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annual report

sustainability

*We are what we dream*



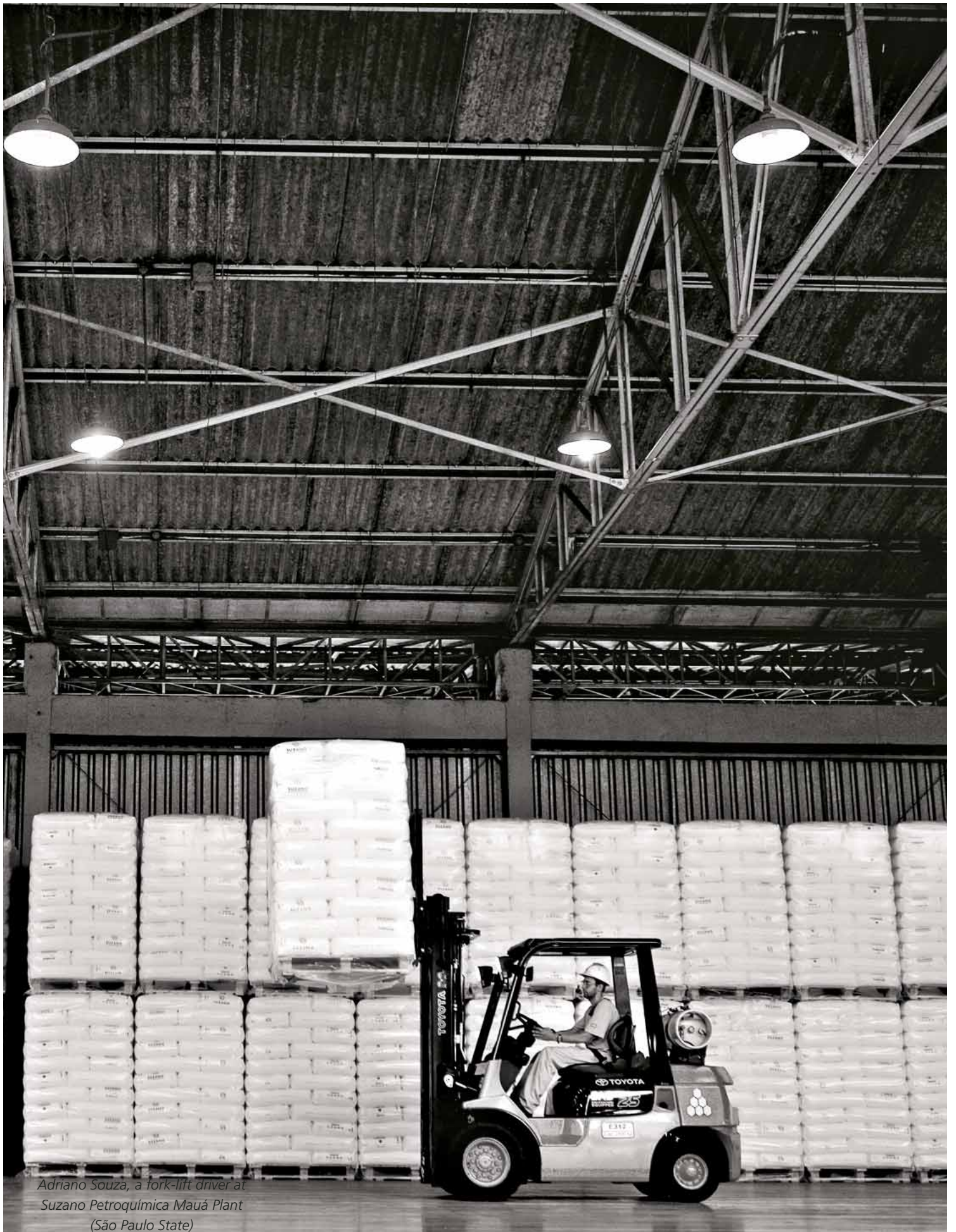
**SUZANO**  
PETROQUÍMICA

We are what we dream

The theme of our 2006 Sustainability Report can be summarized by the slogan "We are What We Dream". Our objective is to provide an insight into our performance, strategy and management inspired by the values and aspirations outlined in our core ideology, which establishes the guidelines for our future. Today, we work towards adding value for our shareholders by means of a sound economic, social and environmental attitude and the pursuit of excellence committed to high standards of corporate governance practices.

Having sustainability as the mainstay of business development, we use our best efforts to ensure the maximum positive impact of our activities on our business network, thereby contributing to the continued livelihood of future generations so that they can follow through on the goals we envisage today.

This year, for the first time, we publish an annual report that seeks to demonstrate the progress we have achieved on the path towards sustainability. Such progress underscores our desire to reach beyond what we have accomplished so far. To this effect, we endeavor to follow the recommendations set forth by the Global Reporting Initiative (GRI), an international organization devoted to creating and enhancing the guidelines for preparation of sustainability reports with the support of various stakeholders, among them companies, investors and the society.



*Adriano Souza, a fork-lift driver at  
Suzano Petroquímica Mauá Plant  
(São Paulo State)*

## Report Parameters

Our Annual Report comprises information on Suzano Petroquímica, our achievements and overall data for the period of January 2006 through January 2007. For the sake of comparability, some of the indicators cover the last three years - 2004 to 2006. A similar report was issued in 2006 highlighting the 2005 achievements.

The scope of the Sustainability Report was defined by material criteria with a focus on subjects and indicators that reflect the major economic, environmental and social impact derived from the Company's activities, or on factors that may influence significantly the way our stakeholders assess and judge our initiatives. Furthermore, the content of this document is based on the Guidance on Defining Report Content published by the Global Reporting Initiative (GRI). Since this is the first time we have adopted the GRI guidelines, we will not display all indicators recommended by the GRI, although we have internally diagnosed our shortcomings and are currently working to improve our GRI application level. The indicators suggested by the GRI are exhibited throughout the text, and are classified and numbered according to their scope e.g. economic (EC), social (SO), labor (LA), product (PR) and environmental (EN) dimensions. At the end of this Report, a cross reference index is provided clarifying each one of these indicators and showing their location in the text. Therefore, based on our self-evaluation and the verification of the data – included at the end of the Report - conducted by Bureau Veritas Certification (BVQI), our Application Level Check is C+.

The information used to compile the indicators herein reported was formulated by the management areas and are available in our Information Management system, which comprises the accountancy module of our EMS Datasul Enterprise Resource Planning (ERP) and the commercial, financial, cost, expense control, export, technology, health, security and environmental control (HSE), logistics and industrial modules of our Enterprise Information System (EIS) internal control system. By compiling the indicators, we have sought to employ as much as possible the calculation methodology as suggested by GRI, and we are currently making improvements in our internal procedures to gradually comply with an increasing number of GRI requirements.

Given the fact that we have jointly control of Riopol and Petroflex – with 33.3% and 20.1% of the total capital, respectively – with other partners, the model suggested by the GRI was not adopted for these two companies in quite the same manner as for Suzano Petroquímica. We will examine the possibility of drawing up a joint report for our affiliate companies as early as next year, more in line with GRI recommendations.

Due to the corporate restructuring carried out by Suzano Petroquímica since 2005, we decided to produce our financial results in conformity with regular accounting practices, and on a proforma basis. The purpose is to ensure a better comparison with previous years and clearer estimates for the future. For further details, please read sections "Organizational Profiles – 2006 Corporate Highlights" and "2006 Performance – Economic and Financial Dimension".

Our aim in publishing this Report is to provide our stakeholders with a wealth of information on our practices and performance so as to better acquaint them with our Company and follow up on our development. We realize that certain stakeholders frequently use reporting as a tool, such as the capital markets and companies with whom we do business. It is our desire that this type of publication will be used by an ever-growing and diverse set of stakeholders, such as academic circles, the third sector, class associations and communities. For further enquiries, you are kindly requested to contact our Investor Relations area at [szpq\\_ri@suzano.com.br](mailto:szpq_ri@suzano.com.br), or through our telephone numbers (5511) 3583-5827/5856/5886/5887.



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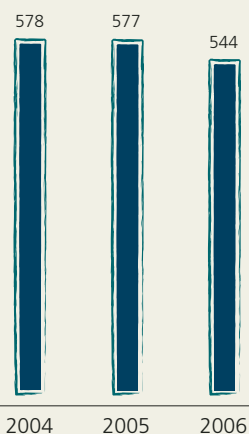
**GLOSSARY**

# Operational, financial, social and environmental highlights

## Suzano Petroquímica Parent Company

### PRODUCTION(\*)

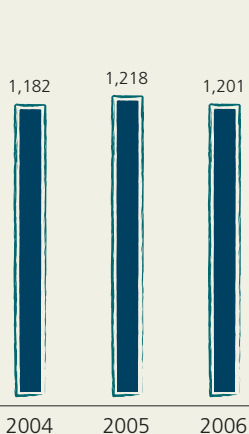
In thousand tons



(\*) Includes the petrochemical compounds business sold to Basell in September 2005

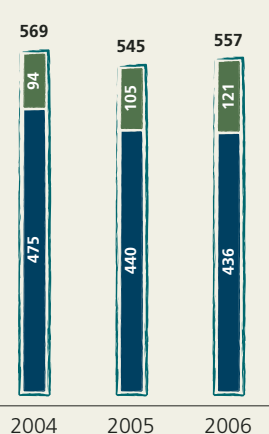
### PRODUCTIVITY

In tons/man/year



### POLYPROPYLENE SALES

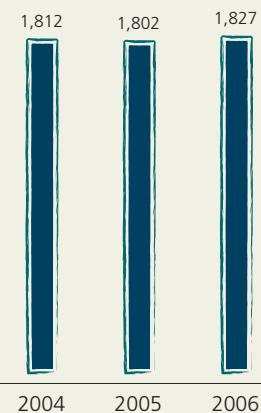
In thousand tons



■ Foreign Market ■ Domestic Market

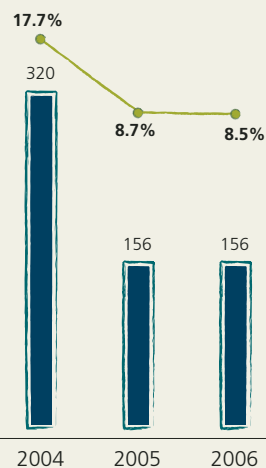
### NET OPERATING REVENUES

In R\$ million



### EBITDA AND EBTIDA MARGIN

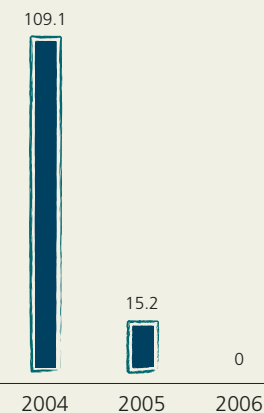
In R\$ million and %



■ Ebitda ■ Ebitda Margin

### NET INCOME

In R\$ million

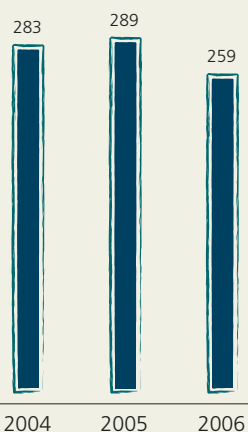


(\*) All 2004 and 2005 figures relative to Suzano Petroquímica Parent Company are presented on a proforma basis and take into consideration 100% ownership control of Polibrasil for this period.



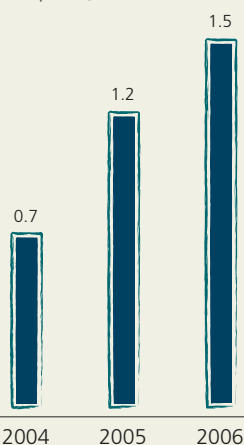
## SCOPE OF SOCIAL PROJECTS

In thousand people



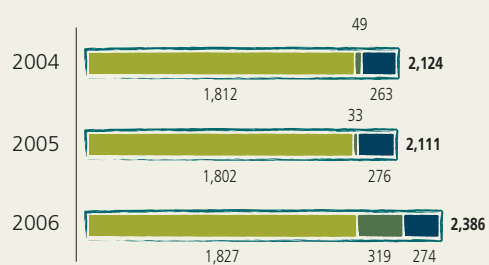
## ENVIRONMENT INVESTMENTS

In R\$ million



## PROFORMA CONSOLIDATED NET OPERATING REVENUES<sup>(\*)</sup>

In R\$ million



■ Suzano Petroquímica Parent Company

■ Riopol

■ Petroflex

2006 results include R\$35.0 million worth of eliminations related to transactions conducted among Suzano Group companies.

## CAPITAL MARKETS

	2004	2005	2006
Number of shares	226,695,380	226,695,380	226,695,380
Common shares	97,375,446	97,375,446	97,375,446
Preferred shares	129,319,934	129,319,934	129,319,934
Profit per share in R\$	0.48	0.07	-
Dividends in R\$ thousand	42,125	4,352	-
Dividends per share in R\$	0.19	0.02	-
Market value in R\$ thousand (*)	1,464,452	1,083,604	888,646
EV (**)/ Ebitda + Dividends received	5.1	9.95	13.0

(\*) As of December 31st

(\*\*) Enterprise Value: market value plus net debt

(\*) Considering 100% ownership control of Polibrasil in 2004 and 2005. Ownership interest in Politenó was excluded from all periods.



*Suzano Petroquímica employees  
José Carlos Santiago and Clodoaldo  
Aparecido Pereira – Riopol  
(Rio de Janeiro State)*



# organizational profile

# Message from the Co-CEOs

In 2006, our first full calendar year as a company with operations of its own, we made considerable strides towards developing our management and corporate governance structures, strengthening our operational activities and implementing sustainable development practices.

Our focus on corporate governance practices should be particularly underscored. The Audit and Management Committees were created, the Strategy Committee's scope was expanded to Sustainability and Strategy Committee, all operating under the Board of Directors (BD). Additionally, the BD drew up its Internal Regulation, thus clearly establishing its internal functional mechanisms, conduct principles and guidelines for Board Member qualification and assessment. In June, Suzano Group(\*) launched its Code of Conduct, applicable to all companies and based on the ethical principles that underlie the Group's activities: integrity, equity, transparency, professional recognition, corporate governance and sustainable development. We rely on internal and external ombudsman reviews for guidance, doubt clarification, handling letters and complaints, and on a Conduct Committee responsible for, among other duties, ensuring compliance with the Suzano Code of Conduct, and recommending procedures to be adopted in the event of non-conformity to the Group's ethical principles.

In September 2006, one year following the transitional management period since Polibrasil's acquisition, a new Executive Board was elected and we were invited to jointly assume the position of Company Co-CEOs. One of our first actions was to adjust our organization chart into a more efficient structure with the purpose of aligning it with our business vision to support the attainment the Company's strategic goals. We also reviewed the structure of the Executive Board Committees, which are formal forums of management coordination focus focused on the pursuit of high-yielding result performance. We also created permanent multi-functional Work Groups working directly with the Executive Board and fully dedicated to process management.

**José Ricardo Roriz Coelho**  
Co-CEO

**João Pinheiro Nogueira Batista**  
Co-CEO  
Investor Relations Officer

A business approach based on sustainability precepts was incorporated into our 2015 Vision in early 2006 following an initial reflection on our long-term goals as a company running its own operations.

In our annual cycle of strategic planning conducted in March, sustainability and corporate governance were voted the leading guidelines in our business positioning, and are expressed in our strategic map which has been widely communicated to the Company's internal and external audiences.

With the aim of consolidating the first steps towards this new path, we undertook in-depth discussions on the topic of sustainability. Our main vulnerabilities are our dependence on oil derivatives in our operations and a negative image given by society to the plastic industry in general. To this effect, we are currently studying the possibility of utilizing alternative raw materials and manufacturing biodegradable polymers, both of which will require a longer development period. Additionally, we are engaged in projects to encourage not only the collection of post-consumer plastic for reuse and to minimize environmental impact, but the recycling activities of smaller companies located in the surroundings of our industrial sites, thus opening a window of opportunity for jobs and income.

In late 2006, as a fitting and welcome reward for the significant achievements made by the Company, we were qualified by the São Paulo Stock Exchange(Bovespa) and included in its Corporate Sustainability Index (ISE) portfolio.

Today, we are leaders in the Latin American polypropylene market and the second largest manufacturer of thermoplastic resins in Brazil. Our regional leadership will be ensured in the forthcoming years through our expansion plan to increase our installed capacity by 40%. The first phase of the plan was implemented in 2006. We have added an additional 60,000 ton capacity to our Mauá Site, thus increasing its overall capacity of polypropylene production to 360,000 tons. By the same token, in 2007, the Duque de Caxias Site will have its production capacity enlarged by 50%, achieving a 300,000 ton annual capacity by year's end.

By the second 2008 quarter, upon completion of the second stage of the Mauá Site's expansion to 450,000 tons/year, our total polypropylene production capacity is expected to rise to 875,000 tons/year. Investment in these projects is highly competitive since it results from the debottlenecking of sites in full operation, at a cost 40% lower than would be required for a greenfield project. We are also evaluating the possibility of revamping and increasing the Camaçari Site's capacity by 75,000 tons, and building a new 200,000 ton/year polypropylene site in Paraná State with the purpose of multiplying the Company's size by 3.5 by 2012.

Our strategy consists in focusing on the polypropylene and polyethylene businesses while channeling new investments into the Southeastern region, responsible for 60% of these products' consumption in Brazil. Currently, 82% of our polypropylene production installed capacity is concentrated in the Southeast. This figure will rise to 86% upon the completion of our expansion plan. As regards polyethylene, we have chosen Riopol as our business growth platform due to its close alignment with our long-term strategy. Within this setting, in April 2006 we sold our ownership interest in Politeno, a polyethylene producer considered non-core for the Company at that time. We therefore decided to focus our best efforts and resources on Riopol, whose operational phase was concluded in March 2006.

We faced a rather challenging 2006, especially during the first half of the year, due to the high raw material prices, a sluggish demand for resins and an overvalued Brazilian currency. This boosted the competitiveness of imported resins and finished products and impacted negatively on prices in Brazilian currency, which is highly sensitive to international US Dollar.

This adverse scenario influenced our results and the price for our traded SZPQ4 preferred shares in Bovespa. The cash generated by the polypropylene business, as measured by EBITDA, reached R\$31 million in the first half of 2006, whereas the share price dropped by 29.1% during the same period. The daily financial trade volume totaled R\$2.2 million, 19.2% below the volume attained during the same period of the previous year.

With the purpose of redressing this situation, in the second half of 2006 we adopted several measures that ranged from reducing expenses to reassessing our commercial strategies. Thus, as of the third quarter of 2006, we launched an aggressive recovery plan and shifted the focus from sales volume to profitability. Thanks to the local demand recovery in the third quarter, we were able to adjust our sales prices to high resin prices quoted on the international market, and therefore succeeded in improving our second half-year results significantly. The accumulated EBITDA for this period amounted to R\$124.9 million, while the SZPQ4 share price was 16.3% higher than at the half-year's end.

The Parent Company's net revenues in 2006 reached R\$1,826.8 million, 1.3% higher than the previous year, and the accumulated EBITDA was R\$155.9 million, practically equivalent to the previous fiscal year's margin. Nevertheless, our share experienced a devaluation of 17.6% in 2006, while the daily Exchange-traded financial volume was R\$ 1.7 million, 40.3% below the 2005 average.

Despite this unfavorable short-term setting, we look forward to better days for the petrochemical industry in 2007 and 2008, as already demonstrated by the second half of 2006. Without the prospect of a worldwide plastic resin surplus in the near future, and without any sudden upsurges in oil prices expected to occur, as was observed in the recent past, the next two years seem to hold promise for a scenario of greater stability. Should this favorable international economic environment endure, the demand for plastic products is likely to remain strong providing an attractive setting for the business.

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<sup>(4)</sup> Suzano Group means the group of companies under the common ownership of Suzano Holding, namely, Suzano Economic Group

# Corporate Profile

## Suzano Group

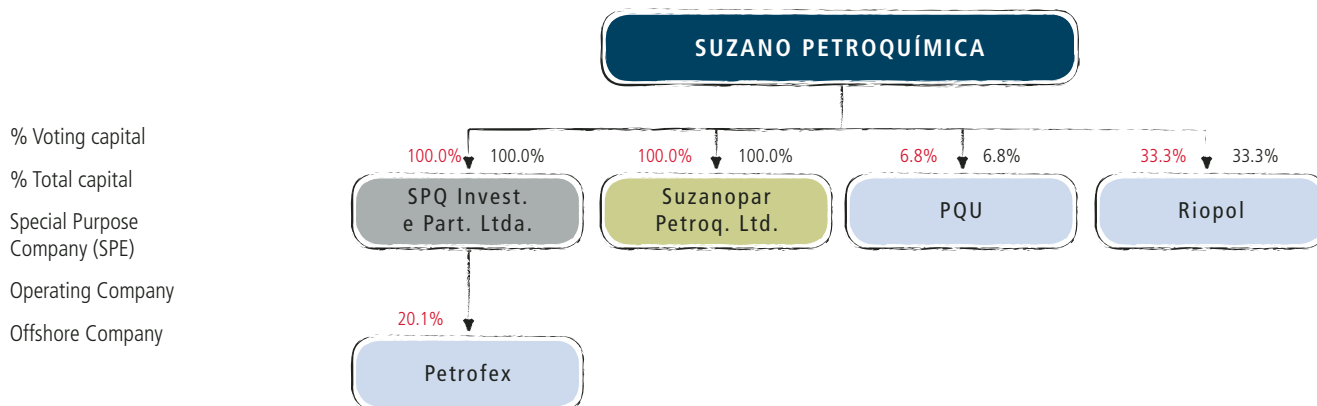
Suzano Petroquímica is a member of the Suzano Group, which has invested in the Brazilian pulp and paper sector for 83 years and has been active in the petrochemical market for the last 33 years. While these two segments comprise the Company's strategic focus, Suzano Group's primary objective is to rank among the ten most profitable private corporations in Brazil through a strategic vision combining family ownership, professional management and partnership with the capital markets. The Group focus on comparative advantage sectors through ownership interest in companies that enjoy a competitive edge, and over whose management it can influence. Innovation, corporate governance, and social and environmental responsibility are the three foundational pillars that give support to Suzano Group companies.

## Suzano Petroquímica

We are a publicly-held company with industrial activities since September 2005, when we acquired 50% ownership interest in Polibrasil from our former partner Basell. By fully merging Polibrasil into Suzano Petroquímica in November 2005, we gave up our status as a minority interest holding company to become leader of the Latin American polypropylene market with a production capacity of 685,000 tons/year and products sold in the domestic and foreign markets. Our corporate headquarters is located in the city of São Paulo and our industrial operations are conducted in the cities of Mauá, São Paulo State, Duque de Caxias, Rio de Janeiro State, and Camaçari, in Bahia State.

We own and control two holding companies, Suzanopar Petrochemicals Ltd, an offshore company, and SPQ Investimentos e Participações, which currently holds ownership interest in Petrofex.

We share the control of Riopol the only fully integrated Brazilian manufacturer of polyethylene based on natural gas fractions used as raw material. Through SPQ Investimentos e Participações, we jointly control Petrofex, fourth worldwide manufacturer of synthetic elastomers. We also hold interest in Petrochemicals União (PQU), a petrochemical cracker in São Paulo State and one of our raw material suppliers. Our voting and total capital interest in each of the aforementioned companies is shown in the chart below.



## Our Industrial Plants

### MAUÁ

Mauá Site went on stream in 2003 and replaced the old plant built on an adjacent area. Featuring state-of-the-art technology, Mauá enhanced our product portfolio, enabling greater process efficiency and reduced emission and effluent indices.

Following up on our investment plan to increase Mauá's polypropylene production capacity, the first phase of the expansion plan was successfully completed in 2006, boosting its total polypropylene resin production capacity to 360,000 tons/year, a size comparable to the largest polypropylene plants around the world.

With a staff of 128 employees at the end of 2006, the Mauá plant utilizes Spheripol technology, which is not only the most licensed but certainly the technology with the largest R&D investments worldwide. Among other advantages, Spheripol allows one single plant to manufacture a variety of polypropylene resins with a better performance. We were therefore able to build a portfolio featuring higher value-added products more suited to meet customer needs.

The conclusion of the second phase of Mauá's expansion project is scheduled for the second quarter of 2008. It is expected to manufacture an additional 90,000 tons/year, pushing its total production to 450,000 tons/year, placing it among the largest polypropylene production facilities in the world. Some of the products manufactured by the Mauá Site have become benchmarks in the bucket production and fast cycle injection segments, and also in the automotive industry.

In January 2007, we completed the demolition of the old Mauá plant. On the 11,300 sqm site, a warehouse will be built to store up to 10,000 sqm of finished goods.

### DUQUE DE CAXIAS

Opened in 1992 and employing 87 people, Duque de Caxias Site boasts a production capacity of 200,000 tons/year of polypropylene.

By late 2007, when the expansion project is completed, this capacity will rise to 300,000 tons/year.

Duque de Caxias' manufacturing process uses Lipp technology, developed by Shell. The products manufactured at this site are market benchmarks in bi-oriented films used in food packaging, labels, etc.

### CAMAÇARI

With an installed capacity of 125,000 tons/year and 113 employees, this industrial site utilizes Imperial Chemical Industries Technology (ICI), which was launched in the 1970's. Camaçari's products have become benchmarks in Brazil for raffia applications such as sacks and big bags.

Towards the end of 2006, the Company's Board of Directors authorized studies for the modernization of the Camaçari Site. This twofold project aims to make the site more competitive in terms of costs and product quality and increase its production capacity to 200,000 tons/year. Preliminary estimates indicate that approximately \$97 million will be spent in the first phase, scheduled to be completed by 2010, and another \$58 million in its final phase, by 2012.

## Product characteristics and competitive advantages

Polypropylene is an extremely versatile resin that can be applied in a wide variety of economic sectors. This “young” resin is currently rated among those with the fastest growing demands in the world given its potential for use in myriad applications in different segments. The Brazilian polypropylene market grew by 10% p.a. in the last ten years, three times the country's GDP growth.

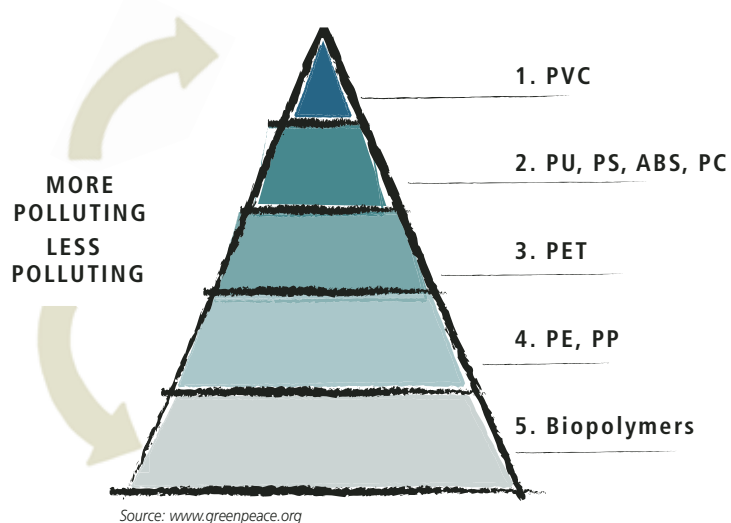
According to the “pyramid of recyclability” developed by the Greenpeace Organization, which ranks plastics according to their hazardous characteristics – including production processes, additives, product emissions during use, disposal and recycling - polypropylene and polyethylene rank behind biopolymers only as the least hazardous and environmentally damaging of all plastics. These resins are 100% recyclable, feature a high potential for mechanical recycling, hardly contain any problematic additives environmental impact-wise, and have a reduced potential for carbon dioxide (CO<sub>2</sub>) formation during burning.

Our polypropylene is utilized in different conversion processes and is characterized by a glossy finish, rigidity, resistance to impact and high temperatures, flexibility, transparency and low density. It offers excellent cost-effectiveness and can be used in various industries, such as food packaging, cosmetics and pharmaceuticals, furniture, automotive components, bagging, wire and cable insulation, household goods, decoration items, toys, civil construction and sanitation. It can also replace materials such as glass, aluminum and steel in the manufacture of flasks and bottles, and synthetic fibers used in carpets, rugs and ropes.

Our strategy is to distinguish ourselves from our competitors by the quality of our products and services provided to our customers. To this effect, we continuously seek to develop customized products and new applications, while providing technical assistance services and support to enhance our customers' conversion processes. We also offer to our clients, lab tests for material characterization

and finished product performance and we sponsor technical seminars to disseminate information on developing markets and to help our customers identify investment opportunities. Considering that these activities are of strategic importance for the Company and ultimately represent our intellectual capital, we do not employ outsourced labor in the performance of these services (LA1).

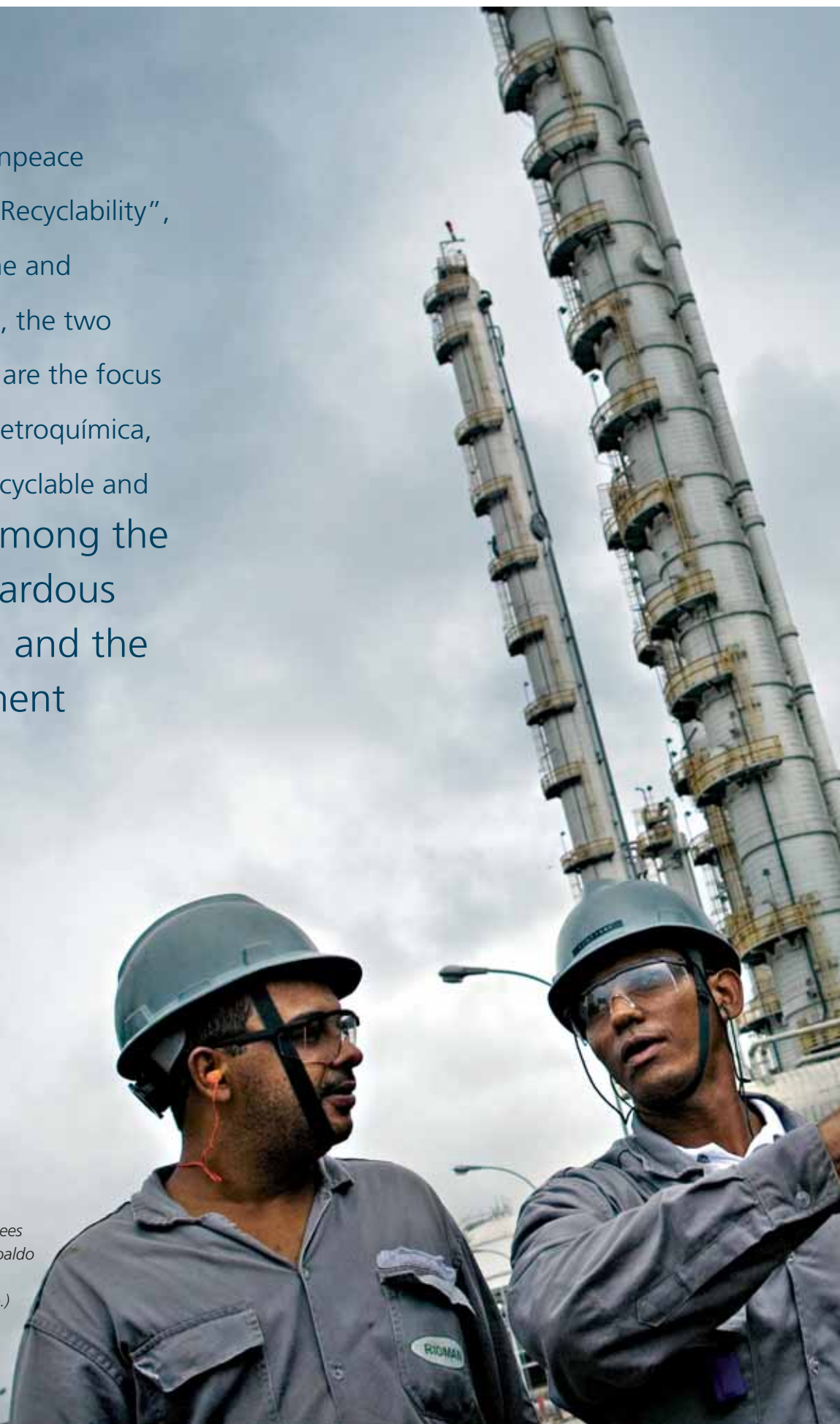
In 2005, we created the internal Customer Satisfaction Quality Index (IQSC), a tool to measure customer satisfaction with our products, services and relationship. Three surveys were conducted in September 2005, April 2006 and January 2007. On a 0 to 100 scale, the results were 85.7, 84.4 and 82.1, respectively (PR5).





