040,252**
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	0	0
Capital Expenditures	(2,454,169)	(603,077)	(658,658)	(1,065,854)	(1,292,830)
Dividends	(161,778)	(249,022)	(35,347)	(64,619)	(147,133)
Free Cash Flow	**(1,642,550)**	**325,768**	**491,069**	**(325,015)**	**(399,711)**
Net Acquisitions and Divestitures	(77,854)	235,531	62,331	50,802	44,029
Other Investments, Net	(464,517)	15,051	0	598,244	0
Net Debt Proceeds	1,548,365	753,665	(111,028)	819,143	270,430
Net Equity Proceeds	0	(42,560)	0	(297,578)	39
Other Financing, Net	(29,931)	(85,302)	(85,399)	(86,206)	(89,382)
Total Change in Cash	**(666,487)**	**1,202,153**	**356,973**	**759,390**	**(174,595)**
Income Statement					
Net Revenues	4,707,002	4,513,883	3,952,746	4,063,596	3,409,668
Revenue Growth (%)	9	14	(3)	19	10
Operating EBIT	602,225	1,151,445	535,699	938,429	694,261
Gross Interest Expense	455,438	401,693	421,601	417,785	335,730
Rental Expense	0	0	0	0	0
Net Income	53,098	768,997	877,932	(451,308)	539,353

Source: Fitch Ratings.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.