On the Greenpeace  
"Pyramid of Recyclability",  
polypropylene and  
polyethylene, the two  
resins which are the focus  
for Suzano Petroquímica,  
are 100% recyclable and  
ranked among the  
least hazardous  
to health and the  
environment

*Suzano Petroquímica employees  
José Carlos Santiago and Clodoaldo  
Aparecido Pereira  
Riopol (Rio de Janeiro State.)*





## Distribution Logistics

One of the premier services we provide is a variety of delivery modes to suit different customer needs such as pallets of 55 bags of 25 kg each, 1.25 ton big bags or bulk delivery.

Bulk delivery is one out of a set of services we offer to ensure product safety and cost reduction for our customers. Silo storage at customer facilities helps decrease eventual polypropylene losses and contamination, and being an automated process, it helps minimize accident risk. Since our plants are located close to our main consumer markets, bulk delivery give us a great comparative advantage. The shorter the distance, the more attractive this delivery operation becomes.

Suzano Petroquímica's Mauá Plant logistic platform is benchmark and the largest in Latin America. It boasts 32 storage and loading silos equipped with the latest technology for polypropylene packaging, transportation and distribution. Whatever the delivery system, we offer Cost, Insurance and Freight (CIF) with GPS satellite monitoring; vehicles compatible with different output modes to ensure enhanced safety and better product conveyance, and online cargo tracking throughout the delivery process.

To ensure further safety for our products, our shipments are insured and all vehicles without exception are fitted with GPS satellite tracking devices as required by our Shipment Risk Management system implemented in 2002. No accidents were recorded in 2004 and 2005, whereas in 2006, we reported a robbery of a 25-ton shipment in Rio de Janeiro. In such events, all necessary measures are

taken by the insurance Company. In another incident, we detected the theft of a small quantity of bulk product through the truck valve, but the incident was averted thanks to police intervention.

### CASE

#### **Suzano Petroquímica and Cetesb partnership**

In January 2007, in a partnership with the São Paulo State Environmental Sanitation Agency (Cetesb), we distributed 40,000 fully recyclable polypropylene mouth pieces for use by consumers who drink beverage straight from the can on beaches along the São Paulo State coastline. An awareness raising campaign titled Verão Limpo ("For a Cleaner Summer") was launched and Cetesb gave out small kits containing Suzano Petroquímica plastic mouth pieces, leaflets with instructions on how to keep beaches clean, in addition to health and personal hygiene tips.



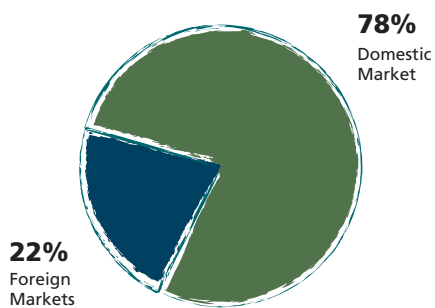
*Luana Regina Lopes, Riopol (Rio de Janeiro State)  
 Rubens Antonello and Eliseu Gitte  
 Suzano Petroquímica (São Paulo State)*

## Our Market

Although we sell our products on the domestic and international markets, the Brazilian market - particularly the Southeastern region, the country's largest polypropylene consumer responsible for 67% of our domestic sales in 2006 – remains our top priority. The Northeast, South, North and Central West regions contributed with 16%, 14%, 2% and 1% of our domestic sales, respectively. On the international market, we sold to 38 countries around the globe totaling 22% of our 2006 sales.

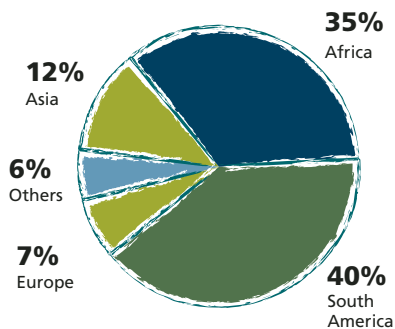
### SALES DISTRIBUTION<sup>(\*)</sup>

*Suzano Petroquímica Parent Company*



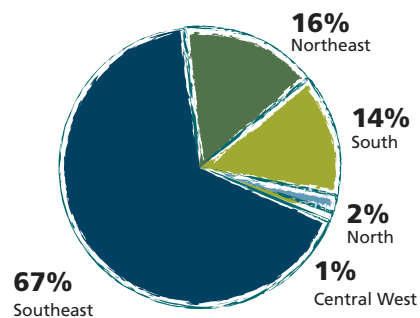
### EXPORT DESTINATION<sup>(\*)</sup>

*Suzano Petroquímica Parent Company*



### DOMESTIC MARKET SALES DISTRIBUTION<sup>(\*)</sup>

*Suzano Petroquímica Parent Company*



<sup>(\*)</sup> 2006



# 2006 Corporate highlights

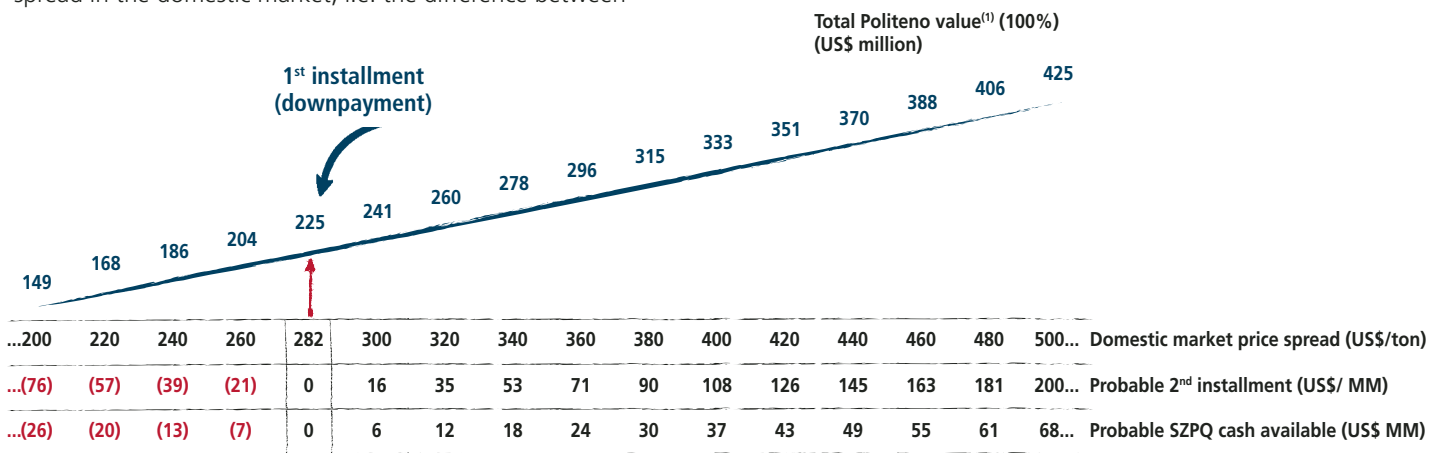
## POLITENO SALE

On April 4, 2006, we sold our ownership interest in Politeno, an important polyethylene producer in Latin America. The control of Politeno, which Suzano Petroquímica shared with Braskem, Sumitomo and Itochu, lost its relevance to the Company since we elected Riopol as our strategic growth platform in the polyethylene market.

As a result of the sale, our affiliate company, SPQ Investimentos e Participações, and former Politeno's shareholder, received a downpayment from Braskem of \$60.6 million in Brazilian Reals. The final asset value involved in this transaction will be estimated through a linear equation used to determine Politeno's value after 18 months following the sale date, based on the polyethylene spread in the domestic market, i.e. the difference between

the polyethylene and ethylene sale prices in the Brazilian market. The parametric formula to be utilized in the future assessment of Politeno's value is shown in the graph below.

If we take into account the history of polyethylene spreads recorded in Brazil as well as the current levels of domestic spreads, it is highly likely that Suzano Petroquímica will be entitled to receive a second installment for Politeno's sale. The following graph shows simulations of hypothetical payment amounts after a period of 18 months, according to various price spreads (*please see our explanatory note #2, under the Financial Statements section*).



$$\text{POLITENO'S VALUE (US\$ MILLION)} = 0.9175 \times \text{DOMESTIC SPREAD (IN US\$/T)} - 34.1$$

<sup>1</sup> Includes Politeno's ownership interest in Norquisa. Provision for contingencies not included.



Ownership interest in Politeno no longer held a strategic value to Suzano Petroquímica, since Riopol had been selected as our key growth platform in the polyethylene market

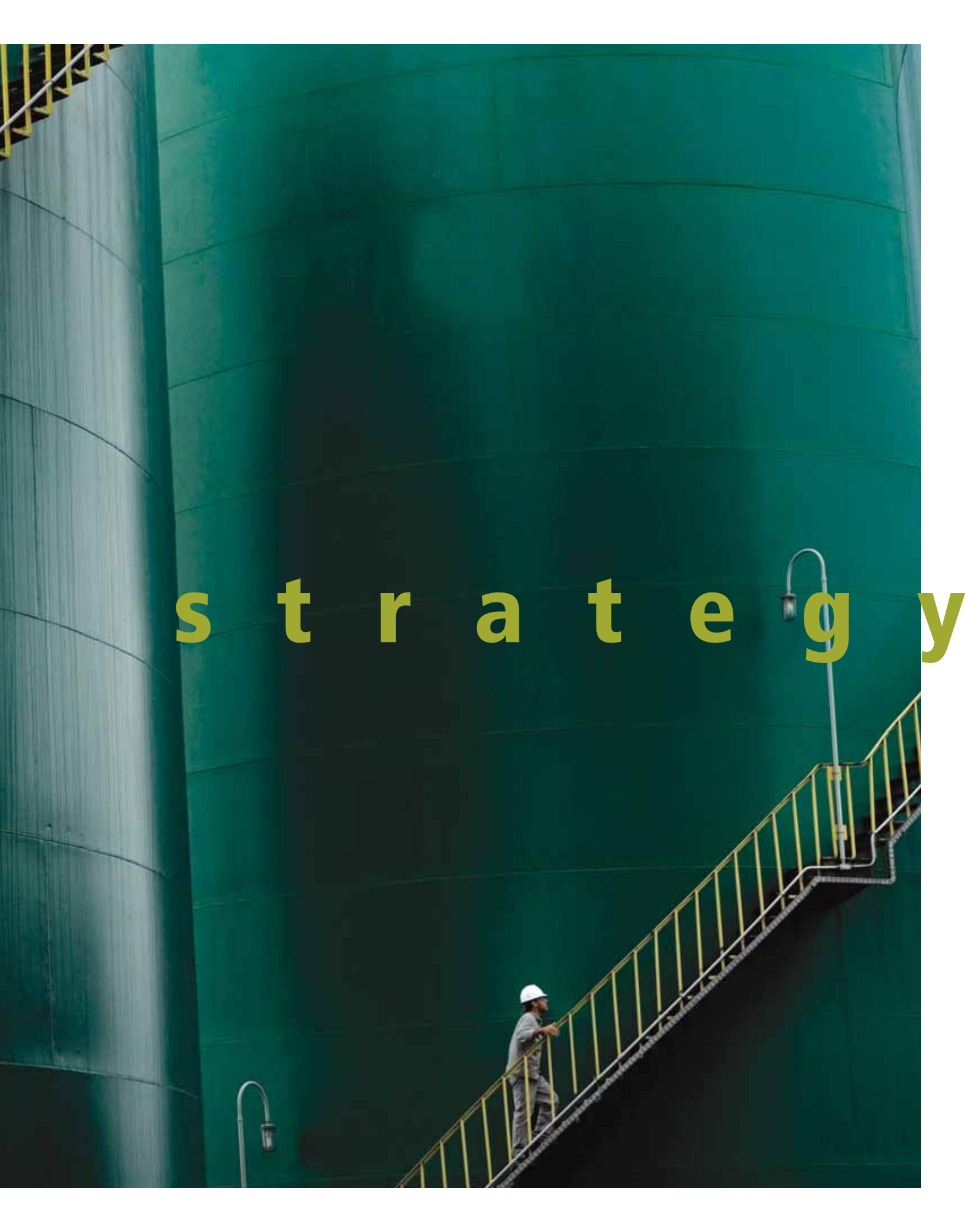
#### **POLIPROPILENO PARTICIPAÇÕES (“POLIPAR”) MERGE**

Polipar was a holding company which had resided to the corporate restructuring process conducted in 2005, since it could not be merged due to the fact that more than 5% of its shares remained in circulation after a Public Offering of Shares carried out in September 2005. Polipar’s capital stock was therefore closed in November 2005, and we extended the offering deadline so as to give the remaining shareholders an opportunity to also sell their shares.

Throughout 2006, as more shareholders sold their interest in Polipar, the number of shares in circulation dropped below 5% of the company’s total capital and the remaining shares could be redeemed. In September 2006, Polipar merged in to SPQ Investimentos e Participações (SPQ), Suzano Petroquímica’s fully controlled company.

The main assets currently held by SPQ are: (i) Braskem shares received through the Politeno sale transaction, when Norquisa-issued shares held by Polipar were exchanged for Braskem-issued shares held by Odebrecht, Braskem’s Controlling Group. On that occasion Polipar received from Odebrecht 2,129,324 Braskem preferred shares (BRKM5) in return for 75,669,544 shares issued by Norquisa; (ii) interest in Petroflex, equivalent to 4,759,274 common shares and 2,320,597 Class A preferred shares issued by Petroflex, originally held by Suzano Petroquímica and were received by SPQ. This transaction actually consisted of a corporate reorganization primarily aimed at concentrating all activities considered as strategic focus on Suzano Petroquímica, namely, the polypropylene and polyethylene businesses, which are run together by Suzano Petroquímica and Riopol.





s t r a t e g y



## The petrochemical sector and its production chain

We act strongly in the second generation of the petrochemical chain, converting basic products inputs into resins supplied to converters

The petrochemical sector converts oil derivatives, especially naphtha or natural gas, into consumer goods and industrial products which are used for a wide range of ends and purposes, such as packaging, car parts, bottles, textiles, household appliances and electronic devices, among others. In general terms, the sector has three main stages, according to the phase of the conversion process of raw materials or petrochemical inputs. The opposite page shows the different petrochemical production phases and our positioning in the Brazilian petrochemical sector.

First generation producers, called petrochemical “crackers”, process naphtha or natural gas and convert them into basic petrochemical products. The three crackers installed in Brazil utilize naphtha as raw material which is bought from Petrobras and from other overseas suppliers. Since the start-up of Riopol’s operations in late 2005, Brazil has now its first cracking unit based on natural gas fractions, which are also supplied by Petrobras.

The two main basic petrochemicals produced by crackers are ethylene and propylene, which are conveyed to resin producers and undergo additional processing. Resin producers convert basic petrochemicals into polyethylene, polypropylene and elastomers, among others. These, in turn, are supplied to converters. In Brazil, there are currently about 40 second-generation producers. These products are transported mostly by road for delivery to converters, which are concentrated mainly in the Southeastern region.

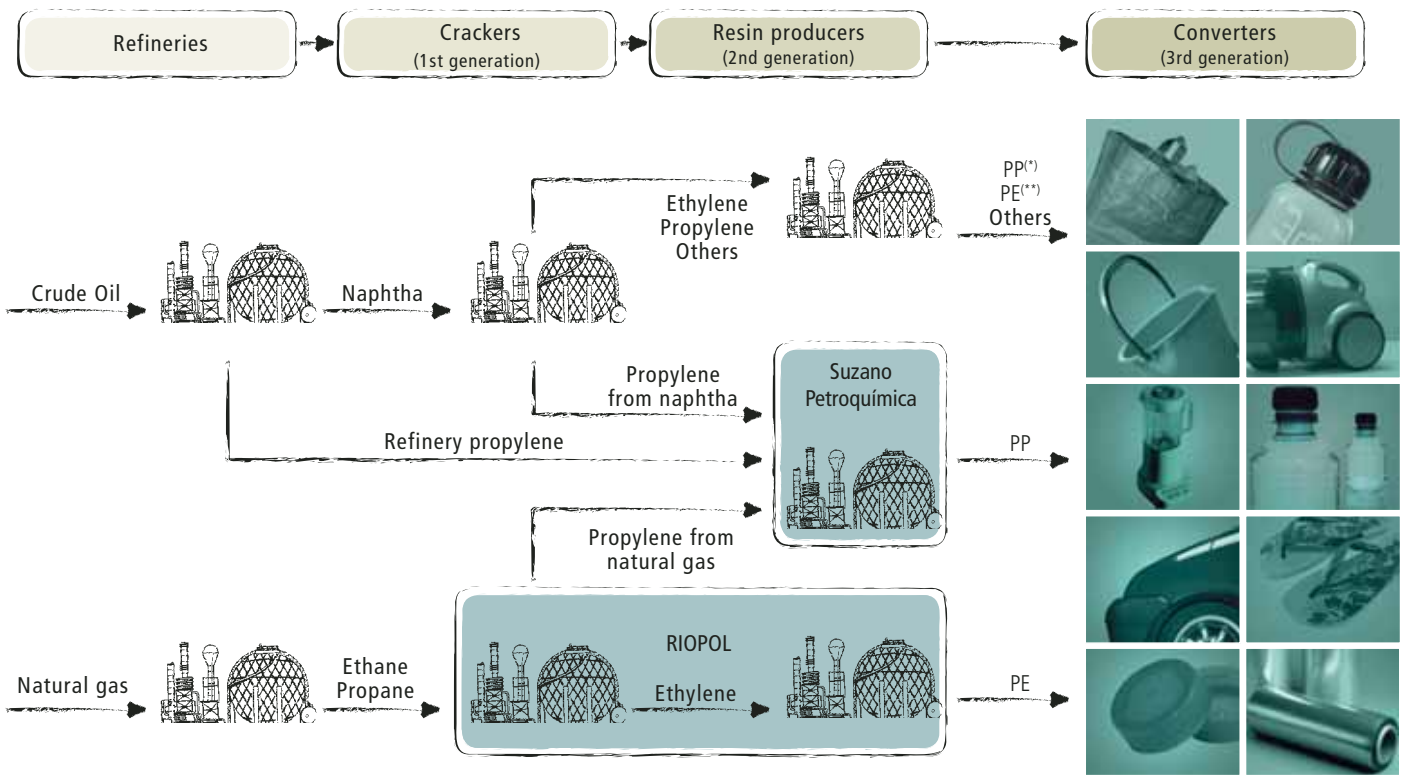
More than 6,000 converters buy second-generation petrochemicals and transform them into plastic packages, toys, footwear, tires, household appliances, among others.





Sérgio Fernandes – Petroflex  
(Rio de Janeiro State)

### DESCRIPTION OF THE PETROCHEMICAL CHAIN



(<sup>1</sup>) Polypropylene  
(<sup>2</sup>) Polyethylene

# Our history in the petrochemical industry

Suzano Group began its activities in the petrochemical sector in 1974, when its founder, Leon Feffer, saw a great expansion potential in the plastic industry, especially in the packaging sector – a key market segment for the paper industry – and decided to diversify the Group's activities to maintain its position in the packaging market.

With the purpose of strengthening its presence in the Brazilian petrochemical industry, Suzano actively participated in several privatization auctions of petrochemical companies during the 1990's. We also participated in the set-up of Riopol in 1996.

In 2001, Max Feffer, Leon Feffer's son, made a fundamental decision for Suzano Group's future, especially regarding the capital markets. There was a spin-off of the pulp and paper and petrochemical businesses held by the Group into two different companies and Suzano Petroquímica was created in September 2001. In November of that same year the petrochemical assets held until then by Suzano Papel e Celulose were transferred to Suzano Petroquímica, which became an equity holding company sharing with other partners the ownership control of four major companies in the Brazilian petrochemical sector.

In 2004, after an in-depth strategic analysis of our positioning in the petrochemical sector, it became evident that thanks to the quality of our assets, the opportunities available for the industry's consolidation and growth in Brazil, our capital structure, and the promising prospects for the petrochemical market in the medium and long terms,

we had the necessary qualification to establish ourselves as a leading company in the Brazilian petrochemical industry. For the fulfillment of this goal, it was essential that we repositioned ourselves in the capital markets thus strengthening such partnership. Also in 2004, we enhanced our Corporate Governance practices, created an Investor Relations area, launched our website, were listed on Bovespa's Level 2 of Corporate Governance and, finally, led our first follow on offering of shares.

Also as a result of the strategic analysis carried out in 2004, it was identified the need to evolve from the position of an equity holding company to a company with its own operations, and thus grow to become a more competitive and stronger player in the consolidation of the Brazilian petrochemical industry.

In late 2004, Basell, then a joint venture established between BASF and Shell and our partner in the former Polibrasil, was put up for sale on the global market, thereby creating the opportunity for us to buy its share in Polibrasil, which at the time was the major business within our portfolio.

In September 2005, we bought out Basell's shares in Polibrasil for \$254 million, and in November that same year we merged with Polibrasil, making Suzano Petroquímica the largest polypropylene manufacturing company in Latin America.

In 2006, we reviewed our 2015 Mission and Vision, which had been created in 2004, with the purpose of consolidating the evolution of our market positioning while setting out our strategic sustainability guidelines.

Our strategic map, reviewed in March 2006 during our annual strategic planning cycle, named sustainability and corporate governance as its ultimate guidelines. Under these guidelines, in order to create value for our shareholders, a range of initiatives were mapped out to maximize profitability, promote organic growth and ensure social and environmental responsibility practices across all our activities.

### Our Vision

Suzano Petroquímica will become a leading company in polypropylene and polyethylene in Latin America, based on the sustainability and competitiveness of its business practices as well as on the quality of its partnerships.

### Our Management

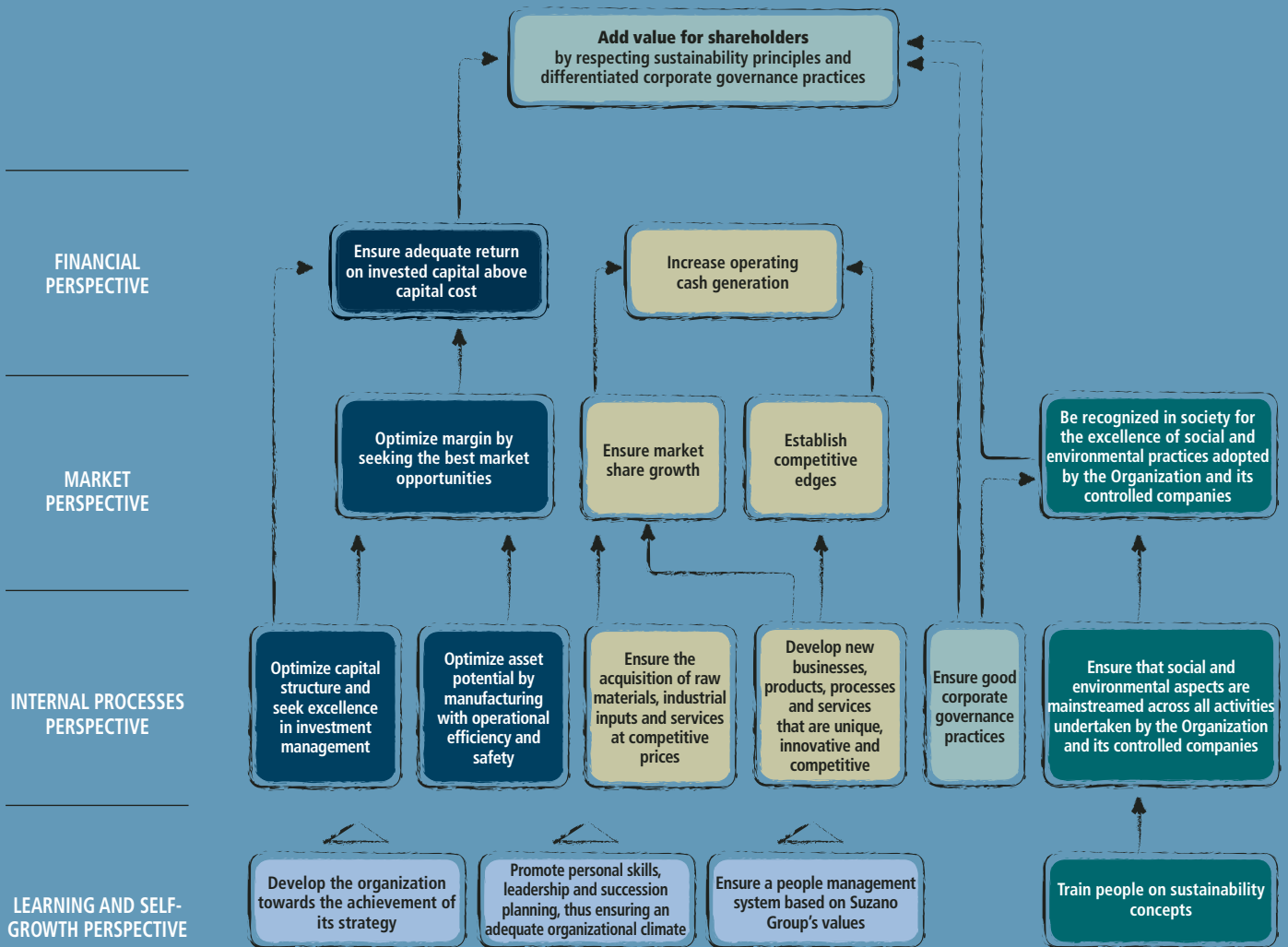
Will be recognized for its business management excellence, its ability to anticipate trends and entrepreneurship initiatives, thereby maximizing value for its shareholders.

### Our Mission

To stand out as one of the most profitable private Brazilian companies in the petrochemicals sector, with focus on polypropylene and polyethylene, through its own operations and the operations of companies with shared ownership

## STRATEGIC MAP Sustainability and Governance

■ Profitability ■ Growth ■ Social & Environmental Responsibility



## POLYPROPYLENE AND CONTROLLED COMPANIES' OPERATIONS



## Strategic guidelines

### **TO MAXIMIZE THE RATE OF RETURN FOR SHAREHOLDERS**

Through the growth of our business based on sustainability and competitiveness and by following up on our plan to consolidate our position as one of the top petrochemical groups in Brazil.

### **TO INNOVATE THROUGH CONTINUOUS AND EXTENSIVE R&D INVESTMENTS**

Assessment and design of a sound strategy for our technological development. Wider scope of the R&D area beyond polypropylene research, including alternative polymers, biodegradables and alternatives for raw materials from renewable sources. A thrust towards technology diversification in today's and tomorrow's projects.

### **TO CONTINUOUSLY OPTIMIZE OUR PROCESSES, COSTS, AND THE CAPTURE OF SYNERGIES BETWEEN SUZANO GROUP AND ITS JOINTY CONTROLLED COMPANIES**

Internal mapping of opportunities for operational improvements in manufacturing, logistics, sales and product quality by seeking operating efficiency gains and cost reduction. Full utilization of the Group's synergies, thereby enabling better negotiation terms with third parties as a result of scale gains. Realization of synergies with Riopol and Petroflex, as through a pool of companies for the acquisition of products and services.

### **TO MAXIMIZE RETURN ON INVESTED CAPITAL THROUGH FINANCIAL DISCIPLINE AND LEVERAGE REDUCTION**

Corporate decision making process subject to profitability factors. To exercise capital discipline by means of a thorough assessment of investment opportunities and a policy of indebtedness reduction, reducing its cost and lengthening its term to maintain financial solvency. Approval of projects subject to a rate of return of at least 2% above our capital cost.

### **TO CONDUCT OUR BUSINESS ACCORDING TO SUSTAINABILITY CRITERIA AND IN A RESPONSIBLE AND ETHICAL MANNER TOWARDS SOCIETY AND THE ENVIRONMENT**

To guide our business strategy by the parameter of sustainability, in order to manage risks, towards the perpetuation of our activities and by making clear our concern with maintaining cycle renewal, thus assuring for future generations the same opportunities we enjoy today. To contribute to the enhancement of corporate social and environmental responsibility. Stakeholder relations grounded in ethical principles.



*Rubens Antonello,  
Mauá Plant (São Paulo State)*

Sustainability points the way to studies of more environment friendly alternatives such as biodegradable polymers and nanotechnology

## The main impacts, risks and opportunities of our business

In order to map out our potential risks, we have established a priority sustainability criterion related to the magnitude of the impact that each risk poses for our long-term strategy and competitive positioning.

A high dependence on oil derivatives constitutes a major vulnerability factor, since our key raw material – propylene – is derived from processing of this non-renewable fossil fuel which, depending on the use of its derivatives, can contribute to greenhouse gas emissions – what do not occur throughout our production process.

In this respect, it is important to seek alternatives in the mid and long terms by encouraging the development of new production routes and alternative technologies. We are currently conducting studies of new products and processes, alternative raw materials and biodegradable polymers, which once placed on the market, may open up a new segment with high growth potential and contribute to the Planet's sustainability.

We have also been working on projects focused on innovation and product value through new technologies such as nanotechnology and diversification of raw materials. Nanotechnology allows for the manufacture of materials which are stronger and lighter than today's existing metals and plastics. Its use can be extended to a wide variety of applications, besides being energy efficient and encouraging recycling, thus reducing the use of increasingly scarce raw materials.

## Challenges

Raw material derived from non-renewable source

Negative image of the plastic industry

Cycles and costs of the petrochemical sector

Society's unawareness of the advantages of plastics over other materials with similar applications

## Opportunities

■ Development of monomers from alternative technologies

- Development of low environmental impact products
- Research on biodegradable polymers
- Polypropylene recycling project
- Development of recycling processes
- Assessment of recycled polypropylene markets

■ Projects focused on innovation and value adding

■ Spreading that we work with less polluting and recyclable plastics, and their comparative advantage over other materials.

To attain these goals, however, massive investments in research and development will be necessary followed by a maturation phase. The first sound results will only be achieved in a few years.

Although polypropylene is 100% recyclable, we are concerned about the negative image of plastics the Brazilian society has due to the lack of proper planning for post use in Brazil, where plastics are disposed inadequately.

This negative image is reinforced by the unawareness of the civil society of the benefits of using plastic instead of other materials in several applications. It is important to create society's awareness of the advantages of plastic under the Sustainability Umbrella.

Furthermore, we must contribute to a better post use of plastics in Brazil by improving recycling processes and developing new markets for recycled products. In addition to our partnership with the Camaçari Cooperative for Recyclable Materials (Coopmarc), since July 2006 we have been developing the Integrated Residue Management (GIR) project in Mauá with the participation of another

cooperative for recyclable materials and waste (Cooperma) in a partnership with the Mauá City Council, Association of Petrochemical Industries of the region (Apolo) and two local junior companies.

The main goal of the GIR project is to recycle and adequately dispose solid residues generated in the city of Mauá. The project also aims to promote the sustainability of the city's recycling cooperative through sales networks of recycled products. Additionally, the GIR seeks to create the best possible framework for setting up recycling related companies.

The structuring of the GIR is aligned with the scope of the Local Productive Arrangement of Plastics (APL) project, whose main objective is to promote the development of plastic converting companies in this industrial region of São Paulo State.

## DID YOU KNOW?

Source: Instituto Plástivida

- Over the years, Brazil has improved significantly its plastic recycling. The Brazilian market for recycled plastics grew by 32% from 2003 to 2005. Find more indices in the table below.

### EVOLUTION OF THE MECHANICAL PLASTIC RECYCLING INDUSTRY IN BRAZIL

Indicators	2003	2004	2005
Number of recycling companies*	492	510	512
Gross revenues (R\$ thousand)	1,229,616	1,480,389	1,624,983
Number of direct employees	11,501	15,560	17,548
Installed capacity (in thousand tons)	1,055,582	1,235,477	1,281,706
Recycled material production (in thousand tons)	702,997	745,103	767,503
Idle capacity (%)	33.4%	39.7%	40.1%
Plastic residue consumption (in thousand tons)	777,166	782,707	843,189
Recycled material sales (in thousand tons)	702,997	745,103	767,503
Average sale price (R\$/t)	1,749.11	1,986.82	2,117.23
Post use recycling index (%)	16.5	17.2	19.8

- Vehicles using more plastic components are lighter, consume less fuel and generate fewer emissions. In Western Europe, it is estimated that the reduction in fuel consumption accomplished by using plastic materials in automobile manufacture enable savings of roughly 12 million tons in oil equivalent per year, leading to an annual CO<sub>2</sub> reduction of approximately 30 million tons.
- Other products have followed this trend. In the last 20 years, the average weight of packages and hundreds of other items has dropped by 50% due to the use of plastic materials in their composition. This not only contributes positively to the environment and the populations' quality of life, but also brings about CO<sub>2</sub> emission reductions since product transportation in lighter plastic containers leads to reduced fuel consumption.
- Other adequate energy saving alternatives come from solar and wind sources. Plastics are found in equipment used in the generation of these types of energy sources, thus helping to extend the useful life of oil reserves.
- Plastic materials are increasingly being used in the construction of popular housing and shelters for calamity victims around the world due to their easy handling, quality and low cost.
- The increase in the population's life expectancy in many parts of the world is the result not only of advances in pharmaceutical technology but also of the use of medical plastic devices that range from surgical gloves, blood and solution bags and transport tubes, contact lenses, catheters, and enteral feeding cannulas to artificial hearts, cardiac valves and prosthetics.
- Plastic based heart assist devices are being created to keep heart beating and prolong patients' life until they receive human heart transplant or they can undergo heart corrective surgery.

# Suzano Petroquímica's approach to sustainability

Our audiences have become increasingly demanding, knowledgeable and conscient. To meet their needs, not only do we have to keep up with the latest trends but also be ahead of our time

Throughout 2006, we deepened our reflections on sustainability and began to regard it as an integral part of all our business activities and operations, through increased awareness of our role in the dissemination of sustainable values, concepts and practices across our entire network.

We believe that only by addressing sustainability in an organic, structured way and founded on solid principles, can we ensure the continuity of our business. This process should begin from the inside out, first within the Organization and, later, with external publics.

With this in mind, in 2006, the Company initiated an internal acculturation process on sustainability issues, mapping out a sustainability vision for the Organization and following the Global Reporting Initiative (GRI) guidelines as a preliminary marker of our positioning. In parallel, we upgraded our governance structure in the light of sustainability with the purpose of facilitating the dissemination of its principles across the company.

Our audiences have become increasingly demanding, knowledgeable and conscient. To meet their needs and keep them as our partners, not only do we have to keep up with the latest, most transparent trends but also be ahead of our time by anticipating attitudes and promoting efficient changes.

In the third 2005 quarter, we relied on the support of the Brazilian Foundation for Sustainable Development (FBDS) to

complete the evaluation form for the first edition of Bovespa's 2005 Corporate Sustainability Index (ISE). This process was an important assessment tool for our sustainability status, since we were able to analyze our performance on the social and environmental spheres, as well as at the product, corporate governance and economic-financial levels. The questionnaire issues helped us to detect the gaps that led us to make significant improvements in our internal procedures and practices in 2006.

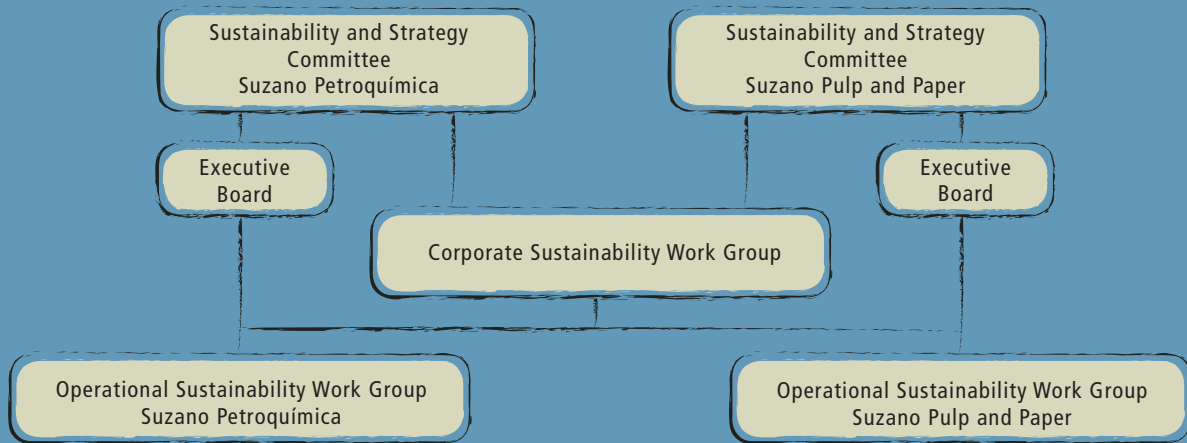
During 2006, we enhanced our partnership with FBDS to deepen the analysis of our sustainability positioning and our adherence to GRI guidelines. For this, a multi-task work group was formed. Members of the group attended several related workshops and compiled the first sustainability indices according to suggested criteria.

In September, the Sustainability Work Groups (GT) of the Suzano Group became official as shown in chart on the following page.

Also by year end, the Sustainability GT's prepared their agenda for 2007 and the main guidelines (described in the following page) were approved by the Executive Board.



## SUZANO GROUP SUSTAINABILITY CHART



## Sustainability Guidelines

### ■ Integrating sustainability into our strategy:

- Review of our Mission
- Building scenarios
- Mapping opportunities and risks
- Encouraging innovative products and processes
- Setting general corporate targets

### ■ Beginning of a stakeholder engagement process:

- Prioritizing suppliers, employees and communities, including dialogue framework and response mechanisms to identified demands.

### ■ Implementation of a risk management system incorporating sustainability concepts and involving:

- Setting up a risk and opportunity management system addressing each sustainability dimension
- Defining processes and task priority approach
- Spreading how the Business Risk Work Group operates and its structure

### ■ Management definition and economic measuring through the following activities:

- Establishing a management policy and system for intangible assets
- Defining an investment policy aligned with the sustainability concept
- Quantifying sustainability performance

### ■ Regarding product and marketing responsibility:

- Integrating the Company's practices into a corporate policy aimed at preventing: (1) the undue use of information about customers and other parties with whom we conduct our business activities; (2) the dissemination of misleading information or advertising, ensuring respect for public spaces and for the privacy of consumers and the general public
- Upgrade of the Product Life Cycle Analysis to include post-use life.

### ■ Benchmark analysis of diversity-related practices

# Stakeholder engagement

## Suppliers

We hold an annual meeting with suppliers to discuss Company-wide topics ranging from health-, safety- and environment-related issues to information on capital market. In these meetings, we seek to align and share our concepts and visions with our suppliers with the purpose of strengthening our relationship. In the 2007 meeting, we hope to address the issue of sustainability and use this forum as a springboard to the dissemination of sustainable development practices in our value chain.

## Customers

In 2006, we held an event involving new generations of controlling groups that own our customer companies. The event aimed to contribute to the training and education of future leaders and addressed, among other topics, our market positioning, internal practices and long-term vision. Furthermore, we sponsored a number of technical seminars for our customers to disseminate new knowledge and business opportunities that may be developed in partnership.

## Internal public

In 2006, we undertook some initiatives geared to our internal public with the purpose of providing it with an insight into capital markets, differentiated corporate governance and sustainability practices. These topics were hitherto unknown by most of our employees, the majority of them former staff members of Polibrasil, which was formerly a privately-held company.

We also introduced a page on our intranet containing articles and stories about capital markets, corporate governance and sustainability for quick reference. There is also a permanent contact channel with the Investor Relations area.

In order to encourage debate forums and greater interaction among employees, and also acquaint them with our results, we hold quarterly meetings at all our industrial plants and in our headquarters. In these meetings, the Executive Board introduces the Company's main operational, commercial, financial, and social and environmental highlights, thus establishing an open and direct communication channel with employees.

We have mapped out our stakeholders and established 27 relationships of which three priority audiences are for an initial approach: employees, communities and suppliers

Through the institutional program "Bovespa comes to you", São Paulo Stock Exchange (Bovespa) representatives delivered lectures and were available at our industrial plants and in the headquarters one full day to clarify doubts on the stock market, stock investments, corporate governance, social responsibility, among other related topics. They also provided reference and guidance material.

## Next steps

We are currently reviewing and exploring new ways of furthering our relationship with our stakeholders to align them with sustainability principles. We plan to set up a behavior and progress monitoring model of our sustainability practices among our stakeholders.

In late 2005, we mapped out our stakeholders according to an interdependence criterion, i.e. the factors in any bilateral relationship between our Company and a stakeholder that somehow impact on other relationships. We ranked our stakeholder relations by levels – internal, market, institutional and economic – and arrived at 27 different audiences to which the Company must pay attention to.

With the purpose of encouraging an open and enduring dialogue on sustainability in 2007, we selected a few key stakeholders considered to be strategic for the Company for their relevance and the need to strengthen our relationship with them. The resulting reflections were submitted to the Executive Board, which recommended that we should initially focus on employees, communities and suppliers. Our challenge for 2007 is to set up a stakeholder engagement program with these three audiences aimed at introducing sustainability concepts and practices in their daily activities.



*Claudemir Conti  
and Maurício César Batista,  
Mauá (São Paulo State)*



**management**



## Corporate Governance

We believe corporate governance excellence is of paramount importance if we are to achieve sustainable growth, and this is the reason we have continuously sought to improve our practices. In November 2004, Suzano was listed in Bovespa's Corporate Governance Level 2, aiming at ensuring a relationship of trust, respect and transparency with capital markets and other stakeholders.

In 2005, as a result of such initiatives, Suzano Group was voted one of eight select companies with the best corporate governance policies in Latin America by the Organization for Economic Cooperation and Development (OECD), in a partnership with the International Finance Corporation (IFC), the private arm of World Bank.

The year 2006 represented a landmark in our corporate evolution. Acting on the gaps we identified throughout 2005, which resulted from the review process following the first assessment for Bovespa's Corporate Sustainability Index (ISE) portfolio, a number of enhancements were applied to our governance model with the purpose of building a greater degree of trust and transparency with the market.

Our commitment to transparency can also be attested by the tangible and steady improvements made to our corporate structure throughout 2005 and 2006 when we streamlined our equity structure and promoted more visibility and clarity to our activities.

### Board of Directors (BD)

Our Board of Directors comprises 9 members, three of which independent and six external members, as per the classification set forth in the Code of Best Corporate Governance Practices laid down by the Brazilian Institute of Corporate Governance (IBGC), and also includes one honorary member.

According to the IBGC, an independent Board member is defined as one who is not linked by any bonds with the Company whatsoever, except per a possible a capital interest. An external Board member, in turn, is not currently linked to the Company by any bond, but is not considered independent, as in the case of former executive officers, employees, lawyers who provide regular services to the Company, Controlling Group shareholders or employees, and close relatives of executive officers.

The BD Internal Regulation Board determine that the Board is responsible for promoting long-term business profitability and sustainability as well as the Company's strategic orientation while preserving the shareholders' best interests, by means of independence. To enable an optimal management of the Company's most relevant issues and concurrently comply with Bovespa's Level 2 of Corporate Governance requirements, Board of Directors members serve a two-year term of office.



*Carlos Alberto dos Santos, Flávio Eduardo R. Monteiro, Claudemir Conti, Maurício César Batista and Rubens Antonello, Mauá (São Paulo State)*

To improve its performance, the BD must assess its activities on a yearly basis in accordance with the guidelines established in its Internal Regulation. It is also in charge of monitoring and managing potential conflicts of interest among shareholders, BD members and executive officers.

BD meetings not only constitute forums for discussion, decision making on strategic issues and approval of accounts, but they also address aspects related to the Company's sustainability, and establish lines of action for its Committees and the Executive Board, which are put into practice by the Executive Board Committees and Work Groups.

The Strategy Committee, which was created in 2003, had its scope expanded in June 2006 to incorporate the sustainability concept, and was thereafter renamed to Sustainability and Strategy Committee. The Audit Committee was also created in June 2006 and is coordinated by an independent member. The BD Committees' restructuring process was concluded in September 2006 with the formation of the Management Committee.

By building this committee framework, the relevant issues brought up by each one of these areas can be addressed in more depth and detail. Internal and operational assistance is provided by Work Groups fully dedicated to identifying opportunities, discussing strategies and implementing action plans.

Another example of a significant progress made last year in our corporate governance model pertains to the split up of activities between the BD Chairman and the Company CEO implemented at the end of the transition process following Polibrasil's acquisition. For further details, please see the Management Model section and explanatory note #19 of the Financial Statements regarding BD compensation.



## BOARD OF DIRECTORS (BD) COMMITTEES

We will now introduce a detailed description of all BD Committees, including their composition and duties (LA13).

- **Management Committee:** to advise and assist the Board of Directors in the performance of its duties in connection with finances issues, budget and control, talent management, executives compensation, legal issues, new businesses, market and investor relations, follow-up on the Company's results and executives performance. To draw up and formulate specific corporate policies for the environment, health and safety areas and prepare this Annual Sustainability Report.

### Composition:

*Coordinator:* David Feffer

*Members:* Armando Guedes Coelho, Fábio Eduardo de Pieri Spina, João Pinheiro Nogueira Batista, José Ricardo Roriz Coelho

- **Sustainability and Strategy Committee:** to assist and support the BD in performing its duties in connection with the long-term strategy planning, and in disseminating the sustainability strategic concept with the goal of achieving internationally acceptable standards set as a benchmark.

### Composition:

*Coordinator:* Cláudio Thomaz Lobo Sonder

*Members:* David Feffer, Daniel Feffer, Jorge Feffer

- **Audit Committee:** to assist and support the BD in performing its duties in connection with financial statements, development of internal controls, inspection and coordination of the Company's Internal and External Audits. To ensure compliance with Suzano's Code of Conduct.

### Composition:

*Coordinator:* Pedro Pullen Parente

*Members:* David Feffer, Fábio Eduardo de Pieri Spina, Cláudio Thomaz Lobo Sonder

## BOARD OF DIRECTORS COMPOSITION

To learn more about BD members, please check out their CV's at [www.suzanopetroquimica.com.br](http://www.suzanopetroquimica.com.br).

David Feffer

**Chairman**

External Board Member (controlling group)

Daniel Feffer

**Vice-Chairman**

External Board Member (controlling group)

Boris Tabacof

**Vice-Chairman**

External Board Member (former Suzano officer)

Jorge Feffer

External Board Member (controlling group)

Cláudio Thomaz Lobo Sonder

Independent Board Member

Antonio de Souza Corrêa Meyer

External Board Member

Adhemar Magon

External Board Member (former Suzano officer)

Pedro Pullen Parente

Independent Board Member

Roger Agnelli

Independent Board Member (elected by preferred shareholders)

Augusto Esteves de Lima Júnior

**Honorary Member**

## Fiscal Board

In accordance with its Bylaws, the Company has a permanent Fiscal Board (FB) comprising three effective members and three deputy members whose responsibility is to review management activities and financial statements, and report them to shareholders. Members serve a one-year term of office and the current FB was elected in April 2006. Fiscal Board members may not be members of the BD, an Executive Board officer or an employee of and affiliate company, and they must not be spouses or relatives of Company managers.

### COMPOSITION OF THE FISCAL BOARD

To learn more about Fiscal Board members, please check out their CV's at [www.suzanopetroquimica.com.br](http://www.suzanopetroquimica.com.br).

#### Effective Members:

Luiz Augusto Marques Paes

Rubens Barletta

José Edílson da Silva

#### Deputy Members:

Roberto Figueiredo Mello

Luiz Gonzaga Ramos Schubert

José Luiz de Castro Neto





## Alignment of interests through Corporate Governance

### MAIN SHAREHOLDERS' RIGHTS

When Suzano was listed on Bovespa's Level 2 of Corporate Governance in November 2004, we became the first family-owned business to join this select group, offering a minimum free float equal to 25% of our outstanding shares and complying with the regulations laid down by Bovespa's Arbitrage Chamber. We are also committed to offering 100% tag along rights for common shares and 80% for preferred shares in case of ownership change. Level 2 also ensures that (1) the disclosure of information concerning agreements between related parties shall be made in accordance with predetermined parameters; (2) financial statements shall be drawn up in conformity with international standards (IFRS or US GAAP); (3) holders of preferred shares shall have the right to vote on matters involving the Company's spin-off or merger, agreement approval between the Company and the controlling shareholder, and on any issue likely to raise potential conflicts of interest.

Besides meeting the applicable legal requirements, we also ensure for our shareholders the payment of minimum obligatory dividends equivalent to 30% of the Company's adjusted net income, higher than the 25% required by the Brazilian law. Furthermore, our BD may approve the distribution of dividends and/or interest on equity based on extraordinary balance sheets covering periods under one year. Additionally, in a bid to ensure the liquidity of our Exchange-traded shares, a transitory provision in our Bylaws sets Public Offerings of Shares by any shareholder holding 8% or more Company-issued preferred shares, subject to certain prior conditions.

### PARTNERSHIP WITH CAPITAL MARKETS

São Paulo Stock Exchange (Bovespa) is the main trading market for our shares. Since April 2002 our common and preferred shares have been listed for trading on Bovespa under the codes SZPQ3 and SZPQ4, respectively. Currently, only our preferred shares are Exchange-traded in 100-share lots. Suzano's preferred shares are also listed on Latibex, a special segment of the Madrid Stock Exchange dedicated to trading Latin American shares under the code XSUPT. Moreover, we sponsor a Level 1 American Depositary Receipt (ADR) Program on the New York Stock Exchange (NYSE).

In December 2005, we filed a program with the Brazilian Securities and Exchange Commission (CVM) for the distribution of our securities. It is effective for two years with rights to issue up to R\$800 million in promissory notes, simple debentures, share-convertible debentures, and common or preferred shares. This is a groundbreaking program in Brazil insofar as it encompasses the offering of shares and debt bonds, with enough flexibility to allow for a single funding option or both options in combination. That way we intend diversify and provide agile mechanisms of fund raising to implement our growth strategy.

### SHARE INDICES

We are currently listed on the IbrX-100 Brazil Index, Industrial Sector Index (INDX), Corporate Governance Index (IGC), Index of Shares with Special Tag Along Rights (itag) and Corporate Sustainability Index (ISE), all operated by Bovespa.

We firmly believe that our participation in these indices is the ultimate result of our efforts to set a solid partnership with the capital market, as exemplified by the primary and secondary public offerings of shares held in 2004, which expanded our free float from 17% to 27% of our total capital.

Since August 2004, we have a market maker to ensure the liquidity of our shares. This service is hired on a rotation basis among agents of acknowledged skills and experience.

## SHARE PERFORMANCE

In 2006, the average trading volume of Suzano Petroquímica's shares in Bovespa was R\$1.7 million/day, 40% lower than in 2005 due to the impact of the petrochemical sector's poor performance in the first months of the year. In 2006, Ibovespa's daily average was R\$2.0 billion, a 49% increase over 2005's daily trading volume, attesting to the strengthening of Brazilian capital markets.

Suzano Petroquímica's traded preferred shares closed 2006 quoted at R\$3.92/share, 17.6% below its price at the end of 2005, versus a 32.9% increase of Ibovespa during the same period. It should be noted, however, that our share had a robust recovery as of the second half of 2006, recording a 16.3% increase.

## SHARE TRADING POLICY

In March 2005, a Share Trading Policy was approved by the Company's BD, which is responsible for setting down the guidelines and conditions for Suzano Petroquímica's shares and securities trading applicable to the Company, its controlling shareholders, managers, Fiscal Board members, employees and members of any agencies who hold technical or consulting positions. The purpose of the Policy is to enforce an elevated standard of conduct to ensure greater transparency and impartiality in our shares and securities trading. To learn more about our Share Trading Policy, please visit [www.suzanopetroquimica.com.br](http://www.suzanopetroquimica.com.br).

## OWNERSHIP STRUCTURE

As at December 31st, 2006 the Company was owned by 4,421 shareholders, of whom 93% Brazilian individual investors, 6% Brazilian corporate investors, and 1% foreign investors, which represent respectively 42%, 39% and 19% of our free float.

Our capital stock comprises 226,695,380 shares, of which 97,375,446 are common shares and 129,319,934 are preferred shares. As of December 31st, 2006, the controlling shareholder held 100% of common shares whereas 42% of the preferred shares, equivalent to 24% of our capital stock, represented our free float. We are committed to adjusting our free float to Bovespa's Level 2 requirements by year end 2007.

We were the first family-owned company to be listed on Bovespa's Level 2 of Corporate Governance

offering 100%

Tag Along rights for common shares and 80% for preferred shares

## INVESTOR RELATIONS

Our Investor Relations area is responsible for liaising with capital markets and continuously enhancing our practices with this audience. During 2006, the announcements of all quarterly and annual Company results were followed by conference calls and webcastings session conducted by the Co-CEO and Investor Relations Officer.

We also conducted public meetings with the market through Brazilian Associations of Capital Market Analysts (Apimecs) to announce our third and fourth quarter results. Our third quarter meeting was voted one of the ten best meetings held in Brazil in 2006, in a comparison with the meetings of all publicly held companies in Brazil. In February 2007 we convened with the Apimecs to present our 2006 results in four different Brazilian capital cities. We also sponsored analysts' visits to the Mauá Site with the aim of further strengthening our relations and fostering a deeper understanding of our activities.

## Code of Conduct

Launched in June 2006, Suzano's Code of Conduct not only provides guidance with regard to ethical and conduct principles but also determines the creation of Internal Ombudspeople position and a General Ombudspeople made up of Suzano Group employees in charge of handling letters and complaints from the staff, clarifying doubts and ensuring compliance with the Code. There is also an External Ombudspeople as an additional channel for the submission of strictly anonymous concerns and complaints.

The General Ombudspeople is composed of members of the Conduct Committee, a forum which convenes on a regular or extraordinary basis and is responsible for:

- Ensuring maintenance of conduct standards beneath Suzano Group
- Ensuring the Code's implementation and compliance
- Ensuring the Code's relevance and update
- Reviewing and deciding on ethical conflicts and breaches of conduct under the principles set forth in the Code
- Recommending appropriate sanctions in the event of violations of the Code's principles

Since the Code's launching in June 2006, ten violation reports have been forwarded to the Conduct Committee, nine of which were resolved by January 2007, and the applicable corrective actions were enforced (SO4).

The full Suzano Code of Conduct text can be accessed on the Suzano Group website at [www.suzano.com.br](http://www.suzano.com.br).

## External Audit

Suzano Petroquímica's financial statements are currently audited by Deloitte Touche Tohmatsu (DTT) Independent Auditors. In 2006, DTT did not render auditing services that were not related to external audits for fees any higher than 5% of their total auditing fees.

## Internal Audit

Our Internal Audit Management reviews and controls our current operations independently of our control structures. It also recommends preventive and corrective actions with the purpose of minimizing business risks, while contributing to the attainment of goals established by the Company's Senior Management.

The Internal Audit conducts risk analysis of corruption practices in all our industrial sites, besides the corporate office (SO2) based on the Report to the Nations (RTTN06), a statistical report issued annually by the Association of Certified Fraud Examiners (ACFE), which pinpoints the segments and processes most affected by frauds, the types of frauds committed, the fraud perpetrators' profile, among other aspects. This report contributes to a definition of areas and processes which must be audited with an investigative focus. Such procedure was adopted in 2006 towards the formulation of the 2007 Annual Plan. Furthermore, the Internal Audit relies on the priceless support of the general Ombudspeople established in 2006. According to the RTTN, this channel accounts for 46% of all frauds identified by the companies.

In 2005 and 2006 the Internal Audit detected 11 fraud cases, and corrective actions (SO4) were effectively applied to all.

In 2006 and 2005, our internal auditors did not attend any fraud or corruption training programs. In 2004 one auditor received training on corporate fraud prevention provided by the Corporate Development Institute (Idemp) (SO3).

# Management Model

## Renewed Executive Board

Thanks to the acquisition of Polibrasil in September 2005 and its subsequent merge in November the same year, we became leaders in the production and sale of polypropylene in Latin America, and the second largest manufacturer of thermoplastic resins in Brazil. During this post-merge phase, we adopted an intermediary management model comprised of senior officers from both Suzano Petroquímica and the former Polibrasil. In this new structure, the Chairman of the Board concurrently assumed the position of the Company's CEO in a measure aimed at ensuring a harmonious integration between two different corporate cultures.

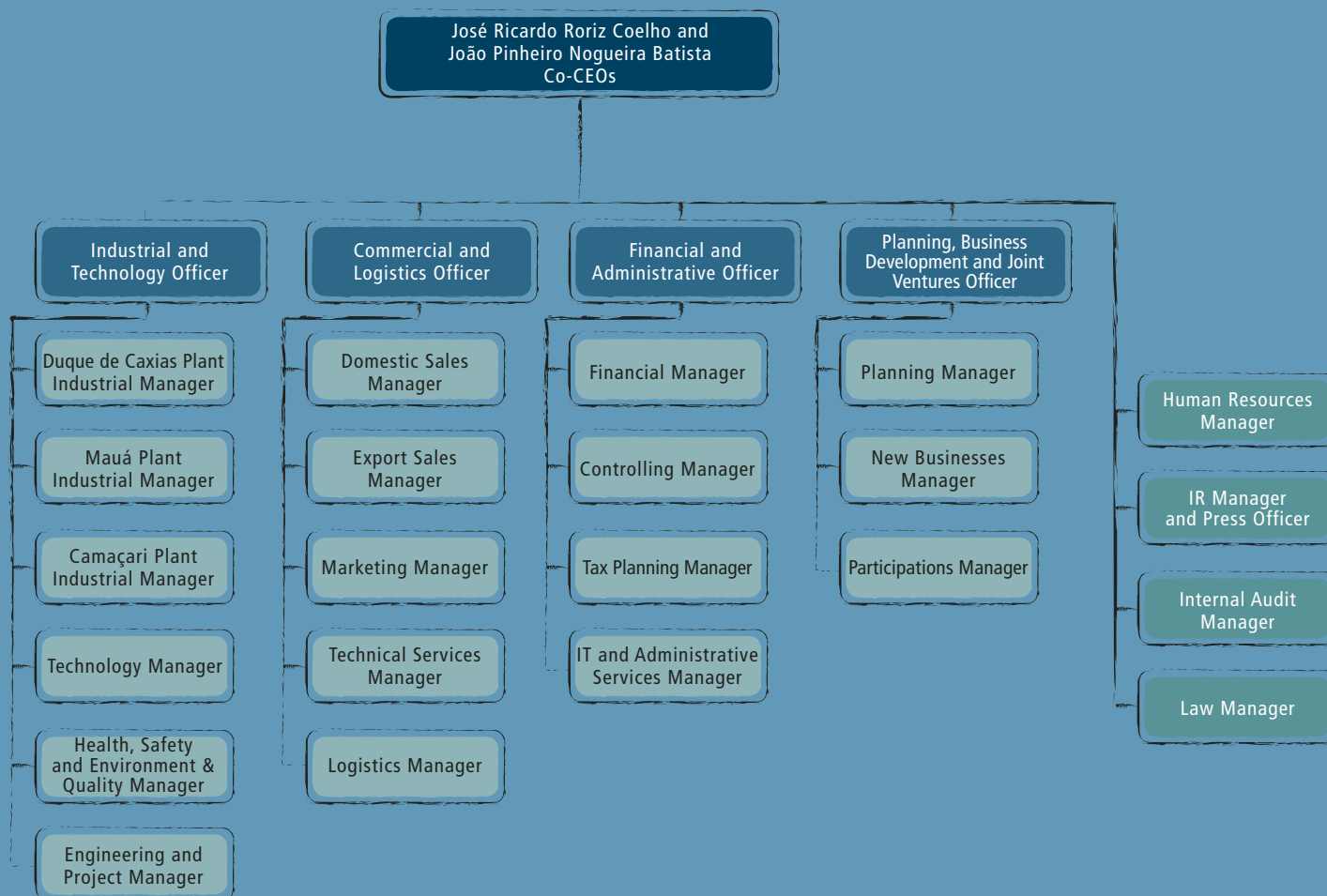
This transitional arrangement was enforced until September 2006 when the new Executive Board was appointed. It is made up of four new senior officers led by two Co-CEOs, and from September on a different individual other than the Company's CEO is the Chairman of the Board. Co-CEOs João Pinheiro Nogueira Batista and José Ricardo Roriz Coelho played a key role throughout the post-merge phase, occupying the posts of Financial and Investor Relations Officer and managing director of Suzano Petroquímica's Polypropylene Facility, respectively. It was precisely due to the remarkable results achieved by the teams headed by these two executives during this period that both the BD and the controlling shareholders were convinced that their talents, styles and leadership would be the key elements to enable Suzano Petroquímica to overcome the challenges inherent in the petrochemical business and successfully deal with the sector's consolidation

process, expected to take place within the next few years.

With this new team of executives, the BD and controlling shareholders expect that corporate governance practices, the Company's management process and the quality of its decision-making will be further enhanced, as it will encourage a broader debate and greater mindfulness on the part of the Executive Board and Co-CEOs.

At first it may seem that a Co-CEOs system would be an obstacle in split decision situations. However, after an in-depth analysis of a number of shared leadership cases we came to the conclusion that this would be an unusual and rather challenging experience for the Company's senior officers. Through the analysis it became clear that the success of such model is not as dependent on the apparent difficulties of the concept itself but on the executives' personal attitude. There are indications of both successful and unsuccessful cases, but failures are more likely to occur when struggles for power are placed above the Company's best interests. On the other hand, as the two leaders unite and share their experiences, mutually respecting their personal background knowledge and enjoying the manifold benefits of profile complementarity, chances of success rise exponentially. In this respect, since the Co-CEOs had been working closely together in a concerted and fine-tuned manner for more than a year, consensus was reached that this management model was well poised for success, which has up to now proved true.

## SUZANO PETROQUÍMICA - ORGANIZATION CHART



The appointment of the two Suzano Petroquímica Co-CEOs is perfectly aligned with Suzano Group's management model, which has been effective for the last four years and is based on a three-pillar structure comprised of family ownership, a close integration with capital markets and professional management.

This initiative aims to achieve greater management consistency, improved action quality, increasingly efficient strategy implementation and accountability for results.

Since 2006 our internal structure has been organized in the following manner:

- João Pinheiro Nogueira Batista  
Co-CEO and Investor Relations Officer
- José Ricardo Roriz Coelho  
Co-CEO
- Antonio Gomes de Mattos Netto  
Industrial and Technology Officer
- José Alfredo de Freitas  
Financial and Administrative Officer
- Katia Macedo Rodrigues  
Planning, Business Development and Joint Ventures Officer
- To be elected:  
Commercial and Logistics Officer

To learn more about Suzano Petroquímica Senior Officers, please check out their CV's at [www.suzanopetroquimica.com](http://www.suzanopetroquimica.com).

Senior officers' performance is assessed on a yearly basis by the Company's BD, based on objective criteria that take into account the goals defined by the BD so as to ensure a tight alignment between the Senior Management's interests and shareholders' long-term interests. The performance level expected of Senior Officers must be compatible with the requirements imposed on top executives in other companies of the same size and industry.

Compensation paid to senior officers and managers is variable contingent on the results achieved by the Company, with the exception of BD members, who are not entitled to any variable compensation. Our variable compensation program – named High Executive Performance – is an annual performance management process for Suzano Group's executives consisting of two chief components (LA12):

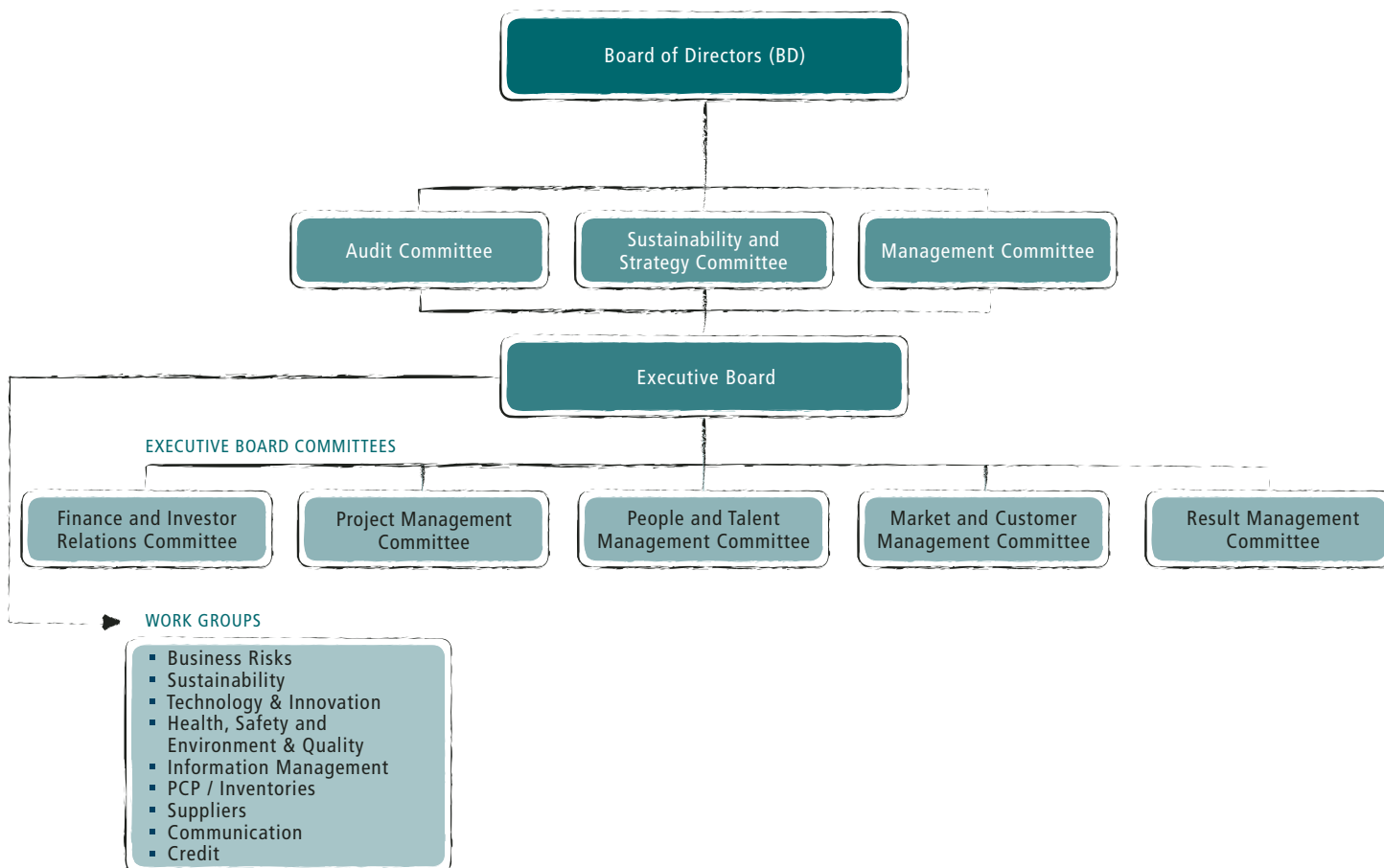
- (1) A master indicator, which determines each participant's earning potential, and
- (2) A set of collective and individual goals, which determines the potential extent achieved by each participant.

According to our results, executives can earn multiple salaries that vary in accordance with their rank on the Company's hierarchy.

With a view to advising the Executive Board on the conduction of our business, in January 2007, we created Executive Board Committees and Work Groups shown in the diagram below.

The Executive Board Committees constitute formal forums for managerial coordination. They meet regularly with a predetermined frequency and focus on redirection of objectives, seeking high performance results and short, medium and long-term vision.

The Work Groups, in turn, which are also directly linked to the Executive Board, consist of permanent multifunctional groups meeting periodically according to their goals. They focus on process management and its short-term impacts, information flow for Strategic Management, and medium and long-term vision.



# Risk Management

We seek to enhance our corporate risk management following the best practices adopted in the market, which includes the recommendations established by the risk subcommittee of the Brazilian Institute of Corporate Governance (IBGC). We therefore continuously monitor all risks inherent in our business so as to fine-tune our degree of exposure to adequate levels.

In 2006, we identified the need to concentrate more efforts on improving our risk management. To this effect, the former committee in charge of risk management and other processes – introduced in January 2004 subordinated to the Senior Management – was restructured in January 2007 originating the Business Risk Work Group, focused exclusively on the implementation and execution of this type of risk management.

By mapping out processes, we intend to identify, measure and quantify our key vulnerabilities in greater detail and depth so that we can develop mitigation policies and mechanisms for those vulnerabilities that exert the greatest impact on the added value we bring to our shareholders.

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*For further details on our insurance-related policies, please see explanatory note #22 in the Financial Statements section.*

Business risks were grouped under four categories:

- **Operational Risk:** regards the continuity of our operations and includes risks that threaten to shut down our industrial sites, problems with facilities' supply, with production planning and with our own operations. These also encompass risks concerning (1) future project execution, such as contract and construction; (2) systems, including telecommunication glitches and flaws in our Enterprise Resource Planning (ERP); (3) research and development, associated with new technologies and processes and potential hazards from substitute products.

To mitigate operational risks, we attend to the safety, integrity and efficiency of our industrial sites and information management systems. We adopt specific project execution methodologies, such as Front-End Loading (FEL), a worldwide benchmark for project management aimed at return optimization. We also monitor market behavior and perceptions towards new trends and technologies in an effort to anticipate market moves and seize new opportunities.

- **Credit Risk:** regards payment default and our customer-base profile, collateral pledging and credit evaluation processes.

To minimize credit risks, we seek to enhance our credit and collection policy without compromising our sales. In an attempt to strike a balance between risk and return, we are analysing the use of financial instruments such as credit insurance and Credit Rights Investment Funds (FIDC).

- **Market Risk:** chiefly related to commodities prices that are essential to our business, interest rates and foreign exchange rate fluctuations.

We always keep a close watch on the foreign exchange and interest rate markets to protect our results from any unwanted volatility, and resort to financial instruments whenever necessary while adhering to a conservative cash management policy.

- **Strategic Risks:** related to issues which can exert a relevant impact on our business, image and reputation. Include various risks of social and environmental nature, people management, market positioning and internal control risks.

# Social & Environmental Responsibility

In line with our Strategic Map (see Strategy), we regard social and environmental management as one of our founding pillars within the sustainability sphere. Social and environmental performance constitutes, in fact, one of the parameters we review and consider when defining employee compensation, including Senior Management officers. For further details, please refer to the chapter on 2006 Performance, Social and Environmental Dimensions.

## Industry Associations

We participate actively in industry associations forums and state and federal government programs with the purpose of contributing meaningfully to the formulation of sector policies, addressing issues such as health, safety and social initiatives.

In addition to our participation in associations in partnership with Suzano Holding, we are also an active member of the Brazilian Chemical Industry Association (ABIQUM), the Association of the Greater ABC Petrochemical Complex (Apolo), the São Paulo State Federation of Industries (Fiesp), the Rio de Janeiro State Federation of Industries (Firjan), the Bahia State Federation of Industries (Fieb) and the Plastic Resins Industrial Union of São Paulo (Siresp).

Social and Environmental performance, one of the cornerstones of our management approach, helps define employee compensation, including Senior Management officers



# Voluntary Commitments



Keenly aware of our role as a disseminating agent of social and environmental responsibility practices that lead to a more sustainable and inclusive global economy, since April 2006 we have been signatories of the United Nation's Global Compact, which is supported by a number of worldwide private sector representatives. The ten principles undergirding the Global Compact are thoroughly aligned with our own ethical principles.

## Human Rights Principles

- Respect and protect all Human Rights
- Prevent the violation of Human Rights

## Labor Rights Principles

- Support freedom of association in the workplace
- Eliminate forced labor
- Eliminate child labor
- Eliminate workplace discrimination

## Environmental Protection Principles

- Encourage a preventive attitude towards environmental challenges
- Foster environmental responsibility
- Encourage environment-friendly technologies

## Anti-Corruption Principles

- Fight all forms of corruption, including extortion and bribery



Along these same lines, in September 2006 we joined the Corporate Pact For integrity and Against Corruption, launched by the Ethos Institute of Business and Social Responsibility, whose content has much in common with our Code of Conduct. For further information, please visit our website at [www.suzanopetroquimica.com.br](http://www.suzanopetroquimica.com.br).

Other voluntary affiliations are assessed by the Sustainability Work Group and submitted for the Executive Board approval and BD confirmation.



## Suzano Group's institutional partnerships and associations



Represented through Suzano Group, we are partners of various non-governmental organizations committed to promoting biodiversity, such as the World Wildlife Fund (WWF), The Nature Conservancy and International Conservation.

We are also members of the Ethos Institute of Business and Social Responsibility, and together we co-sponsor of the Brazilian GRI Study Group. Furthermore, we are supporting members of the Ecofuturo Institute.

In capital markets, we are active participants in organizations such as the Brazilian Institute of Corporate Governance (IBGC) and the Brazilian Institute of Investor Relations (Ibri).

# Intangible Assets

Following with Suzano Group's philosophy, the Company adopts a management model geared towards value creation and, as such, also aimed at valuing our intangible assets. As well as strengthening our relationship with stakeholders, we invest in research and development, branding efforts, solid and constructive partnerships, social and environmental improvements, and anything else believed to be capable of generating and distributing value to those around us.

Under the guidance of the Company's Senior Management, we will formally introduce in 2007 an internal policy and management system for our intangible assets.

## Intellectual capital

Managing our intellectual capital is instrumental in adding value and differentiation to our business. Our capital is also comprised of human assets including the knowledge acquired by our employees; market assets, such as our brand names and company slogans; infrastructure assets, such as the Integrated Management System (SIG), which has achieved several different certifications; and intellectual property assets, consisting of the technologies employed in industrial production. After duly identified and validated within the strategic planning cycle, these assets become competitive edges that define our market positioning.

Market assets are developed through a marketing plan carried out annually to analyze, among other issues, market segmentation, customer loyalty factors and our method of processing complaints and suggestions.

As regards human assets, our Human Resource area maps out the needs for new projects and fosters qualification and training by means of internal and external career advancement mechanisms. Certification of infrastructure assets is accomplished through audit processes and the SIG's critical analysis. Finally, the development of intellectual property assets is ensured by access to recent technologies and by constant research work.

## Knowledge Management and Innovation

Innovation, one of our management pillars, places us ahead of the competition and allows us to capture new business opportunities. To this effect, we have created a host of new alternatives and are currently analyzing opportunities to innovate our manufacturing process and develop new products and applications.

To address these issues, in January 2007 we set up the Information Management Work Group and the Technology and Innovation Work Group. Both are multidisciplinary teams concerned with ensuring that all relevant aspects within their fields of competence are mainstreamed.

The Information Management Work Group will focus on (1) identifying new information, system and integrity needs; (2) providing the guidelines for comparisons to be made between information practices and standards using a benchmarking policy; and (3) providing the guidelines for intellectual capital and knowledge retention management.

The Technology and Innovation Work Group will coordinate initiatives involving pertinent issues, such as strategies for internal enhancements, industrial property protection, new technology negotiation and evaluation, technical assistance, contract management, know-how transference, among others.

## Certifications

We are certified by the following international quality standards:

- ISO 9001 – Quality Management System – since 1993
- ISO 14001 – Environmental Management System – since 2000
- OHSAS 18001 – Worker Health and Safety Management System – since 2001

## Awards and Acknowledgements

### LISTING ON BOVESPA'S CORPORATE SUSTAINABILITY INDEX (ISE)

We were included in the ISE 2006 portfolio, effective for the period between December 1st, 2006 and November 30, 2007.

The ISE is an important sustainable development seal. Their latest annual portfolio listed 10 new companies and excluded four others. The current portfolio comprises shares from 34 different companies altogether, equivalent to 48.5% of Bovespa's total market capitalization.

To qualify for the ISE, companies must fill out a stringent questionnaire which covers various aspects of sustainability. They also must undergo an External Audit that verifies the validity of the information provided.



### TOP AWARD 2005/2006

The main objective of the 2005/2006 TOP magazines award – granted for the eighth year by Valete Magazine Publishers – is to pay tribute to outstanding companies in the petrochemical sector. The winners are elected directly by the Publishers' readers using printed ballots inserted into their magazines and electronic voting available through the Publishers' website.

### 5<sup>TH</sup> SOCIAL RESPONSIBILITY MARKETING BEST AWARD

We won the 5th Social Responsibility Marketing Best Award with our Environment Partners Program. This award was in recognition of the work we developed through the Camaçari Recyclable Materials Cooperative (Coopmarc), in Bahia State, which involved initiatives to improve working conditions, train cooperative members, disseminate sound management practices, and increase the number of members and their earnings. (Please read the 2006 Performance section for further details)

### ABIPLAST DESIGN AWARD

We were the winners of the 2005 Brazilian Plastic Industry Association (Abiplast) Design Award in the Industry category, with our collection Polibrasil Footwear of polypropylene packages. The award is jointly sponsored by Abiplast and the São Paulo State Plastic Resin Industry Trade Union, with the support of the sector's production chain.

Suzano Petroquímica's packaging collection was jointly developed with Future Pack, the Brazilian Association of

Leather Components Companies, Footwear and Artifacts (Assintecal), Packing Design, and packaging manufacturers Antilhas, Exapack, Confetti, Stillo Pack and Rigesa.

### ABIQUIM EXPORT AWARD

The Brazilian Chemical Industry Association (Abiquim) Export Award was created in 2005 to honor chemical industries for outstanding achievement on the international scene. We won an award in the Great Exporters Club category made up of companies that export over \$100 million/year.

### CORPORATE GOVERNANCE RECOGNITION

In 2006, we were among three finalists of all companies listed on Latibex – a special segment of the Madrid Stock Exchange – for the Garrigues-Affinitas Award of Corporate Governance in Latin America. This was the first edition of the award granted by Garrigues and Affinitas, a Latin American Lawyers Association.

We also feature in the 2006 book launched by the Brazilian Institute of Corporate Governance (IBGC), which is a collection of cases of 15 family-owned companies with the best corporate governance practices in Brazil.

In 2006, we advanced our branding project and defined our desired and perceived attributes. We also redefined our brand language to build relations based on dialogue and create an “Inclusive Us”

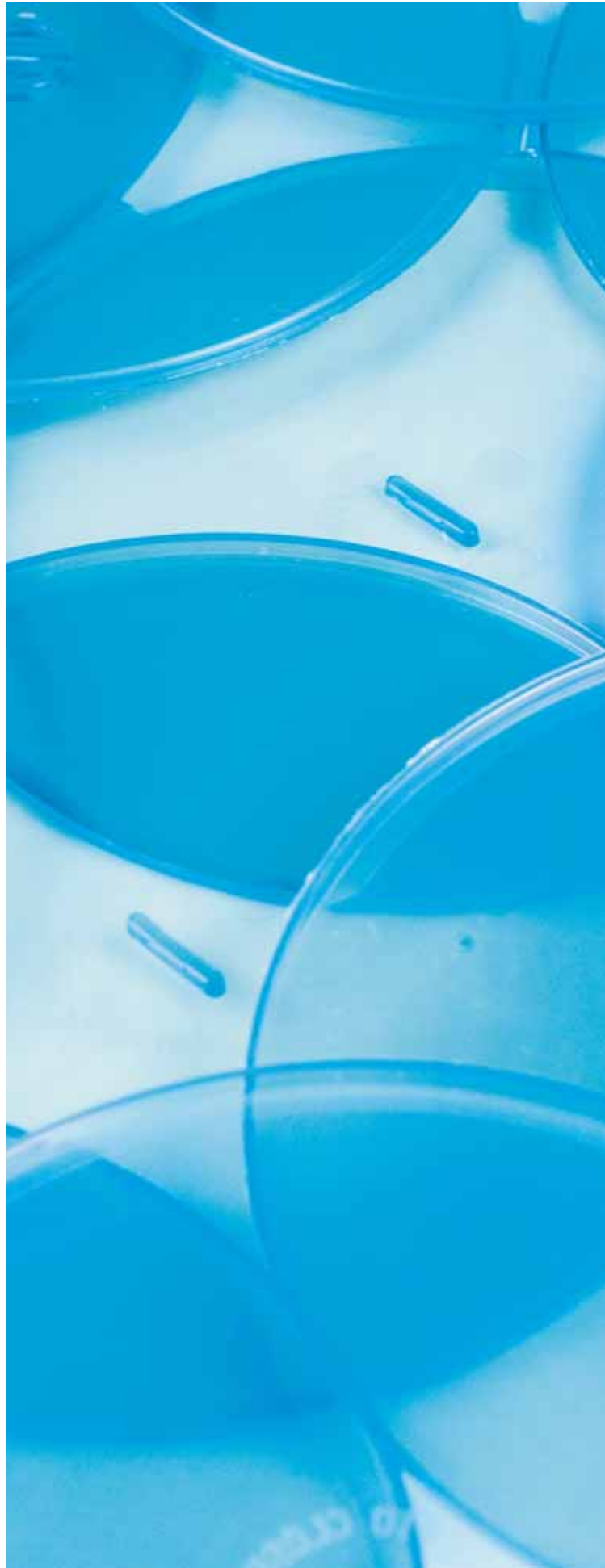
## Branding

A brand name is a strategic asset as it epitomizes people's thoughts and perceptions of the organization. Brand identity emerges from values, which serve as inspiration, constraints, guides and criteria that define the Company's style, relations and conduct. The branding process amplifies and intensifies the debate over a corporate brand name, which we regard as our most powerful asset.

In 2006, we followed up on our branding project premised on the belief that by doing so we will better define the key strategic criteria to create value not only for our product portfolio, responsible for our revenues and profitability, but for the Company as a whole, ensuring its continuity and long-term appreciation. This process involved investigating and analyzing our current position, reviewing our desired and perceived attributes, structuring our architecture and redefining our language.

Our new language seeks to facilitate, build and encourage our relations, strengthen our corporate identity and our brand name value within the context of our markets. Our language is based on dialogue and on the creation of an “Inclusive Us” through a forthright and committed attitude which will henceforth pervade all our communication with our stakeholders.

Although we merge with Polibrasil in November 2005, our polypropylene bears the Polibrasil® brand name as a token of appreciation for this company's 30-year-old tradition in the thermoplastic resin market in Brazil and for the immense value of the Polibrasil® brand name to our customers.





## Research and Development

When we acquired Basell's ownership interest in Polibrasil, we saw a timely window of opportunity to organize an Research and Development (R&D) area inside the Company with enough autonomy and freedom to evaluate and propose strategies for our technological development. We had hitherto been under the overwhelming influence of Basell, the world's largest licensor of polypropylene technology.

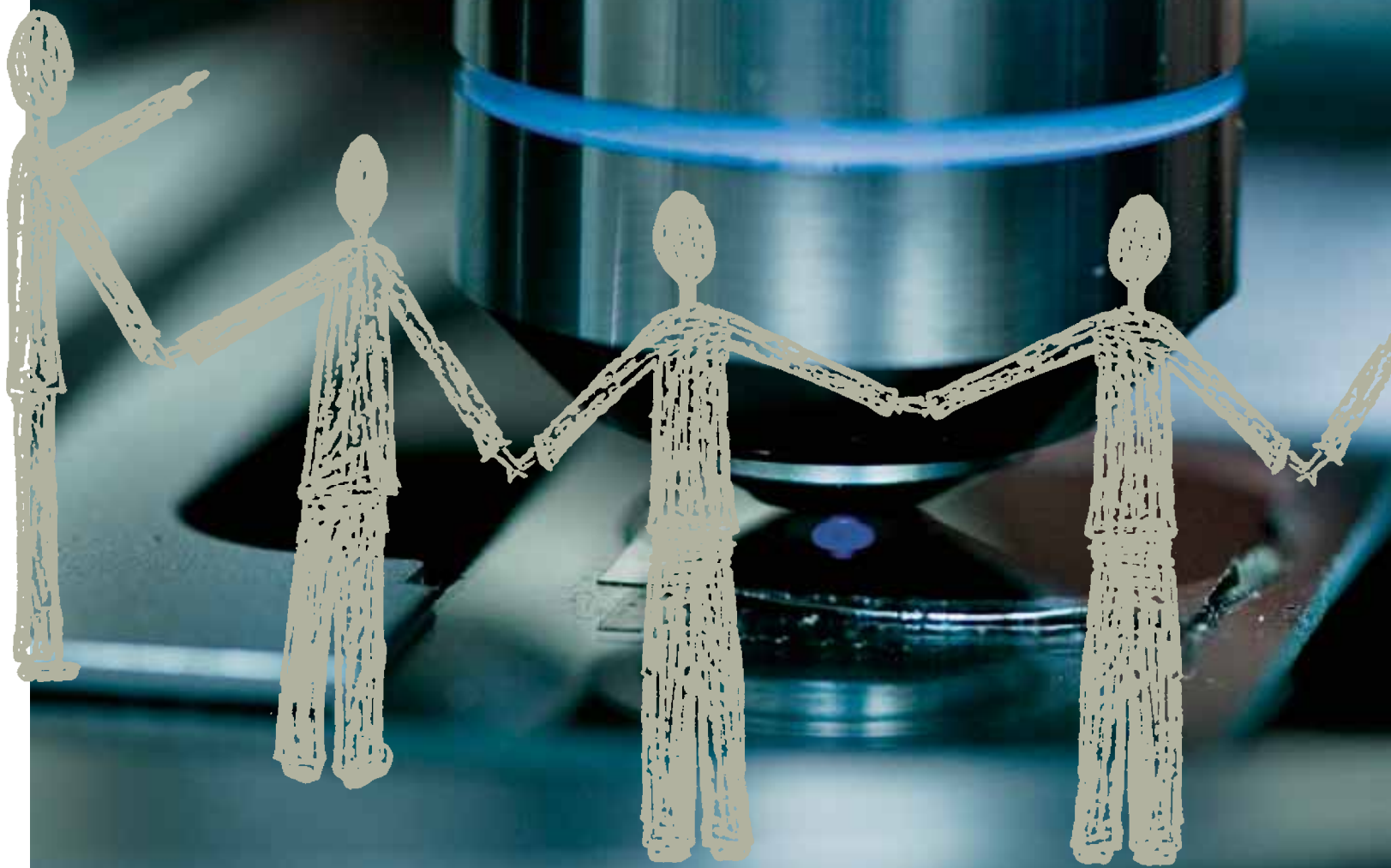
We therefore set up the R&D Management area comprised of scientists that hold either a PhD or master's degree and are exclusively devoted to research and development activities. In the past, all R&D initiatives had been restricted to polypropylene. Currently, however, we also investigate new alternative polymers, biodegradable polymers, and new alternative raw materials from renewable sources, reflecting a more strategic outlook on our market position and an overriding concern for sustainability and the continuity of our activities.

We submitted a nanotechnology project bid that was publicly approved and funded by the Brazilian Ministry of Science and Technology (MCT) through the Studies and Project Funding (Finep), acting as Executive Secretariat for the Scientific and Technological Development Fund (FNDCT). This financing is provided under the Innovation Law, a new funding facility introduced by the Brazilian Government as part of a set of official policies geared to enhancing the competitiveness of Brazilian companies. The main objective of the funding is to share costs, thereby decreasing the risks associated with innovative products while also encouraging innovative activities within the Brazilian corporate world.

We also signed a technology cooperation agreement with Suzano Pulp and Paper with the purpose of engendering innovative products and processes to maximize our companies' potentialities, optimize the use of our resources and yield benefits for our businesses and society. We additionally sponsored various initiatives in Brazilian universities aimed at supporting academic activities as well as teaching and developing subjects related to our Company's business and academic research in Brazil.

Additionally, we maintain and operate the Suzano Petroquímica Technology Center at Mauá Plant. Ranked as the most modern polypropylene laboratory in Latin America, the Center is equipped with sophisticated analysis instruments, bench scale reactors and equipment that replicate the processes employed by the polypropylene conversion industry. This R&D Center enables us to not only optimize existing products but also develop new products and applications. By 2010 we should have our Pilot Unit – a small scale version of our polypropylene production plant – operating at Mauá site, thus providing greater agility to process and product development, in addition to cost optimization.

Suzano Petroquímica's Technology Center is also available to customers wishing to investigate new applications. In 2006, 36 new products were launched and R\$5.7 million were invested in R&D.



# Compliance with regulatory environment

During the period covered in this Report we were not the target of any antitrust litigation due to unfair competition, nor monopoly practices (SO7). Consequently, we were not enforced any cash fines or penalties resulting from non-compliance with any applicable law. As regards tax legislation, we systematically disputed judgments and decisions issued by tax authorities, for most of which we gained favorable court opinions (SO8).

As regards our propaganda and marketing activities and products, we act according to the Brazilian Code of Publicity Self Regulation, besides following practices aligned to the Brazilian Consumer Code, what ensures legal compliance and save us from legal process decurring from false propaganda and infraction against consumers (PR6 and PR7).

During the reported period, we did not receive any complaints pertaining to customer or consumer privacy violation as we seek to always behave ethically and follow the principles set forth in our Code of Conduct (PR8). Likewise, we did not suffer any penalties due to non-conformity with laws and regulations governing the supply and use of our products (PR9).

All our shipments are delivered to our customers accompanied by an instruction, handling and transportation manual that also includes information on the characteristics of the polypropylene being delivered (PR3). This procedure contributed to the fact that we did not record any non-conformity events regarding product information regulations (PR4).


With regard to compliance with environmental laws and regulations, we did not register any penalties (EN28), although the Mauá Plant was issued two Inspection Notices due to black smoke emissions through the plant flare on account of emergency shutdowns caused by electric power outages. As for legal conformity with social aspects (SO8), we were fined by the Regional Labor Office of the Brazilian Ministry of Labor and Employment at Duque de Caxias Plant in connection with an issue over the use of individual protection gear (EPI).





*Jônatas Paranhos Brandão –  
Riopol (Rio de Janeiro State)*





# jointly controlled companies

We share ownership control of Riopol, the only Brazilian fully integrated polyethylene manufacturer based on natural gas fractions, and of Petroflex, the fourth largest world producer of synthetic elastomers. We hold, respectively, 33.3% and 20.1% of these companies' total capital. We actively participate in these companies' management through representation on their Board of Directors, where we seek to exert our influence by guiding them in their ongoing search for excellence in conducting their business, including sustainability related issues.



## Riopol

Situated in the city of Duque de Caxias, Rio de Janeiro State, Riopol is the first Brazilian petrochemical complex to use natural gas fractions as petrochemical raw material. It also has a complete integration between the operations of its ethylene and polyethylene production sites. At an investment of approximately \$1.2 billion and with a production capacity of 540 thousand tons/year, Riopol was inaugurated in June 2005 through a joint venture between Suzano Petroquímica, Unipar, Petroquisa (a Petrobras subsidiary company) and BNDESPar, members that participate in the Company's shareholders' agreement.

The plant's built up area encompasses 400 thousand sqm, but the whole area extends to 800 thousand sqm, with enough room for future expansions. Riopol's structure integrates both the first and second petrochemical generations, resulting in a greater operational edge. During the first ten years of operations 1.2 million tons of polyethylene are expected to be allocated to the foreign market pursuant to an agreement signed with Vinmar International, a US trading company.

In August 2005, the pyrolysis plant went on stream for the manufacture of ethylene. In November that same year, the first polyethylene production line was launched with capacity for 270 thousand tons a year. December marked the start-up of the second production line with a similar capacity. One of the lines is dedicated to the production of high density polyethylene (HDPE), while the other produces linear low density polyethylene (LLDPE).

In April 2006, Riopol took over the operations of its industrial facility. According to the engineering and procurement construction (EPC) contract, the Company would receive the

facility from the EPC contractor only after an extensive period of stringent performance and operational reliability tests conducted by Riopol's operating team under the supervision of the EPC contractor and technology licensors, with the purpose of meeting the performance goal agreed for the industrial facilities.

By the end of March 2006, when the testing phase was completed and all necessary authorizations were obtained, the custody and responsibility of the operational complex commissioned by the EPC contractor was assumed by Riopol's operating team. An important step was thus accomplished allowing the Company to gain full autonomy over its own operations. Its financial results were integrated into Suzano Petroquímica results on a pro-rata basis for holding a share interest in Riopol from that date on.

Riopol increased the installed capacity of polyethylene production in Brazil by approximately 20%. Ranked among the top ethylene and polyethylene producers in the Americas, it is a leading company in the petrochemical sector. Riopol currently employs 400 people. The Company entered the market with a 300-customer portfolio thanks to pre-marketing initiatives aimed at major converting companies based in Brazil, which are mostly concentrated in the South, Southeastern and Central-West regions.

Extensively employed in the US, natural gas has significant advantages over naphtha, particularly due to its greater yield in the production of ethylene, the main industrial input used in polyethylene production. While one ton of naphtha generates 0.33 ton of ethylene, one ton of ethane yields 0.80 ton of the same product.



*Jônatas Paranhos Brandão  
and Ernani Barichello,  
Riopol (Rio de Janeiro State)*

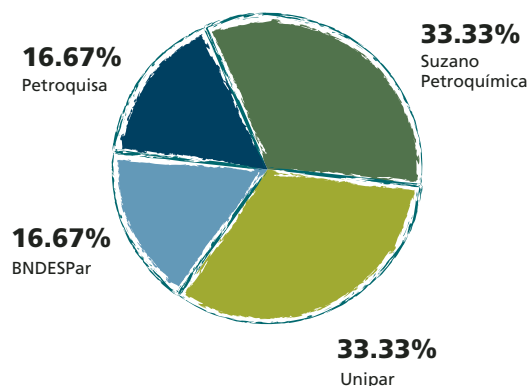
Among other relevant advantages, the following are noteworthy:

- **Efficiency:** The production model based on the use of gas derivatives requires lower investments per ton of ethylene produced due to its larger yield.
- **Reduced environmental impact:** The convenience of natural gas fractions to ethylene production entails the generation of fewer chemical by products, most of which are less polluting than naphtha derivatives, thus contributing to reduced gas and effluent emissions into the environment.
- **Availability of raw materials:** This project represents an innovation in Brazil since it uses natural gas fractions extracted from the Campos Bay (ethane and propane) in the production of polyethylene, consequently reducing the dependence on naphtha, the key raw material used by the Brazilian petrochemical sector. This is a welcome innovation since a shortage of naphtha is expected in the next few years both in Brazil and worldwide.

Riopol is the first Brazilian company in the petrochemical sector to be financed through the project finance model, which bases the granting of funding on the borrower's payment capacity through future cash flows generated by the operation. Of the total \$1.2 billion invested, 40% of the funding were provided by shareholders themselves and 60% were financed through the BNDES and US Ex-ImBank credit facilities and a consortium of international commercial banks insured by the Italian Export Credit Agency (Sace).

#### RIOPOL'S SHAREHOLDING STRUCTURE

*% total capital*



## Economic and financial performance

Since it first started its own polyethylene operations in April 2006, Riopol has evolved considerably in its operating learning curve and its penetration in the market.

During the year, the company made important developments towards polyethylene production and marketing, reaching an average operating rate of 78.5% of its capacity. In its first year of operation, Riopol already accounted for 20% of domestic sales of linear low density polyethylene (LLDPE) and high density polyethylene (HDPE).

In 2006, 387.7 thousand tons of polyethylene were produced by Riopol, of which 17.6% were produced in its pre-operational phase. Of the total volume sold (293.8 thousand tons) produced during its operational phase in 2006, 61% were supplied to the domestic market and the remainder was exported.

Furthermore, Riopol also sold 40.5 thousand tons of polyethylene from January to April 2006, an amount that was accounted for as deferred assets.

The Company's performance does not wholly reflect its aimed operating performance, since the first 2006 quarter was a testing period and, in the following quarters, the Company was dedicated to the consolidation and improvement of its operations. Therefore, Riopol's contribution to Suzano Petroquímica consolidated results during 2006 was not compatible with its potential.

By year end 2006, Riopol's sales represented 13.2% of our consolidated net income and 10.2% of our cash generated from operating activities (Ebitda).

## Social and environmental performance

Riopol already showed concern for the environment and its neighboring communities long before it began its operations. In five years, it invested R\$1.9 million in five social and environmental initiatives when it was still a project. Riopol's most important social and environmental program is the Manguezal Project, which consists of the cultivation of cuttings and the recovery of degraded areas in the mangrove surrounding of Guanabara Bay, in Rio de Janeiro. By December 2006, the plant nursery established by Riopol on the Fundão Island, on Guanabara Bay, featured approximately 17,000 cuttings of local native species. On the Petroflex premises, there were roughly 31,000 cuttings scattered over a 13-hectare area, both projects supported by the Rio de Janeiro Federal University (UFRJ) and a specialist consultant. The project also includes selective collection of solid residues, dissemination of environmental education and the creation of income generation opportunities for residents of the neighboring Saraiva community in Campos Elíseos through the establishment of a cooperative.

Another Riopol's key social project is called *Fabricando Saúde* (Producing Health). This is a partnership between the Company and the Pax Internatural NGO which provides information and education to underprivileged youths aged 15-23 living in the Jardim Ana Clara Community on how to prevent teenage pregnancy and sexually transmitted diseases (STD). Another project sponsored by Riopol is titled *Crianças Saudáveis, Futuro Saudável* (Healthy Children, Healthy Future) which provides basic advice on personal hygiene, nutrition and disease prevention to local school children, besides teaching how to grow a school vegetable garden. This program has already benefited 5,000 children and is currently benefitting 3,000 in Duque de Caxias, Greater Rio de Janeiro area, in partnership with Inmed NGO and the local city council.

Even before it went on stream, Riopol invested nearly R\$2 million in social and environmental projects. In the Guanabara Bay, one of which is geared to the recovery of degraded areas in the mangrove surrounding.

*Riopol (Rio de Janeiro State),  
André Christ*





# Petroflex

Petroflex, of which we own 20%, of the total capital is the largest Latin American manufacturer of synthetic elastomers and the world's fourth largest. Elastomer is an industrial input used extensively in the manufacture of tires, tire rethreading, footwear, adhesives and sealants, among others.

Petroflex is a publicly held company with shares traded in the São Paulo Stock Exchange (Bovespa). The Company's industrial sites are located in Duque de Caxias (Rio de Janeiro State), Triunfo (Rio Grande do Sul State) and Cabo de Santo Agostinho (Pernambuco State). It currently employs 619 people and manufactures 70 different types

of elastomers from oil-derived raw materials. Its ownership control is also held by Braskem and Unipar through a shareholders' agreement with Suzano Petroquímica.

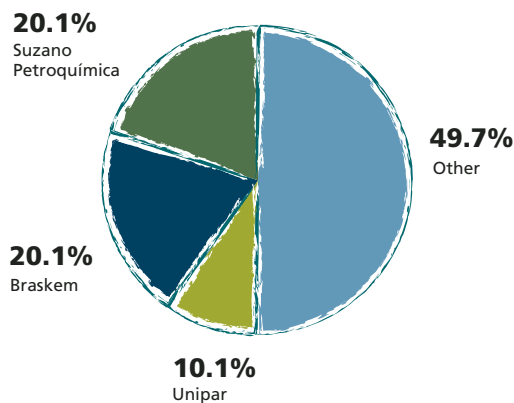
Founded in 1962 by Petrobras, Petroflex was the first petrochemical company in Brazil to adhere to the National Privatization Program (PND), when Suzano Pulp and Paper acquired part of its ownership, subsequently transferred to Suzano Petroquímica.

Since it was privatized, Petroflex has restructured its operations and consolidated its position as a leading elastomer manufacturer in Latin America. Its annual production capacity stands at 422 thousand tons and it currently holds a 70% share of the Brazilian elastomer market. As well as maintaining a strong presence in the domestic market, Petroflex exports its products to more than 50 countries in five continents. Foreign sales account for nearly 36% of its total traded volume.

Petroflex's strategic goals are to increase the market share of its higher added value products and intensify its activities on international markets. In line with its internationalization strategy, Petroflex maintains sales offices in Rotterdam and Hong Kong, while in North America it is represented by Petroflex America Inc., opened in January 2005 and located in Wilmington, Delaware, US. It also keeps a sales office in São Paulo to cover the Asian region.

## PETROFLEX'S SHAREHOLDING STRUCTURE

*% total capital*





## Economic and financial performance

In 2006, Petroflex utilized 82% of its production capacity and manufactured 337 thousand tons of elastomers. The Company's traded volume reached 338.7 thousand tons, a 5.1% increase over 2005. A 7.3% increase was recorded in domestic sales. This performance was achieved despite a drop in sales in the last quarter of the year, which is typically a period of lower demand, in Brazil, when some customers wen interrupt their production. During 2006, Petroflex's domestic market share in the elastomer market was 68%.

The Company's total sales represented 11.3% of our consolidated net revenues and 10.4% of our cash generated from operating activities (Ebitda).

## Social and environmental performance

Petroflex always seeks to increase the scope of its social development initiatives. Petroeco, one of its chief social and environmental projects, is aimed at high school and elementary students with the purpose of raising their awareness towards environmental preservation. Their awareness is enhanced through visits to natural environments and classroom studies on environment-related issues for presentation of nature conservation or revitalization projects.

Another program sponsored by the Company is *Nossas Raízes* (Our Roots), a project that encompasses three other environment-related projects: Ingá, Caroba and Guaco. The Ingá project is designed to promote the recovery of the vegetation on the banks of the rivers Caí, Jacuí and Taquari around Triunfo, Rio Grande do Sul State, by involving residents of neighboring communities. Another goal of the program is the development of ecotourism in the nature-rich areas around the Southern Petrochemical Complex plants, thereby helping to restore not only the landscape but also the self-esteem and quality of life of local populations by providing them with an occupation and a source of income.

The Caroba Project fosters the preservation of a remaining native forest covering five hectares through educational trail tours. The Guaco Project encourages the production and use of native medicinal, culinary and aromatic herbs in a partnership with the local community.

Another project, *Classe Anexa* (Adjoining Class), now in its second year, sponsors secondary education for outsourced workers. This initiative seeks to develop and expand education with the purpose of improving the workplace climate.

The special needs inclusion project trained 47 physically challenged residents of the Greater Rio de Janeiro Area, who attended training courses for personnel department, computer, administrative and accounting assistants.







2 0 0 6  
performance



## Economic and financial dimension

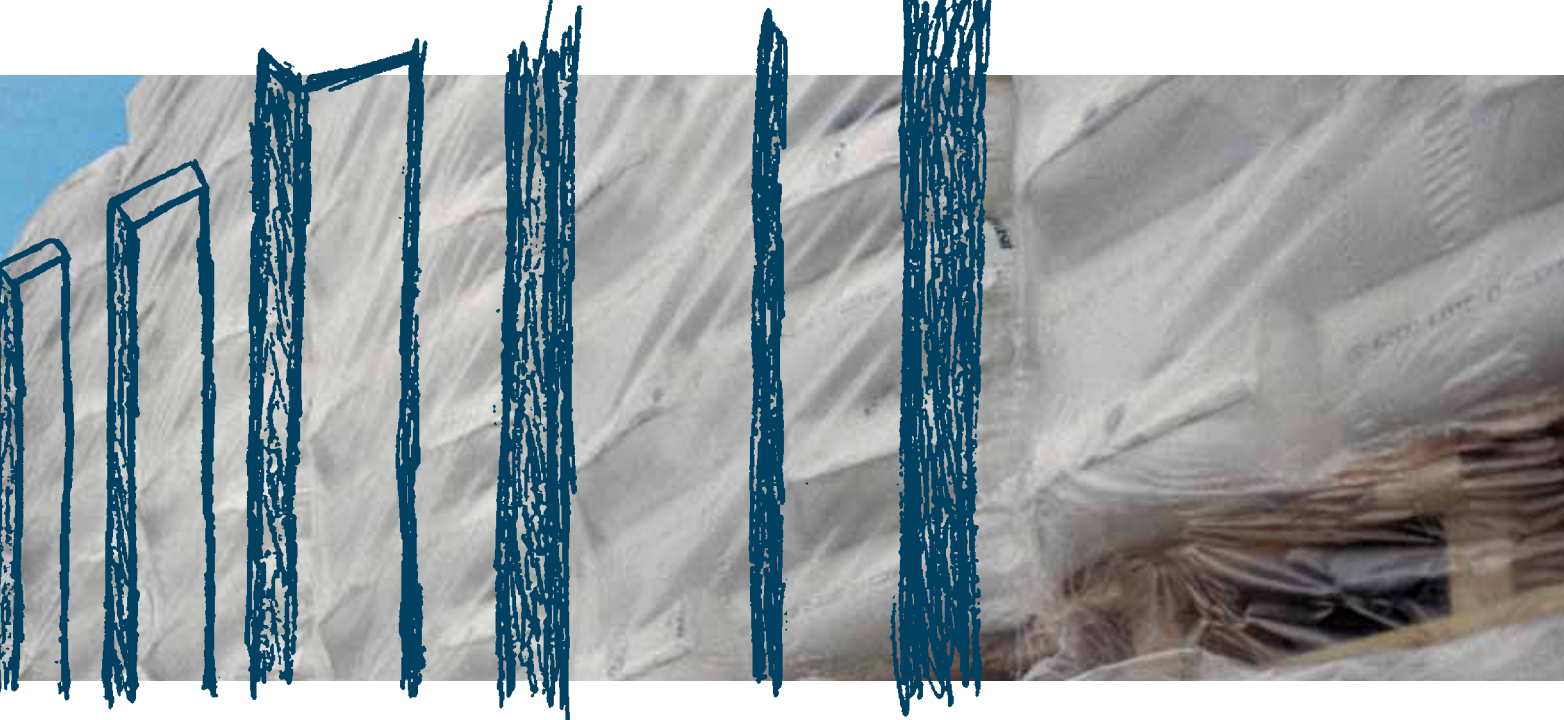
Our economic-financial performance is characterized by the ongoing seek for the maximization of shareholders' return on investment. It also aims to contribute to the economic and social development of the communities within our influence through job and income creation. Our economic and financial management aims to support our operations and thus contribute to the success of our growth plan through consistent processes and controls in line with our business strategy.

Our financial statements are prepared in accordance with the Brazilian accounting standards (BRGAAP) and reconciled according to internationally accepted accounting practices under USGAAP. In this Report, except when otherwise stated, the financial information provided by Suzano Petroquímica Parent Company is reported on a *pro-forma* basis so as to allow an adequate comparison with previous periods, given the acquisition and merge of Polibrasil in 2005. Our consolidated financial data at the end of this Report are presented on a *pro-forma* basis for all periods with the purpose of excluding the effects of Suzano Petroquímica's ownership interest in Politeno, which was divested in April 2006.

As well as enforcing resource management policies, we are beginning an in-depth project of risk identification and treatment (as previously mentioned in the Management chapter).

To further enhance the follow-up on the execution of our financial and investor relations policies, a Financial and Investor Relations Committee was set up in January 2007. Its scope is focused on the following topics: (1) analysis of Suzano Petroquímica's financial performance and the evolution of our shareholding base; (2) discussions on information disclosure strategies; and (3) definition of basic guidance parameters for investment and funding policies. The Committee also works towards the assessment of our management practices and the identification of improvements in internal processes.

The main goal of our economic and financial management is to ensure the financial resources necessary to achieve our long-term strategies and fulfill our daily operational needs. We have identified the financial parameters to be managed with the purpose of achieving our business goals, ensuring the necessary resources for the development of new projects and keeping the working capital at competitive levels. The management of financial parameters is carried out through daily operational activities, reviewed and analyzed by the Executive Board and governing body on a monthly basis.



The financial resources available for operational needs are budgeted based on a specific provision model of daily cash flow forecasts, for quarterly and annual periods, aimed at guiding decisions on the application of excess funds and funding to meet cash flow needs, which undergo continuous assessment. This model is updated monthly and lends support to decisions made regarding our business activities in the following months.

The Company's cash, investments and funding transactions are carried out through first-tier banks, according to standards established by Moody's international rating agency for financial institutions that pose smaller risks and offer better deals regarding rates, terms, profitability etc, and better technical operating conditions such as electronic link, readiness, service support, etc. Once the institutions are defined, the following rules govern the Company's financial transactions:

- **Funding:** we take into account availability of credit lines, adequacy of financing terms, competitiveness of rates and the alignment between the credit line exposure (interest and foreign exchange rates) and the hedging mechanisms available and used
- **Cash Investments:** we regard banks with acceptable credit ratings as extremely important for our investment operations. We also analyze their interest rates, adequacy of terms to our cash flow needs and exposure to foreign currency and other market fluctuations

For the purpose of granting credit to our customers, we adopt an analysis system based on risk rating score that takes into account qualitative aspects such as importance of the customers, growth potential, industrial site, geographical scope, number of branches and payment history and economic-financial aspects such as their liquidity and indebtedness levels, business activity and profitability. For sales to foreign markets, in addition to the aforementioned aspects, we also take into account the country's risk.

Payment collections are controlled through the EMS Datasul collection system and in case of payment arrears, our Treasury area takes immediate action.

All the financial practices and procedures listed above are recorded in our documentation system available on our intranet.

We are beginning to study the possibility of measuring the indirect economic impacts caused by our financial activities (EC9).

## Economic and financial performance

### PRODUCTION AND SALES

Our polypropylene production totaled 544.1 thousand tons in 2006 at an average operating rate of 83.3% during the year, considering the new production capacity of 685 thousand tons effective as of July 11. The 2006 production was 1.4% lower than in 2005. If we take into account the total 2005 production, including polypropylene compounds until September that year, there was a 5.7% decrease. The cause of this reduction was threefold – scheduled shut-downs for capacity upgrade at Mauá Site, replacement of the catalytic system at Duque de Caxias Site, and testing of new catalysts at Camaçari Site to increase the plants' competitiveness and the quality of its products.

During 2006, we sold 556.8 thousand tons of polypropylene, a 7.2% increase over 2005 thanks to a rise in domestic sales and in export volumes. Domestic polypropylene sales totaled 435.5 thousand tons, 4.9% higher than 2005 figures. The best performing sectors were the packing industry, especially food and cosmetics packaging, and furniture. Domestic consumption of polypropylene in 2006 rose by 12.5% over 2005 according to preliminary data from the Brazilian Chemical Industry Association (Abiquim) and the Thermoplastic Resins Committee (Coplast).

### NET OPERATING REVENUES

In 2006, our net revenues amounted to R\$1,826.8 million, 1.3% higher than in 2006 due to an increase in sales, despite a slight reduction in the average unitary revenue in Brazilian Reals observed between accounting periods. The 2006 average unitary revenue was affected by the behavior of local prices during the first two quarters. Due to the strengthening of the Brazilian currency during the period and a below expectation domestic demand, local prices failed to keep up with rising resin prices on the international market. As of the 2H06, domestic prices staged a significant recovery exceeding the prices obtained during the same period in 2005, thus enabling the recovery of our profitability despite an appreciated Brazilian currency.

Our consolidated net revenues amounted to R\$2,385.7 million, 13% higher than in 2005 due to the consolidation of Riopol's result as of the 2006.

### COST OF GOODS SOLD (COGS) AND SALES, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

Suzano Petroquímica's COGS in 2006 amounted to R\$1,567.5 million, in line with sales costs recorded in 2005, since this slightly higher volume (2.2%) sold during the year was offset by a 1.8% reduction in the unitary COGS. The average propylene price quoted in Brazilian Reals in 2006 was virtually the same as 2005. This was due to the Real appreciation during the period, which lessened the impact of the increase in the US Dollar cost equivalent.

Our consolidated COGS during 2006 was R\$2,102.2 million, 16% higher than in 2005, partly because of the fact that Riopol's production cost was accounted for as of April 2006 and by an increase in Petroflex's COGS.

Suzano Petroquímica's SG&A totaled R\$188.3 million during the year, 2% higher than in 2005, mainly as a result of an increase in general and administrative expenses, despite a reduction in sales expenditures obtained even with a higher sales volume. If we take into account the 2006 Extended Consumer Price Index (IPCA) of 3.14% recorded by the Brazilian Institute of Geography and Statistics (IBGE), there was an actual reduction in the Parent Company's SG&A.

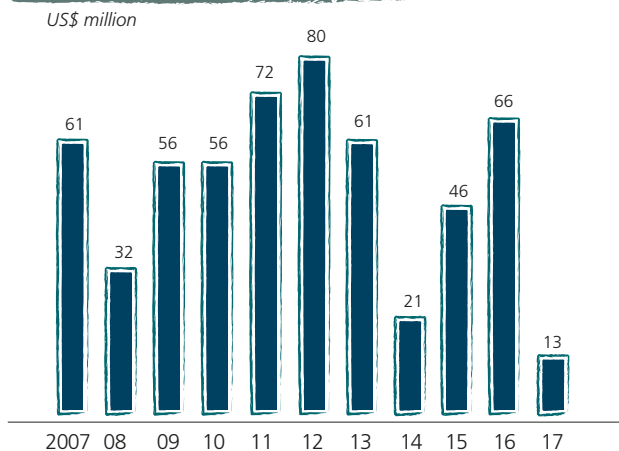
Our consolidated SG&A totaled R\$ 249.7 million, 16.5% higher than in 2005, once again due notably to Riopol's expenses consolidation, which were not significant in 2005, and resulted from pre-marketing operations only.

### OPERATING CASH GENERATION (EBITDA)

Based on the recovery of our margins during the 2006, our 2006 EBITDA totaled R\$155.9 million, in line with 2005. Eighty percent of our EBITDA was generated during the 2H06, when a recovery in domestic prices brought about an EBITDA per ton of R\$439, a 52.7% increase over 2005. The 2006 EBITDA margin was 8.5%, in line with the 2005 margin.

Suzano Petroquímica's consolidated EBITDA, in turn, reached R\$193.3 million, 1.8% higher than the 2005 consolidated EBITDA, also owing to the consolidation of Riopol's operating result, which offset the impact of Petroflex's EBITDA reduction. The consolidation of the positive result related to Riopol's activity generated a positive EBITDA of 19.7 million in the consolidated operation cash generation of 2006. The consolidated EBITDA margin was 8.1% during the year, 0.9 p.p. lower than the margin realized in 2005, as a result of the small retreat of 0.2 p.p. in the Parent Company's margin and of 6.8 p.p. in Petroflex's margin.

## DEBT AMORTIZATION SCHEDULE



## INDEBTEDNESS

On December 31<sup>st</sup>, 2006, our gross indebtedness (considering principal and interest) totaled R\$1,240.4 million, 5.5% higher than recorded by year end 2005. Our debt was strongly concentrated the long term, with a total of 86.8% of its maturity dates. The Company reduced its net indebtedness by 6.0% to R\$900.2 million as a result of the increase in cash generation during the period, which reduced the need for working capital, despite the continuity of investments in production capacity expansion.

According to our debt amortization schedule, on December 31 2006 the average term of maturity was 5.17 years.

On December 31, 2006, our consolidated gross indebtedness (considering principal and interest) was R\$1,934.1 million, 7.3% higher than recorded by year end 2005. Our net indebtedness, however, was 0.6% lower, totaling R\$1,961.9 million due to an increase in cash resulting from a better operating result achieved by the Parent Company and Riopol.

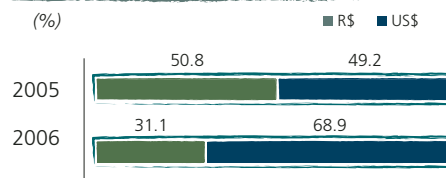
## NET PROFIT

In 2006, our net profit reached R\$16.7 thousand, despite financial expenses of roughly R\$58.6 million, a recurring goodwill amortization in the amount of R\$57.3 million and the consolidation of our share in Riopol's result, with a negative impact of R\$ 30.8 million. The accounting of the amount expected as a second installment to be paid for the Politeño sale, reflected in the equity pick up positively contributed with a net amount of R\$ 64.4 million towards the Company's results. For further information, please see explanatory note #17 in the Financial Statements.

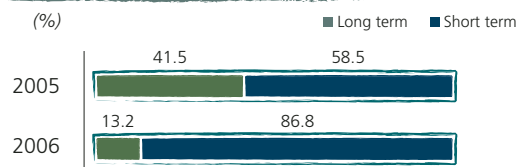
## INVESTMENTS

Our investments totaled R\$61.2 million in 2006, 70.7% of which were destined to polypropylene production capacity

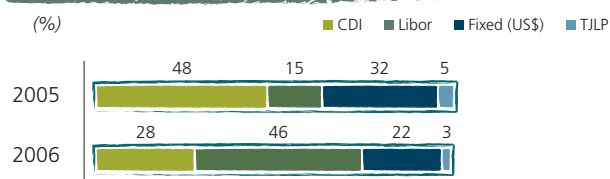
## GROSS DEBT EXPOSURE PER CURRENCY



## EXPOSURE PER TERM



## EXPOSURE PER INDEX



expansion projects, and the remaining to production equipment maintenance and other investments, according to accrual basis.

The estimated total amount allocated for capacity expansion projects and the construction of the sea terminal, including the already completed expansion of the Mauá Site, is USD126.9 million, and the disbursement schedule is shown in the table below. Resources for the aforementioned projects have already been defined and funding will be jointly provided by the International Finance Corporation-IFC and the Brazilian Development Bank (BNDES). Furthermore, the Company is conducting studies to revamp the Camaçari Site and increase its production capacity by 75 thousand tons. The construction of a new polypropylene plant in Paraná State with a 200 thousand tons/year production capacity is also under review.

## Social Responsibility

### INVESTMENT SCHEDULE

US\$ million	2006	2007	2008	2009
Capex Projects	31.2	60.0	35.7	126.9
Sea Terminal	4.5	13.1	0.0	17.6
Expansions	26.7	46.9	35.7	109.3

# Social Dimension

## MANAGEMENT AND SOCIAL RESPONSIBILITY

We are conscious of our role as partners to the communities where we operate and voluntarily share the responsibility for their development. We strive to integrate the desires and needs of our stakeholders into the planning of all our initiatives.

According to our Bylaws, the administration and management of our social business are under the responsibility of our Co-CEOs.

## SOCIAL INVESTMENTS

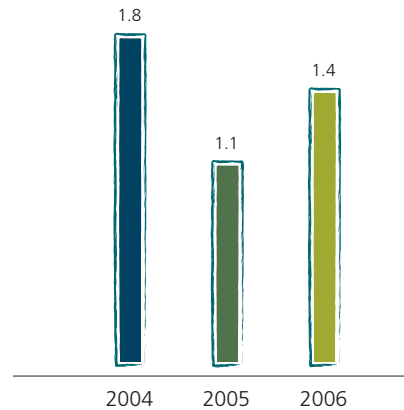
We are aware that our responsibilities do not end with the payment of taxes, job creation and marketing quality products. As well as contributing to the economy, we actively participate in projects aimed at improving the quality of life of our local communities. This does not imply a condescending attitude towards the communities, but rather a sincere effort to foster their development in a no dependence relationship.

Support to educationally meaningful projects is a priority on our community empowerment agenda. We regard education as a key determinant of local community development. We seek to continuously enhance their social indicators and ultimately create the necessary conditions for their sustained social and economic emancipation.

Our investments in social projects amounted to R\$1.8 million in 2004, R\$1.1 million in 2005 and R\$1.4 million in 2006. We anticipate for 2007 social investments of about of R\$1.6 million. The number of people

## INVESTMENTS IN SOCIAL PROJECTS

R\$ million



reached through our projects amounted to 283 thousand in 2004, 289 thousand in 2005 and 259 thousand in 2006.

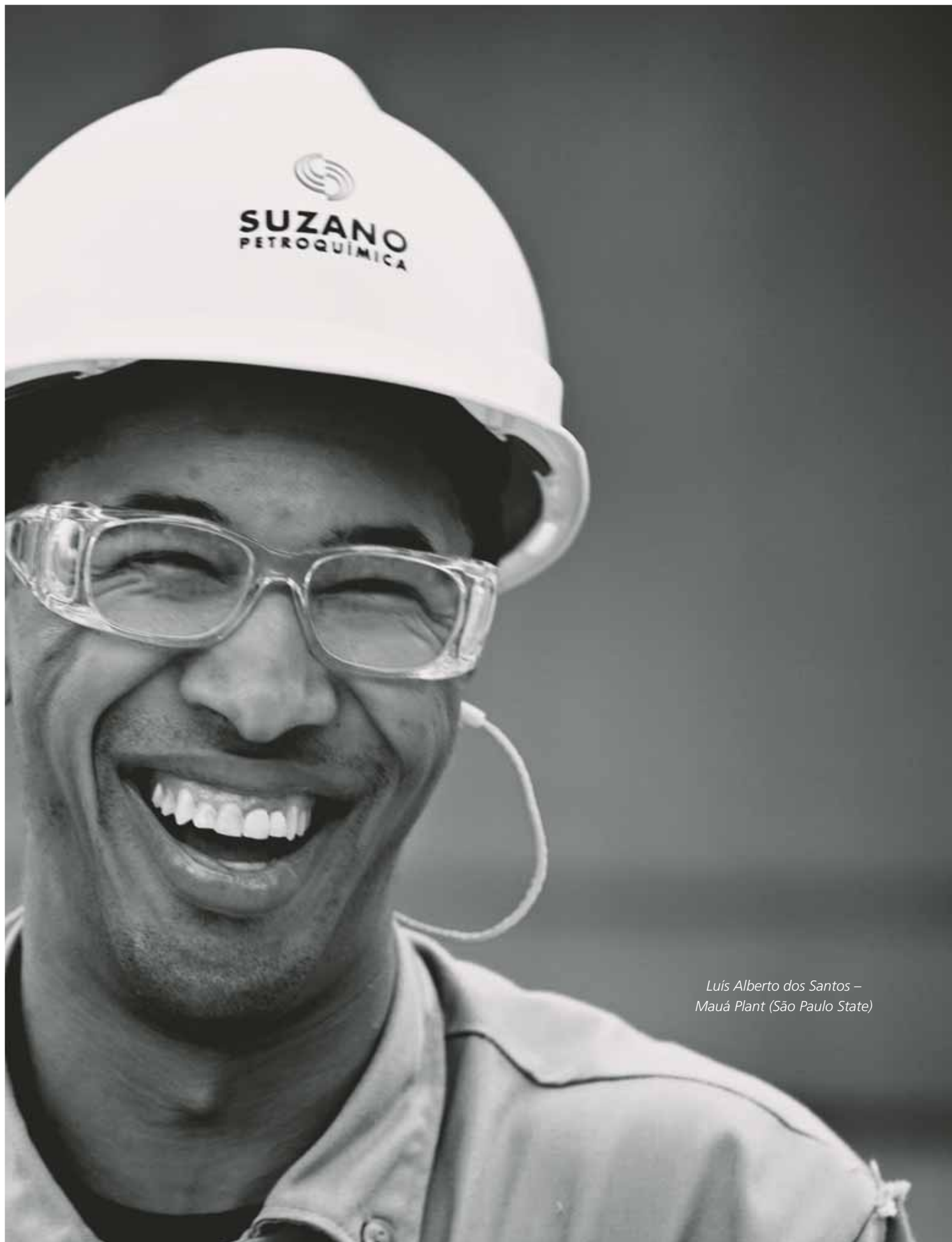
The benefits that accrue from our business operations spread throughout the entire production chain. We estimate that 50 indirect jobs are created within the production chain for every one thousand ton of polypropylene manufactured, which currently would be equivalent to nearly 35 thousand jobs.

## Ethos Indicators

We apply the Ethos Institute Social Responsibility Indicators to evaluate our corporate citizenship level.

These indicators allow us to identify our strengths and weaknesses, and compare us with other companies. The self-evaluation is carried out in accordance with the depth and comprehensiveness of the companies' performance in the following categories: values and transparency, internal public (employees), environment, suppliers, consumers and customers, community, government and society.

Our self-evaluation reveals that we have reached a high degree of corporate citizenship when compared with the average. We must, however, improve our practices if we are to approach the indicators achieved by relevant benchmark companies (see page 72). To this effect, in October 2006, the Social Responsibility area was restructured and is currently undertaking studies to align itself with the market's best practices.



*Luís Alberto dos Santos –  
Mauá Plant (São Paulo State)*

## SUZANO PETROQUÍMICA – ETHOS INDICATORS

Themes	Company's Rating	Population Data	
		Database Average	Benchmark Group Average
Values and Transparency	8.47	5.03	8.57
Internal Public	5.17	4.51	7.86
Environment	7.50	4.77	8.58
Suppliers	6.56	3.95	8.05
Consumers and Customers	9.87	6.47	9.67
Community	7.35	4.66	9.16
Government and Society	6.35	4.41	8.38
Overall performance	7.32	4.83	8.61

*The data shown above result from the Company applying the Ethos Social Responsibility Indicators through self-evaluation. Consequently, diagnostic conclusions are not validated by a certification. The purpose of this evaluation is to induce reflection, learning and enhanced corporate social responsibility practices.*

### Educating for sustainability

#### WHAT IS IT?

It means disseminating the sustainability concept to the audiences with whom we interact. To us, sustainable development is a strong link in this chain. It means enacting our corporate values and business principles to meet the current needs of the Organization and the audiences with whom we interface while protecting, maintaining and improving the human, natural and financial capitals required for the future.

#### THE CHALLENGES

- To disseminate the sustainability concept to our internal public and their family members, communities, class associations and public agencies.
- To reach out to our nearly 450 employees working in industrial sites and offices and together overcome the hurdles that prevent us from implementing solutions aligned with sustainability practices across all our activities.
- To organize volunteer groups to study and develop social and environmental initiatives and programs in line with the needs of the communities living in the surroundings of our industrial sites.

#### WHAT WE WILL ACCOMPLISH

We will align all our initiatives with sustainability principles, a task which often involves wielding considerable influence on consultants, employees and suppliers by means of special workshops. We will empower our leaders, encourage all our employees towards self-development, provide education to our suppliers, customers and employee family members, and we will support the seek towards adapting our business to the sustainability concept.



## Relationship with communities

We take part in Community Advisory Councils composed of representatives of the community who provide a link between neighboring communities and our companies in the petrochemical complexes of Camaçari, Duque de Caxias and Mauá. Participants include mayors, alderpeople, representatives of community organizations and schools, environmental groups and state authorities in charge of environmental control. Councils are convened quarterly according to schedule, or extraordinarily, whenever a specific issue or concern arises.

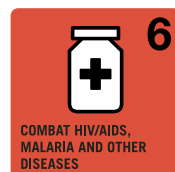
Once community demands are identified, the groups organized inside the petrochemical complexes are in charge of meeting them. Whenever Suzano Petroquímica itself is the only party involved in a given initiative, either the Human Resources area or the site's Industrial Management is responsible for its implementation.

We seek to foster the economic and social development of our geographical areas of influence along with other petrochemical companies operating in the same regions. One noteworthy example in Camaçari is the Camaçari Industrial Development Committee (Cofic), which comprises 60 companies from this complex and other neighboring areas. In Mauá, we participate through the Greater ABC Petrochemical Complex Association (Apolo), and in Duque de Caxias, through the Campos Elíseos Companies Association (Assecampe).

We take part in programs aimed at stimulating regional development, such as Bahiaplast and Plast-Rio, sponsored by the Bahia and Rio de Janeiro state governments respectively, with the purpose of drawing plastic manufacturing companies to these states. Moreover, the programs seek to promote customer development and growth, generate employment and income, stimulate small local producers, and foster regional development.

## UN Millennium Development Goals

A sign of a shift of focus towards the environment is reflected in the current concern expressed by people, companies and governments with the dissemination and implementation of initiatives leading to the achievement of the UN Millennium Development Goals. The Millennium Declaration proposed by the UN and approved by 191 member states established eight targets for improving the quality of life on the Planet, which goals should be accomplished by 2015, according to the boxes below. Our challenge for 2007 lies in setting at least one Social Responsibility initiative for each Millennium Goal.



Similarly, focused on regional development and social and environmental initiatives, we also participate in the Local Plastic Productive Arrangement (APL) project, in São Paulo geared towards enhancing the competitiveness and growth of micro, small and medium-sized plastic manufacturing companies while concurrently supporting recycling initiatives that lead to social, economic and environmental development of the industrial region.

Other channels designed to ensure an effective liaison with the community include our website and surveys, which allow us to identify the public's perception of our initiatives, their demands and improvement opportunities. Companies in the Mauá petrochemical complex which are organized in São Paulo Petrochemical Complex Association (Apolo) conduct surveys with their local community every other year since 2002. The last survey detected that the image of the petrochemical complex has improved in the eyes of the population. Such result can be ascribed to the measures undertaken by the companies in recent years.

## Plastivida Institute

Since its inception in 1995, the Social and Environmental Institute for Plastics (Plastivida) has fostered the dissemination, development and transfer of technologies for recycling and recovering manufactured plastics. The Organization encourages plastic reuse and recycling, and supports environmental education programs related to the selective collection and recycling of plastic.

We invest about R\$72 thousand on an yearly basis in activities involving nearly 300 educators, 6,000 students and 160 employees.

In 2006, Plastivida forged a strong partnership with the RecicLázaro Association with the purpose of expanding the selective collection and recycling of plastics in São Paulo's West area, training school teachers and students on the importance of selective collection and plastic recycling, raising awareness of environment preservation and implementing a policy of social inclusion among the underprivileged population.



#### **Association for the Assistance of Handicapped Children (AACD)**

Since 1994 we have maintained a partnership with the AACD, a non-profit organization founded in 1950 aimed at recovering and socially integrating physically challenged children, teenagers and adults. Our partnership involves the supply of raw materials for the manufacture of orthopedic appliances, prosthetics, vests and other polypropylene accessories for use by bearers of special needs. In 2006, we donated 50 tons of polypropylene worth R\$288 thousand, benefiting more than 47,000 patients.

#### **Ecofuturo Institute**

The Ecofuturo Institute is a Public Interest Civil Society Organization (OSCIP) whose mission is to promote environmental education as defined by Unesco: "Environmental education is an ongoing process aimed at developing a world population that is aware of, and concerned about, the total environment and its associated problems, and which has the knowledge, skills, attitudes, motivations, and commitment to work individually and collectively towards solutions of current problems and the prevention of new ones".

We work hand in hand with the Ecofuturo Institute and the Brazilian Foundation for Children's and Juvenile Books (FNLJ) in the *Ler é Preciso* ("To read is a need") project for Community Library and in the *Ler é Preciso* annual writing contest. As an active supporting member we invested R\$700 thousand in the Ecofuturo Institute in 2006.

Another relevant partnership is with the Albert Sabin Municipal School in Duque de Caxias, Rio de Janeiro State, where we support the *Pequenos Grandes Amigos* (Little Great Friends) youth choir comprised of approximately 50 students. The key purpose of this project is to foster the integration of children into their school environment in a playful and entertaining manner. Students attend singing and musical instrument classes and receive speech therapy. In 2006, R\$ 100 thousand were invested in this program. For further information, please visit the Ecofuturo Institute website at [www.ecofuturo.org.br](http://www.ecofuturo.org.br).





*Marco Aurélio de Souza and Flávio Eduardo Monteiro –  
Mauá Plant (São Paulo State, opposite page)  
Manguezal Project (Rio de Janeiro State)*

## People Management

In 2006 we perfected our people management processes to ensure the continued success of our policies in this area. Some highlights of our model are as follows:

### **TRAINING (LA10 AND LA11)**

We have made consistent investments in employee qualification. Our training/compensation index was 2.66% in 2005 and 2.06% in 2006. In addition to in-house courses and lectures, we also grant scholarships to employees interested in taking technical, graduate, post-graduate, MBA and language improvement courses.

The total investment allocated to training and development in 2007 amounts to approximately R\$1.5 million. In 2007, we plan to sponsor behavioral and technical training for our personnel provided in our offices and industrial sites by first rate training institutions.

Furthemore, our goal is to train all our employees on specific sustainable development issues, and invite them and their family members to attend open lectures by renowned professionals.

## Environment Partners – Coopmarc

In a partnership with the Bahia State Center for Environmental Resources (CRA), the Environment Partner program diagnoses, recommends and follows up on the implementation of sound environmental practices in the Camaçari Cooperative for Recyclable Materials (Coopmarc), in addition to supplying tools which ensure the continuity of the collectors' activities.

Launched in 2004, the program identified a few shortcomings in the Cooperative's business strategy and environmental management. Among the issues pinpointed were problems related to the organizational climate, emotional instability and low self-esteem among Cooperative members; inadequate equipment; a lack of accident prevention program and solid residue treatment, as well as difficulties in sales management.

When we encountered this situation we supplied adequate materials and individual protection gear, and also sponsored motivational, qualification and business strategy training. As a result, Cooperative members had the opportunity to learn more about their activities and pursue them with greater professionalism and motivation.

Through the implementation of the Environment Partners program, members have gained the necessary qualifications to enjoy a more substantial income and their sales increased by 60%. In addition, they are now capable of applying environment management and workplace safety practices with greater efficiency.

In 2006, the program won the 5<sup>th</sup> Marketing Best Social Responsibility Award granted by Referência Publishers and Madia Marketing School.

## **BUSINESS CASE**

### **Learning Leadership – Leadership for new times**

The Learning Leadership program seeks to align expectations for the achievement of goals and was created from the evidence that new strategic orientations also require changes in employee skills and behavior.

Until 2002, we strived for operational excellence and prioritized the achievement of the highest levels of production quality. In the following year we shifted our focus to the market, placing customer relations high on our growth strategy agenda. The need therefore emerged to integrate people development programs into our strategic orientations.

It was on this occasion that the Learning Leadership program was launched, aimed not only at leaders (professionals in management positions), but all employees across the board. In this program we provide training to inform our employees of our priorities for each year and also evaluate their expected behavior in light of the Company's needs, with a view to achieving our annual goals.

This program was one of the elements that contributed to improving the organizational climate at Suzano Petroquímica since it provided a clearer perception of the Company's valuation of its employees. Furthermore, it decreased the likelihood of discrepancies between expected and actual employee behaviors. In 2006, the Education Leader program's theme was Management through Values.

Management through Values consists of an approach that proposes a discussion of the Company's Values, Mission and Vision. It evolved from the management philosophy and contributes to channelling employee efforts on a daily basis towards the Company's strategic vision, while also creating greater meaning and commitment to people's actions and objectives.

The Education Leader's theme for 2007 is yet to be defined by the People and Talents Management Committee. It will unfold from the 2007 Strategic Planning cycle, which covers the whole leadership and team development program.

## **ORGANIZATIONAL CLIMATE**

We carry out a survey to assess employee satisfaction every two years. The last survey was performed in 2004 and pointed to an increase in satisfaction level from 69% in 2002 to 76%, which was higher than the sample companies we utilized as comparison parameters.

This biennial survey aims to support the formulation and implementation of action plans for each Company area and for the Organization as a whole. As of 2007, we will standardize our corporate climate survey and apply it in all Suzano Group companies, reason why it was not conducted in 2006.

## **PERFORMANCE EVALUATIONS**

People competencies are essential elements in People Management processes. We based the development of our competencies on our Mission, Vision, Values and Management Pillars.

Our Competency Model is used in Performance Evaluation, an annual process that gives employees the opportunity to follow up on the extent to which the Company's goals have been successfully met along with their managers. Moreover, the model also provides guidance on the enhancement of training programs or the definition of new programs to fulfill any needs identified in the execution of the Company's strategy (LA12).

Suzano Group's behavioral competencies are as follows:

- **Focus on Results:** The delivery of positive results in a continuous and systematic manner
- **Make it Different and Better:** Doing things in a different and better way on a daily basis
- **Passion:** To maintain a high level of commitment and pride, and feel that we belong in the Organization and are part of its achievements
- **Team Work:** Working collaboratively in teams while

nurturing transparent and mutually trustful relations with all

- **Vision of the Whole:** Keeping track of how our actions impact on other areas, the Company, our shareholders, customers, the market, suppliers, the community and the environment
  - **Attitude:** Adopting the right attitude to do what must be done respectfully and at the appropriate time
  - **Leadership (applies to managers):** Developing and inspiring people and teams to support the Group's strategies
  - **Knowledge Search and Exchange (applies to non-managers):** Seeking new knowledge to apply on the job and to share with other employees
- All Company employees are annually assessed by their immediate superiors, peers and subordinates, if applicable, enabling a 360 degree assessment.
- In 2006, we invested R\$427 thousand in the development of behavioral competencies, including corporate programs for leadership improvement.

## COMPENSATION AND BENEFITS

We closed 2006 with 453 employees, whose compensation package is made up of a fixed and a variable portion consisting of a multiple of salaries paid in accordance with the achievement of individual and corporate goals (LA12). Suzano Petroquímica's senior officers are granted long-term incentives, the phantom shares, a compensation model that uses hypothetical purchase and sale of lots of shares which are gradually available, subject to grace periods and their performance as compared to that of their peers.

## Salary profile

Our compensation system consists of salary levels on a vertical scale combined with horizontal salary moves, allowing for merit-based promotions and pay rises.

With the purpose of offering competitive salaries compared with the market's average, we carry out periodic salary reviews based on market surveys. Our compensation policy is designed to reward performance and competencies, regardless of age, gender or ethnic origin. In 2006, our merit and promotion program benefited 45% of our employees.

## Benefits

All our employees are entitled to a benefit plant, which include medical and dental assistance, group life insurance, transportation allowance and employee shuttle buses (to/from industrial sites), food expenses, meal tickets and cafeterias (at industrial sites), complementary private pension plan, Christmas Kits, drug prescription, subsidized gym membership, day care, holiday pay, assistance for employees with handicapped children and profit sharing. We do not hire part-time employees. In-company doctors working four-hour shifts are granted the same benefits as full-time employees.

Our employee private pension plan is under the Free Benefit Generating Plan (PGBL) regime, according to which both the employee and the company contribute with up to 8% of the salary in conformity with pre-established parameters. Employees can voluntarily elect to join the pension plan, which provides coverage for disability compensation, regular or premature disability retirement, and death pension prior to or following retirement (EC3).

## EMPLOYEE PROFILE

There was a decrease in the number of employees working at the Camaçari Site owing to the shut-down of the polypropylene composite plant operations in April 2006 as part of the process which involved the acquisition of Polibrasil's ownership in September 2005.

## EMPLOYEE DISTRIBUTION

By Site	2004	2005	2006
Camaçari	154	150	113
Duque de Caxias	80	82	87
Corporate	128	122	125
Mauá	127	120	128
TOTAL	489	474	453

We treat all our employees with respect, dignity and attention, in accordance with our Code of Conduct, which enables us to value diversity and oppose all forms of discrimination

In addition to its permanent employees, the Company also employs 339 outsourced workers who develop activities predominantly related to plant expansion projects. In keeping with the principles of equality set forth in our Code of Conduct, these workers are likewise treated with respect, dignity and attention.

Throughout 2006 the number of this contingent staff fluctuated due to civil works carried out to expand the Mauá Site production capacity by 60,000 tons.

#### **EMPLOYEE RELATIONSHIP**

We treat all our employees with respect, dignity and attention, oriented by our Code of Conduct, which enables us to value diversity and oppose all forms of discrimination. Thanks to our principles, we have not recorded any events of discrimination, child, forced, indentured or slave labor. (HR4, HR6, HR7 and HR8).

Planning and management of our relations with social institutions featured as the key activities undertaken by our Work Relations area in 2006. Our negotiation agenda with workers' union includes issues such as the renegotiation of Profit Sharing agreements, adoption of specific procedures enforced by the HR area upon employee dismissal and hiring, vacation policy and yearly pay rise campaign.

As regards the minimum time period for notices, whenever possible we notify our employees of shutdowns in our sites and outsourcing of operations with a minimum six month advance notice and changes in our organizational and with a 30-day prior notice.

The percentage of employees represented by independent union organizations, or employees covered by collective bargaining agreements was equivalent to 37.6% in 2006, 45.5% in 2005 and 45% in 2004 (LA5). During these periods we did not record any breaches of either freedom of association or collective bargaining agreements (HR5).

All collective agreements signed at the Mauá, Duque de Caxias and Camaçari sites which govern the relationship of the Company with its employees include health- and safety-related topics. (LA9)

#### **EMPLOYEE RECRUITMENT AND SELECTION**

We do not classify people by their ethnic origin. Per principle, our personnel selection focuses on skills as the sole employment criteria.

Our recruitment and selection program ensures that talents are hired according to their required skills. Available job openings are first advertised to our internal public so as to guarantee their job application and enable horizontal mobility among workers. In 2006, approximately 20 employees were internally relocated to operational, administrative and managerial positions.

### **Programs and initiatives for people with special abilities**

In 2006, we developed a recruitment and selection policy which emphasized the hiring of people with special abilities. Our HR area analyzed all the jobs and positions within the Organization and identified possible opportunities for people with special abilities. During the selection process, all available openings are directed to specialized consultants. It is only after this procedure that, if the opening is still available, other professionals are recruited from the market.

### **Intern and trainee programs**

The training of high potential young professionals is instrumental for our business sustainability as not only does it assure that strategic Company positions are filled by qualified personnel, but they are also aligned with our culture and values. Our Trainee Development program goal is to qualify young professionals to occupy strategic positions. The program lasts two years and includes:

- Corporate Integration
- Technical Training
- On-the-job Training
- Participation in Multi-task Projects
- Skill/Competency Mapping
- Performance Evaluation
- Feedback from Manager and the HR Area

In 2007, 17 new positions were offered to trainees from various areas, such as Human Resources, Audit, Investor Relations, Finance, Logistics, Marketing, Industrial, etc.

The internship program lasts one year and can be further extended for another six to twelve months. Since we do not provide security of tenure to our interns, hiring depends on student performance and opening availability. In 2007, the Company opened 24 internship positions for different areas and also implemented an internship development program.

The 2007, Internship and Trainee program selection process began in October 2006 and recorded more than 30,000 enrolments.

### **INTERNAL COMMUNICATION**

In response to the new challenges besetting the Company, we set up an Internal Communication area in November 2006. It is under the Human Resources area and its mission is to foster a culture focused on our business and supported by the involvement and valuing of people. Its structure is anchored on the following four pillars:

- **Information and Involvement:** Communicate and act with clarity, objectivity and impartiality
- **Interaction and Focus on Results:** Behave responsibly when conducting communication processes and always seek to provide services of excellence
- **Integration and Citizen Awareness:** Respect diversity and individual values over organizational values
- **Participation and Commitment:** Foster employee involvement through a continuous integration process



# Environmental dimension

## Environmental Management

All our industrial sites are licensed under the applicable environmental legislation. We undertake an annual legal compliance evaluation, and all improvement opportunities identified are turned into specific action plans.

In 2001, we consolidated the management of all health, safety, environment and quality issues into a single Integrated Management System, which is ISO 9001, ISO 14001 and OHSAS 18001 certified.

We also adopted the World Bank standards set forth in the following documents:

- IFC Operational Polices on Environmental Assessment
- IFC's Policy Statement on Forced Labor and Harmful Child Labor
- WBG – General Environmental Guidelines
- WBG – Petrochemicals Manufacturing
- IFC – Occupational Health & Safety
- IFC – Hazardous Materials Management Guidelines
- IFC – Port and Harbor Facilities

We also subscribe to the Responsible Action Program created

by the Brazilian Chemical Industry Association (Abiquim) and committed to effective environmental management. Considered in its broadest context, environmental management entails the safety of facilities, processes and products, and occupational health. It also entails environment protection by chemical industry companies and the sector's value chain.

The Responsible Action Program is developed through an ongoing dialogue with stakeholders on issues pertaining to occupational health, safety and the environment. Furthermore, the Program comprises performance evaluations that use specific indicators in systematic progress assessments. It is structured into the following management practice codes: Process Security, Employee Health and Safety, Environmental Protection, Product Management, Transport and Distribution, Interface with the Community, and Provision and Assistance in Emergency Situations. We are actively engaged in the Responsible Action Program, be it through representatives in its steering committees (Executive Committee, Technical Committee and specific committees for each management practice code), be it through in-house groups in charge of implementing the recommended practices.





*Rubens Antonello –  
Mauá Plant (São Paulo State)*

## Organizational Responsibility

Our lines of action are defined in our Quality, Health, Safety, Environment and Social Initiatives Policy, which is approved by the Senior Management and ratified by the Board of Directors.

Our industrial director is responsible for environmental management, coordinated by the manager of Health, Safety, Environmental Conservation and Quality, with the support of a multi-task group made up of the Senior Management and the industrial, technical assistance, human resources and logistics managers. This group convenes on a half-yearly basis and performs the following duties:

- Evaluation of SSCA and Quality policies
- Critical analysis of management practices and performance; and
- Support and guidance in connection with labor practices and standards

Initiatives identified as a result of critical analysis, performance evaluation and guidelines laid down by the BD and Senior Management are consolidated into Health, Safety, Environmental Conservation and Quality Management Programs tailor-made for each of Suzano Petroquímica' sites and implemented under the management group oversight, in accordance with the production line responsibility.

Our social and environmental management is based on the Program for Responsible Action, which enforces the safety of installations, processes and products, workers' healthcare and environmental protection.

## Quality, Health, Safety, Social Initiatives and Environmental Policy

Suzano Petroquímica, an organization that manufactures and markets polypropylene resins and is fully committed to excellence in the management of quality, health, safety and the environment while conducting its business with social responsibility, in consideration of the needs and expectations of its shareholders, customers, suppliers, employees and society, hereby states its commitment to:

- Comply with the legal requirements of its activities, products and services while seeking the continuous improvement of its processes
- Manage its processes in an appropriate manner to supply products and services whose quality should not only meet but exceed customers' expectations, while also adopting an integrated network approach to its suppliers
- Continually seek to adopt the best possible practices to protect and promote health and safety in all its operations, ensuring safe and healthy environments
- Embrace the concepts that all accidents are preventable and that it is the personal responsibility of all employees and contract personnel to pursue this objective and have enough competence to take corrective action whenever necessary
- Implement all its processes with the purpose of preserving the environment, employing technologies focused on reducing environmental impacts, as well as defining and monitoring goals that meet and surpass those required by applicable legal provisions
- Act ethically and in accordance with its Code of Conduct by adopting social and environmental responsibility practices that contribute to the quality of life of individuals
- Adopt the best practices in the design of its projects, processes and facilities, ensuring the integrity of its operations so as not to create safety hazards for either individuals or the environment
- Support initiatives that reduce social and environmental impacts in the post-consumption phase of both polypropylene and polyethylene
- Adopt initiatives aimed at reducing the social and environmental impacts caused by its suppliers by implementing controls that ensure their legal compliance and sound environmental performance and seeking to guarantee that materials and industrial inputs produced through the illegal exploitation of natural resources or human beings are never employed
- Include social and environmental criteria in its investment analyses
- Adopt the principles and practices set forth by the Brazilian Chemical Industry Association (ABIQUIM)
- Foster a culture of quality, health, safety and environmental care in its affiliates' operations

## Environmental performance monitoring and follow-up

The Regional Health, Safety, Environmental Conservation and Quality committees based in Suzano Petroquímica' sites follow up on the execution of our Management Program on a monthly basis.

Our environmental performance is monitored by using indicators whose definition is dependent on goals and targets we have set for ourselves, and are followed up in various forums. The results achieved in 2006 as well as the goals and targets established for 2007 are presented under the *Environmental Performance* section.

Our Integrated Management System undergoes a cycle of internal and third-party audits to ensure the maintenance of our certifications.

Major environmental impacts that occur in the different phases of the polypropylene life cycle and the control measures we adopt are summarized in the table on the opposite page. As a way to reduce these impacts, we drew up a Health, Safety and Environmental Control Master Plan which proposes short- and medium-term actions within a ten-year time frame.

Our key objective in 2007 is to incorporate the ecoefficiency concept into our planning, namely, to produce more with fewer resources by using more efficient processes focused on pollution prevention, yielding a lower specific consumption of raw materials, water and electricity thereby optimizing our productive process and minimizing environmental impacts.

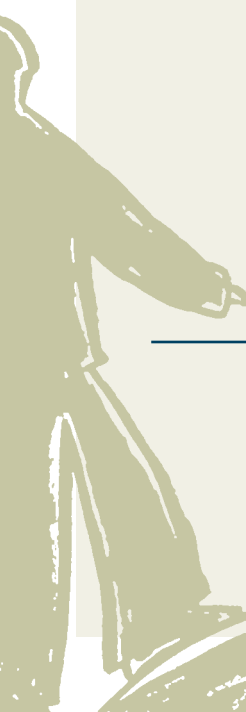
The proposed initiatives aim to reduce the direct environmental impacts of our activities, products and services, and also throughout our value chain.

Phase	Activity	Environmental Impact	Control Measures
PRE-PRODUCTION	Petroleum Extraction / refining / cracking	<ul style="list-style-type: none"> <li>■ Consumption of non-renewable resources</li> <li>■ Physical environment changes</li> <li>■ Energy consumption</li> <li>■ Water consumption</li> <li>■ Impact on biodiversity</li> <li>■ Effluent generation</li> <li>■ Residue generation</li> <li>■ Emission of greenhouse gases/SOX/NOx</li> </ul>	<ul style="list-style-type: none"> <li>■ Supplier qualification process</li> <li>■ Specific Agreement Requirements</li> <li>■ Monthly evaluation of supplier performance</li> <li>■ Supplier audits</li> </ul>
	Utility production (water, electricity/steam)	<ul style="list-style-type: none"> <li>■ Consumption of non-renewable resources (fuels)</li> <li>■ Physical environment changes (dams)</li> <li>■ Energy consumption</li> <li>■ Water consumption</li> <li>■ Impact on biodiversity</li> <li>■ Effluent generation</li> <li>■ Residue generation</li> <li>■ Emission of greenhouse gases/SOX/NOx</li> </ul>	
	Inputs production	<ul style="list-style-type: none"> <li>■ Consumption of non-renewable resources</li> <li>■ Energy consumption</li> <li>■ Water consumption</li> <li>■ Effluent generation</li> <li>■ Residue generation</li> <li>■ Emission of greenhouse gases</li> </ul>	
	Packaging production: Wooden pallets/big bags/ plastic bags	<ul style="list-style-type: none"> <li>■ Materials consumption</li> <li>■ Energy consumption</li> <li>■ Impact on biodiversity (forests)</li> <li>■ Physical environment changes (forests)</li> </ul>	



Phase	Activity	Environmental Impact	Control Measures
Production	Industrial Processing	<ul style="list-style-type: none"> <li>▪ Consumption of non-renewable resources</li> <li>▪ Materials consumption</li> <li>▪ Energy consumption</li> </ul>	<ul style="list-style-type: none"> <li>▪ Process Technology</li> <li>▪ Ecoefficiency criteria when choosing technology</li> <li>▪ Project criteria</li> <li>▪ Operational procedures</li> <li>▪ Process control</li> <li>▪ Effluent treatment</li> <li>▪ Selective waste collection</li> <li>▪ Return of packages, electric cells, batteries, etc to manufacturers</li> <li>▪ Residue treatment (lamp bulbs)</li> <li>▪ Proper disposal of residues</li> <li>▪ Control equipment: sleeve filters, gas washers</li> <li>▪ Flare<sup>1</sup></li> <li>▪ Training</li> </ul>
	Administrative activities: Industrial support/sales/ technical services	<ul style="list-style-type: none"> <li>▪ Water Consumption</li> <li>▪ Effluent generation</li> <li>▪ Residue generation</li> <li>▪ Emission of greenhouse gases/ozone layer/SOX/NOx</li> <li>▪ Soil and underground water pollution</li> </ul>	
	Production support services: Maintenance/security/kitchen/ logistics	<ul style="list-style-type: none"> <li>▪ Materials consumption</li> <li>▪ Energy consumption</li> <li>▪ Water consumption</li> <li>▪ Effluent generation</li> <li>▪ Residue generation</li> </ul>	
	Employee transportation/trips	<ul style="list-style-type: none"> <li>▪ Consumption of non-renewable resources (fuels)</li> <li>▪ Energy consumption</li> <li>▪ Emission of greenhouse gases</li> </ul>	
Post-production	Product transportation	<ul style="list-style-type: none"> <li>▪ Consumption of non-renewable resources (fuels)</li> <li>▪ Energy consumption</li> <li>▪ Emission of greenhouse gasess</li> </ul>	<ul style="list-style-type: none"> <li>▪ Supplier qualification Process</li> <li>▪ Specific Agreement Requirements</li> <li>▪ SASSMAQ Abiquim participation</li> <li>▪ Monthly evaluation of supplier performance</li> <li>▪ Customer guidance</li> <li>▪ Environmental education programs</li> <li>▪ Participation in the Plastivida Program</li> <li>▪ Environmental education programs</li> <li>▪ Participation in the Plastivida Program</li> <li>▪ Environmental education programs</li> <li>▪ Participation in the Plastivida Program</li> <li>▪ Environmental education programs</li> <li>▪ Residue recycling program</li> <li>▪ Incentives for residue collectors' cooperatives</li> </ul>
	Product conversion	<ul style="list-style-type: none"> <li>▪ Energy consumption</li> <li>▪ Residue generation</li> <li>▪ Emission of greenhouse gases</li> </ul>	
	Consumption	<ul style="list-style-type: none"> <li>▪ Generation of non-biodegradable residues</li> </ul>	
	Final discarding/disposal	<ul style="list-style-type: none"> <li>▪ Physical environment changes (landfills)</li> </ul>	
	Recycling	<ul style="list-style-type: none"> <li>▪ Consumption of non-renewable resources (fuels)</li> <li>▪ Energy consumption</li> <li>▪ Effluent generation (wash water)</li> <li>▪ Residue generation</li> </ul>	

<sup>1</sup> 1 Gas burning equipment used to ensure process safety



In order to ensure a long-term safe and cost-effective energy supply, we seek to employ fossil fuels with moderation and utilize renewable energy sources whenever possible

## Training and awareness-raising

One of our training programs focuses on compliance with legal requirements and the ISO 14001 and OHSAS 18001 standards. It involves training our Emergency Brigades to respond promptly wherever they may be called, including industrial sites and the corporate head office. This program is due for revision in 2007 and will incorporate sustainability and ecoefficiency concepts applicable to both our employees and contract personnel.

Furthermore, we will disseminate these concepts to our suppliers and customers in the manner set forth under section 8, Initiatives for Environmental Impacts Reduction through the Value Chain.

## Environmental Performance

We present, ahead, generic data about our management and performance within the scope of energy, water and effluents, atmospheric emissions, environmental liability management, materials, residue generation, legal conformity, investments and expenses, and initiatives to reduce environmental impacts across the value chain. All indicators shown were gleaned in accordance with indicator protocols defined under the 2006 G3 GRI Guidelines for Sustainability Reporting, except where indicated otherwise.

### 1. ENERGY

Our industrial sites are supplied electricity by public power companies, local companies generating power surpluses, and by utility centers located in the same petrochemical complexes as our sites. The steam is either produced by our own boilers or purchased from neighboring companies, as detailed below:

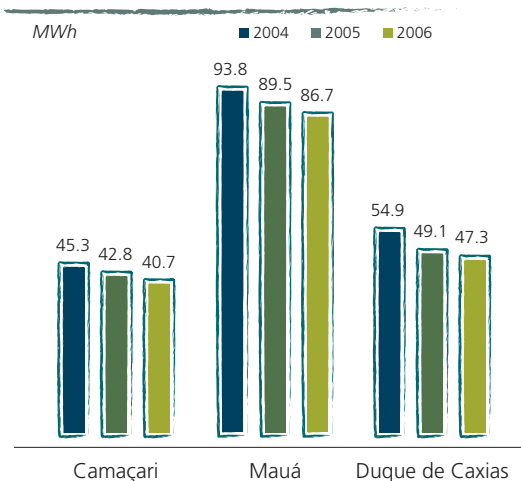
- **Mauá Plant:** electricity generated from a variety of sources, i.e. hydroelectric and thermoelectric plants, and alternative sources (Small Hydropower Plants, biomass and natural gas), and supplied by Eletropaulo, Duke Energy and Endesa. Steam is generated by our own boilers from natural gas supplied by Comgás.
- **Duque de Caxias Plant:** electricity is generated from Cachoeira Dourada hydroelectric plant, in Goiás State, while steam is generated by Petroflex from natural gas.
- **Camaçari Plant:** electricity is generated from a local hydroelectric plant and gas generator; steam is produced from fuel oil, natural gas and process/residual gases supplied by Braskem utility center. The facility also comprises a boiler that generates low pressure steam – 40% of the overall Site's consumption – by burning process of residual gases. In 2003, the Site launched an energy conservation project developed in partnership with Shell Oil Company which has already yielded an 18% decrease in consumption.

Energy usage varies according to the production profile of each Site due to different product requirements (polypropylene grade). Although energy consumption for each grade is evaluated, the ecoefficiency of each product has not yet been assessed.

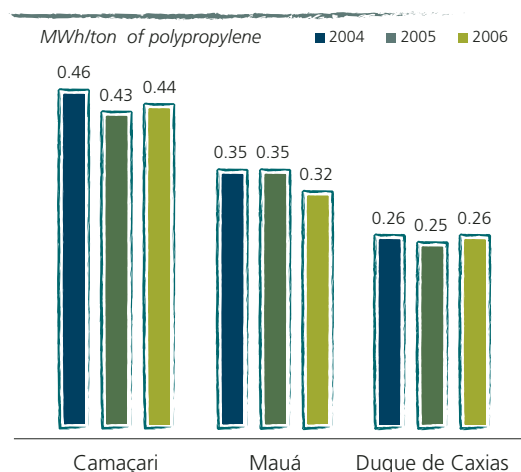
Consumption is followed up monthly by means of technical indices applied to the processes, while measures have been recommended to reduce such consumption. On the following page we present the consolidated data related to electricity consumption and overall energy consumption (electricity and steam) per Site in the last three years, taking into account their production process and administrative activities. (EN3).

As a result of improvement initiatives already implemented at Camaçari Site, we achieved energy savings of 2.1 MWh in 2006 (EN5). This reduction does not reflect the consumption per ton manufactured index, owing to operational problems encountered in 2006, which led to a decrease in production without a corresponding reduction in consumption.

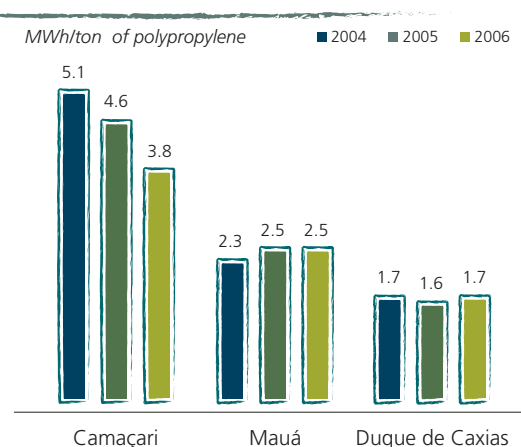
## ELECTRICITY CONSUMPTION



## ELECTRICITY CONSUMPTION PER PRODUCTION OUTPUT



## TOTAL ELECTRICITY CONSUMPTION PER PRODUCTION OUTPUT



### Energy consumption guidelines

1. Rational use of energy so as to ensure long-term supply with safety and at competitive prices, and considering environmental aspects.
2. Moderate use of fossil fuels, favoring the use of renewable energy; replacement of non-renewable energy sources whenever possible.
3. Efficient energy usage through all available technologies.

Actions proposed for 2007:

- Evaluate production processes so as to identify new opportunities to reduce energy consumption with the support of an (IFC) specialist
- Seek alternatives for reducing energy consumption in administrative activities

The following specific projects currently underway in our sites are noteworthy:

#### ■ Mauá Plant:

- Reuse of condensed and replacement of purge valves for more efficient ones so as to reduce energy consumption by 14,000 GJ/year
- Replacement of air conditioning systems in the administration building to reduce electricity consumption

#### ■ Duque de Caxias Plant:

- Replacement of purge valves (energy savings still being assessed)
- Plant is implementing a project to expand its production capacity to 300,000 tons/year. Scheduled for completion in the 4Q07, it will most likely increase electricity consumption from the current 0.258 MWh/tpp to 0.273 MWh/tpp due to a technological upgrade in production process equipment, greater operational flexibility and product quality enhancement. The total energy consumption will be reduced due to a decrease in steam consumption, which will drop from the current 0.27 t/pp to 0.20 t/pp

#### ■ Camaçari Plant:

- Process enhancement through catalyst replacement resulting in an estimated energy saving of 3.98 KWh/tpp

We do not yet follow up on indirect emissions generated by our energy suppliers, nor do we monitor the energy consumed in the transportation of raw materials, finished products and employees, freight vehicles and business trips. We plan to begin this follow-up in 2007 (EN4).

## 2. WATER

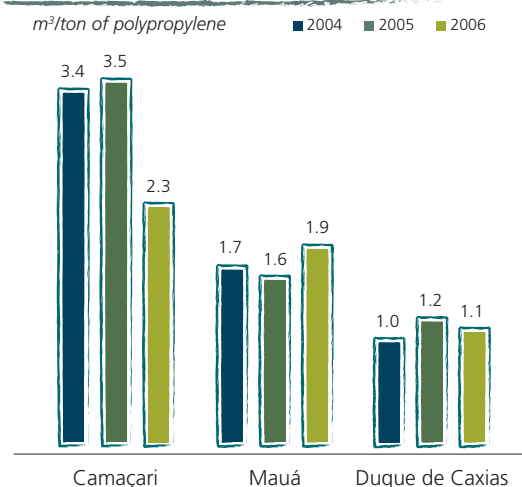
Our water supply is not collected directly from any source (EN9). Next, we will describe in detail the water supply sources we utilize for the production process and administrative activities in our Sites.

- **Mauá Plant:** potable water supplied by the Mauá Municipal Basic Sanitation Company (Sama) and collected from the Billings and Guarapiranga dams; industrial water supplied by the Capuava Refinery (Recap), collected from the Tamanduateí River. The Mauá Petrochemical Complex is implementing a joint project with the São Paulo State Water and Sanitation Company (Sabesp) to replace the water currently used with treated effluents from the Greater ABC Region Sewage Treatment Plant (São Caetano)
- **Duque de Caxias Plant:** the water for this Site is supplied by Petroflex after collection in the Guandu River (clarified water) and Saracuruna River (potable water)
- **Camaçari Plant:** the water is supplied by Braskem through collection from the Joanes River (60%) and wells from the São Sebastião Aquifer System (40%)

Consumption is followed up monthly by means of technical indices consolidated in the graph below (EN8).

All Sites have implemented punctual initiatives to reduce water consumption by means of loss elimination and reuse projects. Faucets in corporate buildings are fitted with water timers or photocells to reduce water consumption.

### WATER CONSUMPTION PER PRODUCTION OUTPUT

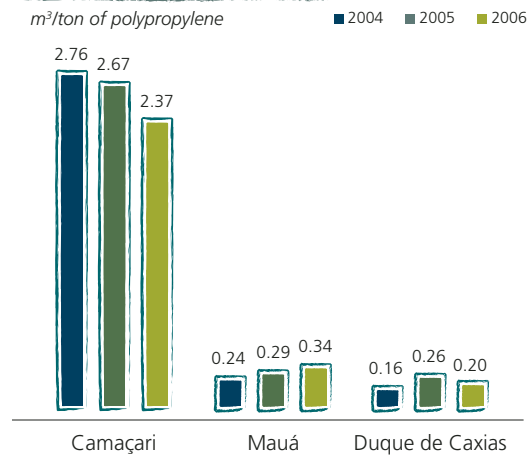


The effluents discharged by our three Sites are treated and disposed of in compliance with IFC/World Bank requirements, as shown below (EN21). The facilities' production process does not generate any persistent organic pollutants (POP) or heavy metals.

- **Mauá Plant:** has its own activated sludge treatment plant; sludge is disposed of in the Tamanduateí River in conformity with the standards defined by the World Bank's General Environmental Guideline, much more stringent than those laid down by Brazilian law. The Tamanduateí River takes in effluents from a number of companies in the Mauá Petrochemical Complex, which are discharged according to the standards set forth under Article 19A, Decree # 8,468/76. Sabesp has devised a project for the implementation of an Effluent Treatment Plant on the river, since it is severely impacted prior to the discharge of our effluents. We do not monitor the river after this discharge (EN25), but the increase in effluent generation occurred due to the performance of certain non-routine activities which led to a larger number of employees hired – maintenance shut-down, implementation of the capacity expansion project and demolition of the former plant – and to an increase in the generation of sanitary and kitchen sewage.
- **Duque de Caxias Plant:** has its effluents treated in the Petroflex Effluent Treatment Plant and then discharged into Guanabara Bay in conformity with the discharge standards defined by the Rio de Janeiro State Foundation for Environmental Engineering (Feema).
- **Camaçari Plant:** effluent treatment is carried out locally by the Cetrel Effluent Treatment Plant following internal pre-treatment to conform to the discharge standards laid down in the Camaçari Petrochemical Complex central system. Effluents treated by Cetrel are discharged into the sea through an underwater sewage pump in conformity with the standards defined by the Environmental Resource Center (CRA). We reuse some process streams to a total volume of approximately 32,000 m<sup>3</sup>/year (EN10).

<sup>2</sup> Conama Resolution # 357/05 and Article # 18 of São Paulo State Decree # 8,468/76.

## EFFLUENT GENERATION PER PRODUCTION OUTPUT



### Water usage guidelines

**1.** Rational use of water so as to ensure long-term supply with safety and at competitive prices, and considering environmental aspects. **2.** Moderate and efficient water usage so as to prevent waste. **3.** To maximize water reuse whenever possible. **4.** To treat water before returning it to the environment by employing the latest available technologies.

Actions proposed for 2007:

- Evaluate production processes and identify opportunities to reduce water consumption and effluent generation
- Seek alternatives to reduce water consumption in administrative activities, such as low consumption sanitary flushes, reutilization of water in gardens, etc.

The following on-site projects are noteworthy:

#### ■ Mauá Plant:

- Implementation of an effluent treatment system to enable water reuse, thus achieving an 8 m<sup>3</sup>/h reduction in water consumption
- Aquapolo Project – utilization of effluents treated by the Greater ABC Region Sewage Treatment Plant, scheduled for start-up in 2008

#### ■ Camaçari Site:

- Catalyst replacement will bring about a 2 m<sup>3</sup>/h reduction in water consumption

- A study is underway for the reuse of centrifuge effluents which will enable a 6 m<sup>3</sup>/h water consumption saving

#### ■ Duque de Caxias Plant:

- Due to the facility's expansion project, clarified water consumption will rise from the current 1.23 m<sup>3</sup>/tpp to 2.0 m<sup>3</sup>/tpp as a result of a technology upgrade in production process equipment, greater operational flexibility and product quality enhancement

## 3. ATMOSPHERIC EMISSIONS

Our greenhouse gas emissions (carbon dioxide – CO<sub>2</sub>, nitrogen oxides – NO<sub>x</sub> and nitrous oxide – N<sub>2</sub>O) are generated from boilers at Mauá and Camaçari sites and from flares at Mauá and Duque de Caxias sites. The flares are usually kept alight with a natural gas pilot flame (Mauá Site) and propylene (Duque de Caxias Site), and burn substantial volumes only in emergency situations. We do not generate substantial emissions of sulphuric oxides, SO<sub>x</sub> (EN20).

During power outages, the Mauá Site flare spews black smoke above permissible limits and the Site has been the subject of community complaints and a notification was issued by the regulatory agency. We are therefore seeking an alternative solution to address this issue.

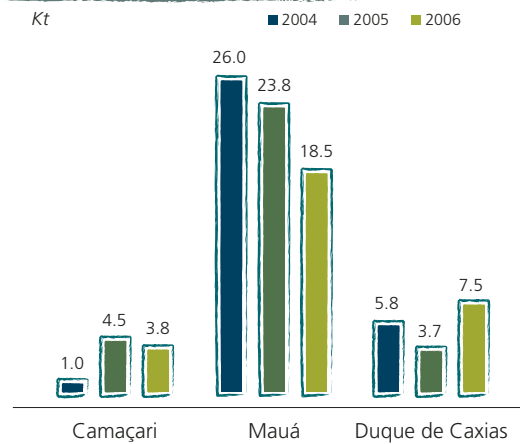
An emission increase was observed in the Camaçari Site due to the installation of a boiler for burning non-reactive process gases and also due to a decrease in the emission of volatile organic composites. (EN16 and EN20).

Volatile organic composites (VOC) are issued through the Camaçari Site vent stack<sup>3</sup>, which is not equipped with a flare; VOC also result from fugitive emissions in valves, pumps, flanges, sampling points, etc. All sites maintain programs for evaluating and controlling fugitive emissions. The amounts measured in the last three years are displayed ahead. The reduction accomplished at Camaçari Site was due to the installation of a boiler for burning non-reactive process gases.

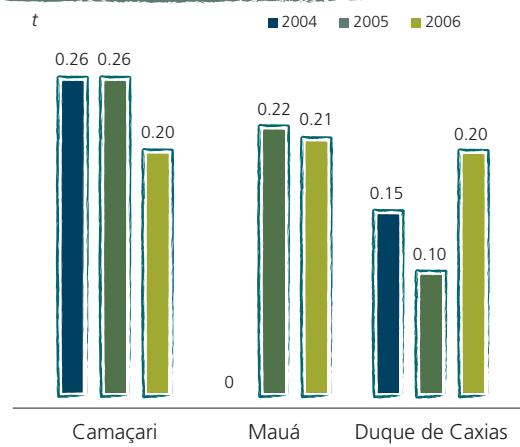
<sup>3</sup> Chimney stack for the dispersion of non-reactive process gases



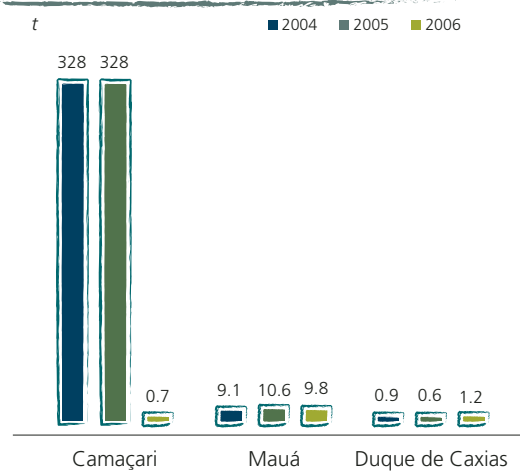
## CO<sub>2</sub> EMISSION



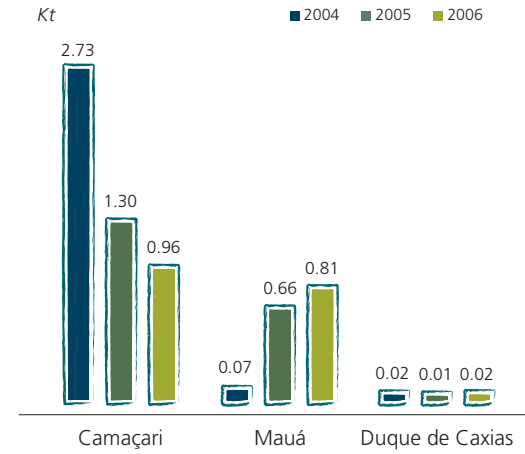
## N<sub>2</sub>O EMISSION



## NO<sub>x</sub> EMISSION



## VOLATILE ORGANIC COMPOSITE EMISSION



Emissions of ozone layer depleting gases, which are controlled by the Montreal Protocol, result from leakages and maintenances carried out in cooling systems. The consolidated data for gas emissions generated in our plants in the last three years are shown in the graphs on this page (EN19).

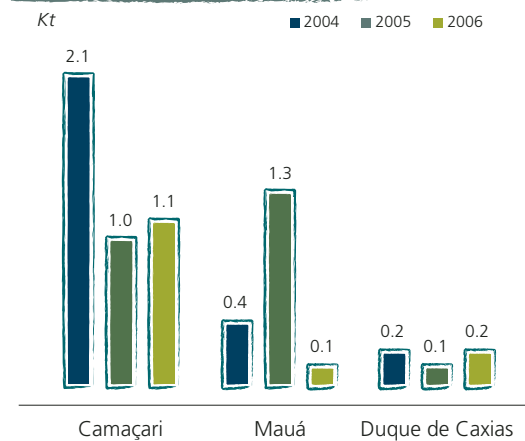
The Camaçari and Mauá Sites utilize hydrochlorofluorocarbon (HCFC R-22) to cool water for the production process, splits<sup>4</sup>, air conditioning systems in corporate buildings, control rooms, and refrigerating chambers in our industrial kitchens.

In the Duque de Caxias Site, we utilize gases with lower ozone layer depleting properties, such as SUVA<sup>5</sup>-507 for cold water process, SUVA HP-62 for service air/instrument air cooling system, and HCFC-134 for refrigerating chambers. HCFC-22 is still employed in the splits units, central cooling system and individual appliances in certain rooms.

<sup>4</sup> A type of air conditioner

<sup>5</sup> Dupont's line of refrigeration fluids, which has a less adverse impact on the ozone layer

## HCFC EMISSION



The follow-up of VOC and CO<sub>2</sub> emission indicators is conducted on a monthly basis. Calculation is based on mass balance and emission factors. NO<sub>2</sub> and N<sub>2</sub>O emissions are calculated annually based on mass balance. HCFC consumption is measured according to the amount of gas refilled into the systems. We do not yet monitor indirect emissions generated by providers of transportation services for raw materials, finished products, people or business trips (EN17).

#### Emission levels guideline

To reduce emission levels in all our processes while seeking cleaner technologies and the replacement of products that degrade air quality.

Actions proposed for 2007:

- Evaluate production processes so as to identify opportunities to reduce emissions
- Seek technological alternatives for our flare systems so as to reduce black smoke generation in emergency situations
- Improve our maintenance and project standards so as to reduce fugitive emissions
- Seek alternative solutions to replace HCFC in cooling systems with some other product that will not degrade the ozone layer nor further aggravate the greenhouse effect
- Assess alternatives to reduce gas emissions issued by forklifts and fleet vehicles through the use of alternative fuels
- Implement a system for the follow-up of fleet vehicle emissions

#### 4. ENVIRONMENTAL LIABILITIES MANAGEMENT

In 2001, our environmental monitoring program identified an instance of contamination in the soil and underground waters of the Mauá and Camaçari sites. This contamination was due to a leakage of effluents containing the solvent employed in the production process by the effluent networks in the plants.

We responded promptly with measures to detect and eliminate the leakage points and we also reported the incident to the Bahia State Environmental Agency (CRA) and the São Paulo State Environmental Sanitation Technology Agency (Cetesb), and are currently working to recover the affected areas. Details of each case are presented next.

#### ■ Mauá Plant:

Iso-octane solvent was used in the former plant, shut down in 2003. Our current production process does not use solvents and all iso-octane stored in this Site was disposed of when the former plant was closed.

Recovery of the area is underway through the operation of two multiphase extraction units.

The system is undergoing expansion through the installation of two other extraction units scheduled to go on stream until March 2007. Recovery works in the area should be concluded by 2012. So far, R\$2.9 million have been expended and an additional R\$4 million are slated to be spent in the next few years.

#### ■ Camaçari Plant:

After identifying the leakage of pentamethyl-heptane solvent, utilized in the facility's production process, a comprehensive program was implemented for the inspection of pipes and gutters to prevent further leakage. We also installed a hydraulic barrier with the purpose of preventing the dispersion of the product into neighboring areas. The pentamethyl-heptane solvent has been continually removed through pumping wells since 2002. In 2006, the system was upgraded with the use of multiphase extraction technology whereby the recovery of the contaminated area was expedited. Full recovery is expected to be concluded by 2010 at an estimated cost of R\$2.5 million, of which R\$1.3 million have already been disbursed.

#### 5. MATERIALS

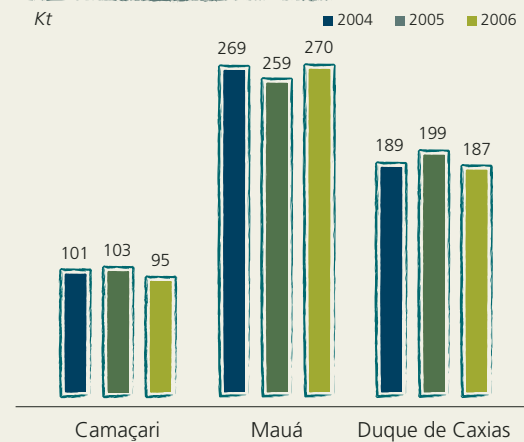
We follow up on the consumption of raw materials, catalysts, chemical products, additives, utilities, auxiliary process materials and packages by means of technical indices, and consolidated data are made available on a monthly basis. A reduction in the consumption of these items is one of our major goals due to their impact on our production costs.

Although we do not currently have any guidelines for replacing non-renewable materials with renewable ones, we have detected consumption points that can be reduced. One example is the waste of packaging material in bulk sales of packaged products.

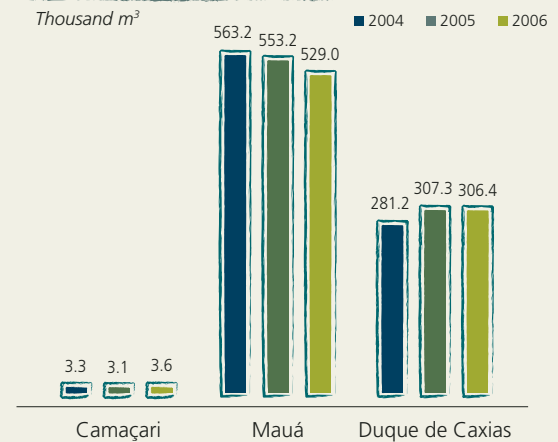
Since 2001 we have discontinued the use of asbestos in new applications. The replacement of materials containing used asbestos in our industrial plants has been implemented on a case-by-case basis.

The graphs on the opposite page summarize the consumption data of key materials used in our production process in the last three years (raw materials, industrial inputs, packages, etc.) (EN1)

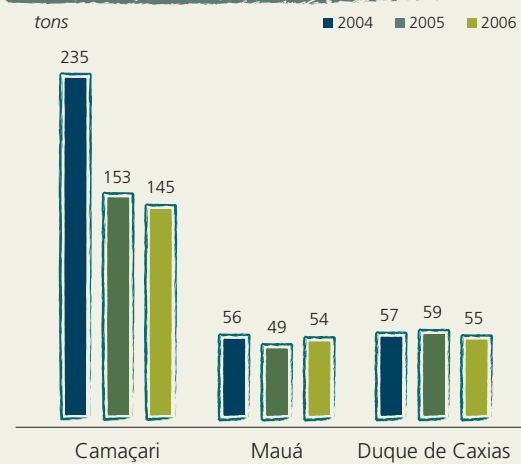
## RAW MATERIAL (PROPYLENE AND ETHYLENE)



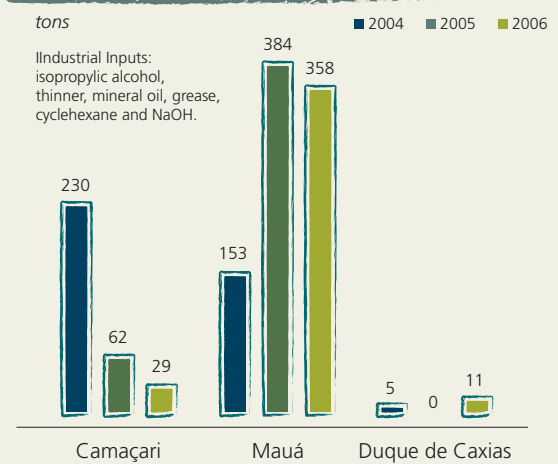
## HYDROGEN



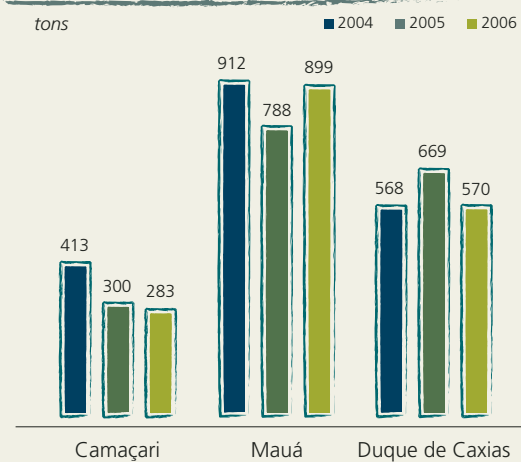
## CATALYST



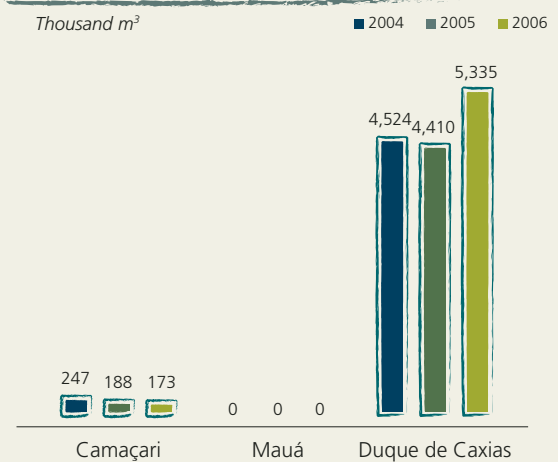
## CHEMICAL PRODUCTS



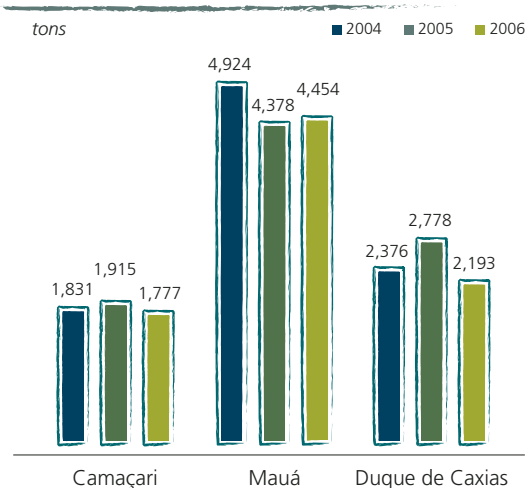
## ADDITIVES



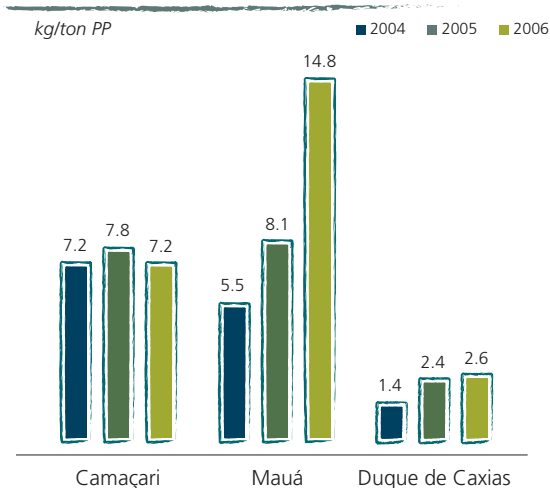
## LIQUID NITROGEN



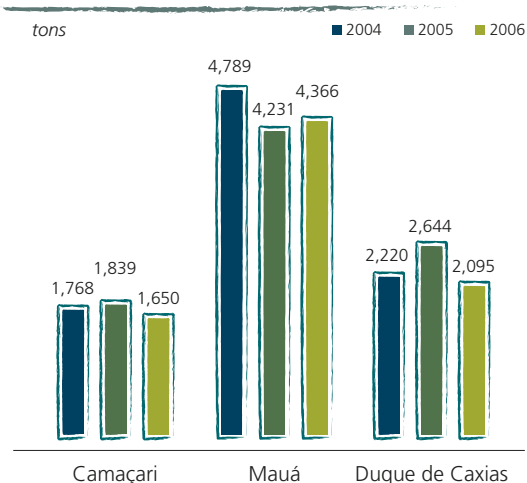
## TOTAL PACKAGING



## SOLID RESIDUE GENERATION



## PALLET CONSUMPTION



### Material usage guideline

Rational use of materials so as to ensure long-term supply safely and at competitive prices by taking into account environmental, health and safety aspects and favoring renewable materials where they are technically and economically viable.

Actions proposed for 2007:

- Assess internal processes to identify opportunities for material usage reduction.
- Assess opportunities for replacement of hazardous products at production processes, labs, maintenance, cleaning, gardening, etc.
- Assess opportunities for replacement of conventional materials for materials generated by renewable sources
- Assess opportunities for use of recycled products e.g. recycled polypropylene pallets, paper, etc.

## 6. RESIDUE GENERATION

The residues generated at our industrial plants are classified in accordance with the Brazilian law, sent to residue treatment facilities and disposed of through licensed waste disposal. We implement waste collection programs on all our Sites and forward all recyclable materials to recycling companies or waste cooperatives followed up by a monthly waste indicator. The consolidated data for the last three years are shown on the graph above (EN22).

Although our production process does not routinely generate hazardous residues, it generates waste lubricating oil, oil contaminated materials, catalyst packaging, medical waste residue, fluorescent lamps, batteries, etc, which are designated for proper waste treatment, according to the case.

In 2006, an increase in residue generation was recorded at Mauá Site due to special residues generated from the disassembly of the former facility (debris, thermal insulators, etc) and disposal of oligomer residues and fluorescent lamps that were stored waiting for approval of a waste service provider, in addition to residues generated from the expansion of soil remedial system. The increase in residue generation at Mauá also resulted from a larger number of employees being hired to conduct civil works e.g. cafeteria and cesspit cleaning. We do not transport, import or export waste in accordance with the conditions set forth by the Basel Convention (EN24).

It should be noted that we donated to the city of Mauá 9,380 tons of debris generated from the implosion of the former factory. The waste was further used as fill material for road paving with approval by the Environmental Technology Sanitation Company (CETESB).

Our production process does not generate hazardous waste. We implement waste collection programs for recyclable materials on all our Sites and forward them to recycling companies and cooperatives

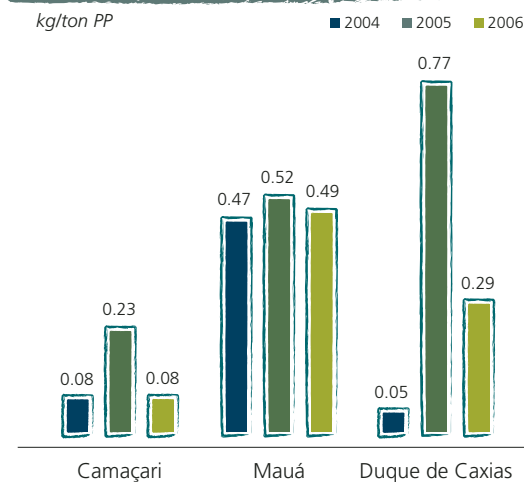
### Residue generation guidelines

**1.** Reduce the generation of residues and seek to reuse or recycle them whenever possible. **2.** Treat all residues generated on our Sites with the best available technologies.

Actions proposed for 2007

- Assess the Company's processes so as to identify opportunities for residue reduction, reuse and/or recycling.
- Assess the receipt of goods and products in new transport modes and/or the return of packages to suppliers, etc

### HAZARDOUS WASTE GENERATION



Major environmental impacts on the various phases of polypropylene life cycle are controlled through a Master Plan proposing short and medium-term recommendations with a ten-year vision

## 7. ENVIRONMENTAL INVESTMENTS AND EXPENSES

Key investments in 2006:

### ■ Camaçari Plant – R\$ 700 thousand:

- Implementation of an emergency overflow basin and improvement to rain water drainage network – R\$518.4 thousand
- Implementation of effluent reuse project – R\$117.0 thousand
- Catalyst testing – R\$33.7 thousand
- Paving of temporary waste storage area – R\$16.2 thousand

### ■ Duque de Caxias Plant – R\$ 60.5 thousand:

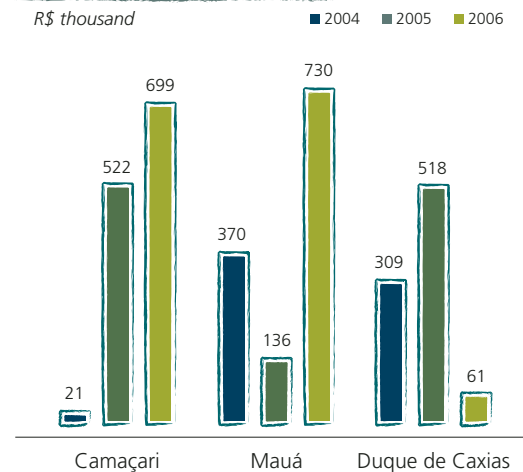
- Adjustments to effluent collection system – R\$47.2 thousand
- Improvement to pump sealing system – R\$13.3 thousand

### ■ Mauá Plant – R\$ 729.8 thousand:

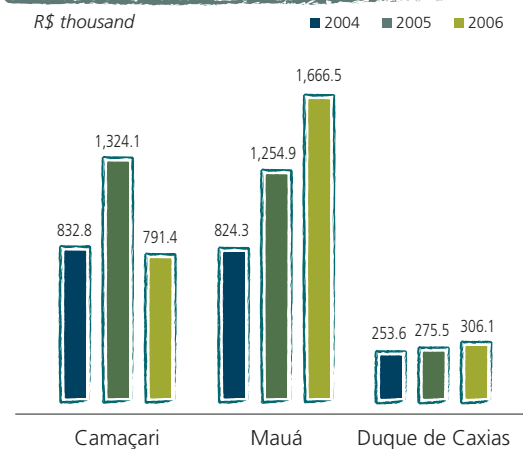
- Implementation of effluent reuse project – R\$249.1 thousand
- Improvement to effluent treatment system – R\$87.5 thousand
- Upgrade of forklift washing area – R\$16.5 thousand
- Adjustments to water treatment system – R\$33.0 thousand
- Adjustments to temporary waste storage area – R\$276.8 thousand
- Installation of a new air conditioning system – R\$46.6 thousand

In the following, we present the consolidated data for environmental investments and expenses in the last three years (EN30).

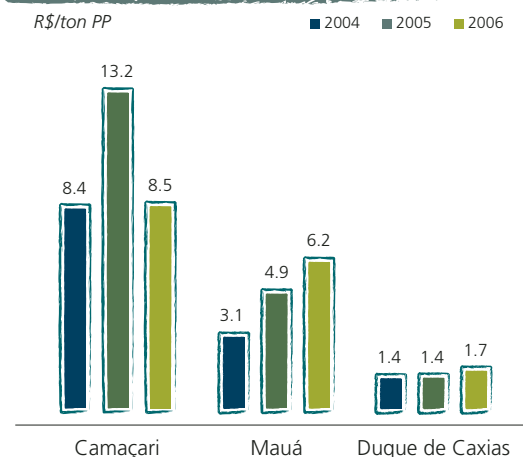
## ENVIRONMENTAL INVESTMENTS



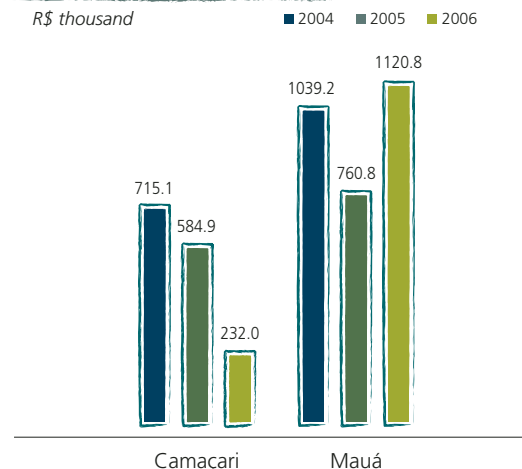
## ENVIRONMENTAL COST



## ENVIRONMENTAL COST FOR PRODUCTION



## REMEDIAL COST



Environmental cost includes all expenses related to effluent treatment, waste treatment and disposal, effluent, underground waters and air quality monitoring, within the area of influence of the Camaçari and Duque de Caxias sites, fugitive emission assessments and specific studies. Mauá Site's environmental cost was impacted by the increase in effluent treatment charges levied by São Paulo State Water and Sanitation Company (Sabesp) e.g. sludge from effluent treatment facilities and cesspit waste, and increased cesspit cleaning frequency.

The increase in environmental cost at Duque de Caxias Site was due to expenses with effluent treatment, which started to be carried out by Petroflex.

Although expenses with soil remedial systems and underground waters are included in the overall environmental cost, they exert a high impact on costs. This precludes a proper comparison and overview for the management of other costs. Remedial process costs are shown in the graph above.

Main investments scheduled for 2007:

- Water reuse project (Aquapolo) – R\$1 million
- Implementation of water reuse treatment – R\$600 thousand
- Construction of contention dikes – R\$200 thousand
- Upgrade of forklift maintenance area – R\$100 thousand
- Adjustments to the water system (complement) – R\$250 thousand
- Construction of off-liquid propylene pipeline for transportation to Capuava Refinery – R\$200 thousand
- Application of anticorrosive coating on effluent treatment facilities – R\$25 thousand

## 8. INITIATIVES FOR ENVIRONMENTAL IMPACT REDUCTION THROUGH THE VALUE CHAIN

In 2006, we completed a Life Cycle Assessment encompassing the polypropylene production phase at Mauá (January) and Duque de Caxias (December). The Life Cycle Assessment for Camaçari Site is being concluded. In 2007, we will begin assessment of social and environmental impacts during pre and post-production phases through to the final disposal of polypropylene.

Support initiatives for environmental education and plastic recycling have been developed through the Social & Environmental Institute for Plastics (Plastivida), which integrates the plastic industry and environmental practices (EN26).

Additionally, we are currently developing a waste recycling cooperative support program to benefit the Camaçari Cooperative for Recyclable Materials (Coopmarc) and Mauá Cooperative for Recyclable Materials (Cooperma) (see chapter Strategy and 2006 Performance).

We are implementing a pilot project for pallet recovery in customer at Mauá Site, with a 15% reuse target for 2007. We also return big bag containers to some of our suppliers (EN27).

Our supplier qualification process involves an evaluation of aspects such as health, safety, environment and quality. Our evaluation criterion favors ISO 14000 or OHSAS 18001 certified suppliers or signatories of the Program for Responsible Action designed by the Brazilian Chemical Industry Association (ABIQUIM).

We also conduct a specific assessment of each supplier through a Health, Safety and Environmental Preservation Evaluation Questionnaire. Whenever necessary, we complement the supplier qualification process with a coordinated audit. Our contracts include an annex which specifies health, safety and environment related requirements to be met by all our suppliers.

All our freight service providers are certified by Abiquim's Safety, Health, Quality and the Environment Evaluation System (SASSMAQ) and undergo periodical audits based on this system's criteria.

We also follow up on our suppliers' performance through the Program for the Evaluation and Award Recognition of Suppliers, a monthly assessment whereby items such as compliance to our health, safety and environmental standards, personal and environmental accidents, social responsibility, etc are observed. We acknowledge their performance by awarding our best suppliers on a yearly basis.

In 2007, we intend to upgrade our supplier evaluation process by introducing sustainability and ecoefficiency criteria, both during the qualification phase and performance evaluation.

Main actions proposed for 2007:

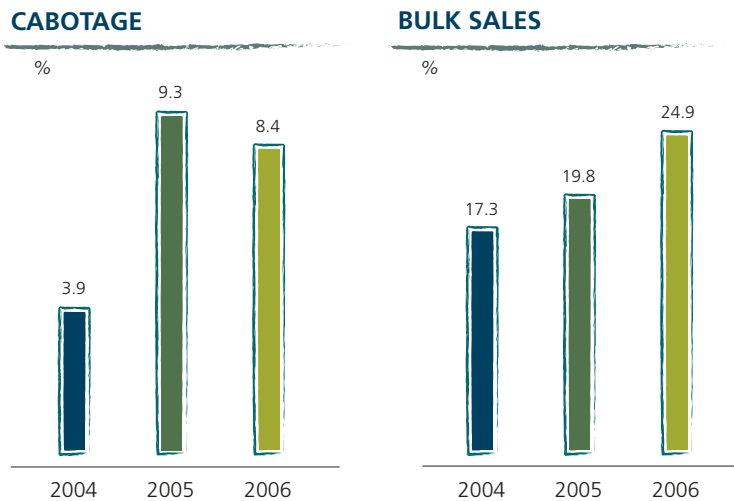
- Map social and environmental impacts at pre- and post-production phases
- Systemize the evaluation of environmental impacts on polypropylene post consumption
- Forge partnerships with suppliers aimed at incorporating sustainability and ecoefficiency concepts throughout the value chain:
  - Foster suppliers' environmental impact reduction programs
  - Seek alternatives for transportation of finished products (different transport modes)
  - Assess alternative fuels for use in the distribution fleet of finished goods and employee transportation vehicles.
  - Train new employees on sustainability and efficient use of resources
  - Use ecoefficiency assessment criteria in employee recruitment and qualification processes
  - Implement a monitoring and auditing system to measure significant environmental impacts and ecoefficiency of suppliers of water, electricity, raw materials, freight services, etc.
  - Disseminate the Global Compact and Millennium Goals among suppliers and customers
  - Foster customers' social and environmental impact reduction programs: reverse pallet and big bag logistics, publication and distribution of print material on impacts and risks resulting from polypropylene use and its end destination.
- Support plastic recycling initiatives in general and polypropylene in special
- Promote a closer integration with neighboring communities around our industrial sites to meet their needs regarding health, safety and environmental issues.
- Implement a formal program for communicating environmental risk hazards to interested parties.

## 9. TRANSPORTATION

With the purpose of reducing costs and environmental impacts, we have invested significantly in logistics transportation solutions through cabotage and bulk product sales. Below are the Company's consolidated data for maritime trade and bulk sales in the last three years.

Currently, we do not follow up on emissions of moving sources such as forklifts and fleet vehicles. Emission controls are underway and will be implemented in 2007. (EN29)

Emission control on employee transportation to/from our facilities is difficult to be carried out since our employees share chartered bus services with other companies within the petrochemical complexes at Mauá, Camaçari and Duque de Caxias. These charter services are tailored to suit employees that reside in different cities around the complexes. These emissions are not considered to be material (EN29). At present, vehicles in the transportation pool of the Camaçari Site employees utilize fuel from renewable sources (biodiesel fuel).



## 10. BIODIVERSITY

All our sites are located within industrial complexes in anthropized regions. Therefore, no significant impacts on the local biodiversity can be expected as a result of our activities (EN12, EN13, EN14, EN15).



# Perspectives

## 2007

Oil price is a key variable for determining petrochemical raw material costs. In 2006, oil quotations underwent strong price fluctuations ranging from \$60-80 per barrel throughout the year and reaching US\$78 in August. We entered 2007 with a generally favorable outlook for oil prices, which are expected to range between \$50-60 per barrel during the year due to world inventory data and new production capacities. This outlook for lower oil quotes should help maintain petrochemical raw material prices at a lower level than that of 2006, but this will also depend on supply and demand.

With regard to the thermoplastic resins market, the key international players – US, India and Asia – continue to record high economic growth rates and increased resin consumption. World demand for resins was running high in early 2007, and resin prices during the year are expected to continue at the same level as in late 2006.

This positive backdrop on the international scene offers genuine opportunities for the Brazilian petrochemical market, especially if combined with the long awaited economic growth at levels compatible with the country's needs and potential. Notwithstanding the strong demand observed in the past, per capita plastic consumption in Brazil is still quite modest when compared with other developing countries. If we project for 2007 lower interest rates, a foreign exchange positively correlated with the economy, a more efficient domestic production chain and a higher purchasing power of the Brazilian population, then we can expect an extremely promising business environment.

This context can also be favorable to our growth plans in the petrochemical industry. Therefore, our capacity expansions can be implemented in a streamlined manner that is incremental to the expected and historically observed demand growth. This may be further enhanced within a stronger Brazilian economic growth scenario.

Inspired by our long-term vision of becoming polypropylene and polyethylene leaders in Latin America, founded on sustainability principles, on our business competitiveness and on the quality of our partnerships, we are keenly aware of all the opportunities that unfold for the attainment of this goal. The Brazilian petrochemical industry is yet to undergo a new reorganization period, and we wish to secure a leading role in this process. Our current position within the industry enables us to be leading players in the sector's reorganization in Brazil. We believe we can seize strategic growth and value adding opportunities for our shareholders and stakeholders alike.

# 2006 ANNUAL SOCIAL REPORT

In R\$ thousand

<b>Company:</b>						
<b>1 - Calculation Basis</b>	<b>FY 2006 Amount</b>			<b>FY 2005 Amount</b>		
Net Revenues (NR)	1,826,814			1,802,544		
Operating Results (OR)	16			32,204		
Gross Payroll Paid (GPP)	82,541			69,003		
<b>2 - Internal Social Indicators</b>	<b>Amount (thousand)</b>	<b>% over GPP</b>	<b>% over NR</b>	<b>Amount (thousand)</b>	<b>% over GPP</b>	<b>% over NR</b>
Food	2,156	2.61%	0.12%	2,253	3.26%	0.13%
Compulsory tax charges	14,015	16.98%	0.77%	14,459	20.95%	0.80%
Private pension fund	2,937	3.56%	0.16%	2,491	3.61%	0.14%
Healthcare	3,043	3.69%	0.17%	3,492	5.06%	0.19%
Work safety and medicine	1,037	1.26%	0.06%	1,260	1.83%	0.07%
Education	996	1.21%	0.05%	538	0.78%	0.03%
Culture	0	0.00%	0.00%	0	0.00%	0.00%
Professional development and training	1,208	1.46%	0.07%	1,586	2.30%	0.09%
Daytime nurseries or nursery support	19	0.02%	0.00%	16	0.02%	0.00%
Profits and results sharing	11,048	13.38%	0.60%	7,714	11.18%	0.43%
Others	2,543	3.08%	0.14%	2,641	3.83%	0.15%
Total – Internal social indicators	39,000	47.25%	2.13%	36,449	52.82%	2.02%
<b>3 - External Social Indicators</b>	<b>Amount (thousand)</b>	<b>% over GPP</b>	<b>% over NR</b>	<b>Amount (thousand)</b>	<b>% over GPP</b>	<b>% over NR</b>
Education	1,014	6,337.50%	0.06%	523	1.62%	0.03%
Culture	0	0.00%	0.00%	50	0.16%	0.00%
Health and sanitation	223	1,393.75%	0.01%	425	1.32%	0.02%
Sports	2	12.50%	0.00%	20	0.06%	0.00%
Hunger eradication and food safety	6	37.50%	0.00%	12	0.04%	0.00%
Others	198	1,237.50%	0.01%	94	0.29%	0.01%
Total contributions to society	1,443	9,018.75%	0.08%	1,124	3.49%	0.06%
Tributes (excluding social charges)	133	0.00%	0.00%	125	0.00%	0.00%
Total contributions to society	1,443	9,018.75%	0.08%	1,124	3.49%	0.06%
<b>4 - Environmental Indicators</b>	<b>Amount (thousand)</b>	<b>% over GPP</b>	<b>% over NR</b>	<b>Amount (thousand)</b>	<b>% over GPP</b>	<b>% over NR</b>
Investments related to the Company's production/ operations	1,489	9,306.25%	0.08%	1,176	3.65%	0.07%
Investments in external programs and/or projects	n.a.	n.a.	n.a.	84	0.26%	0.00%
Total environmental investments	1,489	9,306.25%	0.08%	1,224	3.80%	0.07%
As regards the setting of "annual goals" for the reduction of residues, overall consumption in production/operations and increase of efficacy in the use of natural resources, the Company:	(x) sets no goals			(x) sets no goals		
	( ) meets goals by 0 to 50%			( ) meets goals by 0 to 50%		
	( ) meets goals by 51 to 75%			( ) meets goals by 51 to 75%		
	( ) meets goals by 76 to 100%			( ) meets goals by 76 to 100%		
<b>5 - Workforce Indicators</b>	<b>2006</b>			<b>2005</b>		
Nº of employees at end of period	453			474		
Nº of employees hired during period	40			53		
Nº of outsourced employees	419			242		
Nº of interns	13			19		
Nº of employees aged over 45 years	207			227		
Nº of female employees in the workforce	90			92		
% of management positions occupied by women	11.10%			12.50%		
Nº of Afro-Brazilians in the Company's workforce	107			134		
% of management positions occupied by Afro-Brazilians	8.33%			24.00%		
Nº of employees with disabilities/special needs	13			5		

## 6 - Relevant information regarding corporate citizenship practices

	2006			Goals for 2007		
Ratio between the highest and lowest individual compensation paid by the Company	19			0		
Total number of workplace accidents	4*			0		
The social and environmental projects developed by the Company were defined by:	<input type="checkbox"/> Senior Management	<input checked="" type="checkbox"/> Senior Management and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> Senior Management	<input checked="" type="checkbox"/> Senior Management and managers	<input type="checkbox"/> all employees
Safety and health standards in the workplace were defined by:	<input type="checkbox"/> Senior Management and managers	<input type="checkbox"/> all employees	<input checked="" type="checkbox"/> all employees + Internal Commission for the Prevention of Accidents (Cipa)	<input type="checkbox"/> Senior Management and managers	<input type="checkbox"/> all employees	<input checked="" type="checkbox"/> all employees + Internal Commission for the Prevention of Accidents (Cipa)
Regarding workers trade union freedom, the right to collective negotiation and the internal representation of employees, the Company:	<input type="checkbox"/> does not get involved	<input checked="" type="checkbox"/> complies with WLO regulations	<input checked="" type="checkbox"/> provides encouragement and complies with WLO regulations	<input type="checkbox"/> will not get involved	<input checked="" type="checkbox"/> will comply with WLO regulations	<input checked="" type="checkbox"/> will provide encouragement and comply with WLO regulations
The private pension fund applies to:	<input type="checkbox"/> Senior Management	<input type="checkbox"/> Senior Management and managers	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> Senior Management	<input type="checkbox"/> Senior Management and managers	<input checked="" type="checkbox"/> all employees
The Company's profit and result sharing scheme applies to:	<input type="checkbox"/> Senior Management	<input type="checkbox"/> Senior Management and managers	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> Senior Management	<input type="checkbox"/> Senior Management and managers	<input checked="" type="checkbox"/> all employees
When selecting suppliers, the same standards of ethics and social and environmental responsibility adopted by the Company:	<input type="checkbox"/> are not considered	<input checked="" type="checkbox"/> are recommended	<input type="checkbox"/> are enforced	<input type="checkbox"/> will not be considered	<input checked="" type="checkbox"/> will be recommended	<input type="checkbox"/> will be enforced
Concerning the participation of employees in volunteer programs, the Company:	<input type="checkbox"/> does not get involved	<input type="checkbox"/> supports them	<input checked="" type="checkbox"/> organizes and encourages them	<input type="checkbox"/> will not get involved	<input type="checkbox"/> will support them	<input checked="" type="checkbox"/> will organize and encourage them
Total number of consumers' complaints and suggestions:	At the Company: 105	At the Brazilian Consumer Protection Agency (Procon): 0	In court: 0	At the Company: 105	At the Brazilian Consumer Protection Agency (Procon): 0	In court: 0
% of complaints and suggestions handled and issues resolved:	At the Company: 100%	At the Brazilian Consumer Protection Agency (Procon): 0	In court: 0	At the Company: 100%	At the Brazilian Consumer Protection Agency (Procon): 0	In court: 0
Total distribution of value-added amount (in thousand R\$):	In 2006: 517,915			Em 2005: 307,736		
Distribution of Value-Added Amount (DVA):	26% government 0% shareholders 0% withheld	15% employees 59% third parties		41% government 1% shareholders 5% withheld	22% employees 31% third parties	

## 7 - 7 – Other information

(\*) N° of reportable accidents i. e. not classified as "first aid" accidents

## VALUE GENERATED AND DISTRIBUTED (EC1)

	2004	2005	2006
Generated Economic Value	1,865,833	1,923,192	1,838,888
a) Revenues	1,865,833	1,923,192	1,838,888
Distributed Economic Value	1,588,120	1,887,328	1,652,539
b) Operating Costs	1,269,094	1,587,657	1,319,477
c) Employee salaries, wages and fringe benefits	71,143	69,003	82,541
d) Payments to capital providers	59,201	105,460	115,926
e) Payments to government	188,263	124,807	133,348
f) Community-related investments	419	401	1,247
Withheld Economic Value (*) <sup>(*)</sup>	277,713	35,865	186,349

<sup>(\*)</sup> Calculated as generated economic value minus distributed economic value



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financial statements



**SUZANO**  
PETROQUÍMICA



**INDEPENDENT AUDITORS'  
REPORT**

To the Executive Board of  
and Shareholders of

**Suzano Petroquímica S.A.**

São Paulo – SP – Brazil

São Paulo,  
February 9, 2007

DELOITTE TOUCHE  
TOHMATSU  
Auditores Independentes  
CRC nº 2 SP 011609/O-8

João Eugenio Leitão Filho  
Accountant  
CRC nº 1 SP 130990/O-4

1. We have audited the Parent Company's and Consolidated balance sheet of Suzano Petroquímica S.A. (the "Company") as of December 31, 2006, and the related statements of income, changes in shareholders' equity (Parent Company), and changes in financial position for the year then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management in conformity with Brazilian accounting practices. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by the management of the Company and its controlled companies, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the Parent Company's and Consolidated financial position of Suzano Petroquímica S.A. as of December 31, 2006, and the results of their operations, changes in shareholders' equity, and changes in their financial position for the year then ended in conformity with Brazilian accounting practices.
4. Our audits were conducted for the purpose of expressing an opinion on the financial statements referred to in paragraph 1, taken as a whole. The statements of cash flows, which are presented for purposes of providing supplemental information, are not required under Brazilian accounting practices. Such information has been subject to the same auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as of December 31, 2006 referred to in paragraph 1, taken as a whole.
5. We have previously audited the Parent Company's and Consolidated financial statements and consolidated statement of cash flows for the year ended December 31, 2005, presented for comparative purposes, and issued an unqualified audit report thereon dated March 9, 2006 based on our audit and on the report of other independent auditors on the financial statements of the jointly-controlled subsidiary Rio Polimeros S.A., which investment amounted to R\$485,135,000 at December 31, 2005, corresponding to 19.9% of the Company's assets, and which proportionally consolidated assets corresponded to 34.7% of the Company's total consolidated assets.
6. Brazilian accounting practices vary in certain significant aspects from generally accepted accounting principles in the United States of America - U.S. GAAP. The Company has presented the nature and effect of such differences in Note 28 to the financial statements.

# Consolidated balance sheets

December 31, 2006 and 2005 (in thousands of Brazilian reais)

	Note	2006	2005
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	304,031	197,323
Short-term investment		89,304	48,387
Trade accounts receivable	7	310,245	214,312
Inventories	8	256,197	292,429
Recoverable taxes	9	38,207	69,360
Deferred income taxes	10.a	5,772	17,241
Other credits		79,511	35,579
Prepaid expenses		7,171	5,132
Total current assets		1,090,438	879,763
<b>Noncurrent assets</b>			
Long-term assets:			
Deferred income taxes	10.a	83,127	46,558
Recoverable taxes	9	178,099	141,292
Escrow		889	3,221
Trade accounts receivable	7	8,335	13,024
Other credits		26,120	27,730
Permanent assets:			
Investments	11	35,811	71,083
Property, plant and equipment	13	1,356,765	1,443,495
Deferred charges	14	595,867	660,620
Total noncurrent assets		2,285,013	2,407,023
TOTAL ASSETS		3,375,451	3,286,786
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Payables to suppliers		197,620	207,755
Loans	15	256,186	591,269
Debentures	15	331	-
Securitization fund liabilities		-	23,747
Taxes other than income tax		23,931	15,268
Salaries and payroll charges		13,830	23,309
Customer advances		5,543	31,743
Related parties		-	282
Dividends payable		213	5,586
Other accounts payable		51,319	45,752
Total current liabilities		548,973	944,711
<b>Noncurrent liabilities</b>			
Long-term liabilities:			
Payables to suppliers		40,931	14,044
Loans	15	1,645,440	1,211,261
Debentures	15	32,191	-
Deferred income taxes		1,413	1,412
Taxes other than income taxes		73,655	55,871
Provision for contingencies	16	12,268	15,993
Swap contracts		-	3,946
Provision for pension plans		3,044	4,476
Other accounts payable		12,102	21,728
Total noncurrent liabilities		1,821,044	1,328,731
DEFERRED INCOME		38,864	45,318
MINORITY INTEREST		-	1,472
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock		826,283	826,283
Income reserves		140,287	140,271
Total shareholders' equity		966,570	966,554
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,375,451	3,286,786

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



## Consolidated statements of income

Years ended december 31, 2006 and 2005 (in thousands of Brazilian reais, except for earnings per share)

	Note	2006	2005
GROSS OPERATING REVENUES		<b>3,184,497</b>	2,459,782
Taxes on sales and other sales deductions		<b>(702,015)</b>	(543,113)
NET SALES	18	<b>2,482,482</b>	1,916,669
Cost of sales	18	<b>(2,150,304)</b>	(1,619,298)
GROSS PROFIT	18	<b>332,178</b>	297,371
OPERATING (EXPENSES) REVENUES			
Selling expenses		<b>(173,825)</b>	(136,110)
General and administrative expenses		<b>(85,849)</b>	(65,241)
Financial expense, net	20	<b>(194,768)</b>	(94,525)
Exchange variation	20	<b>102,663</b>	26,419
Goodwill amortization		<b>(57,321)</b>	(19,462)
Other operating revenues		<b>13,763</b>	24,833
OPERATING INCOME (LOSS)		<b>(63,159)</b>	33,285
Nonoperating revenues (expenses)		<b>36,879</b>	(23,497)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST		<b>(26,280)</b>	9,788
Current income and social contribution taxes	10.b	<b>(27,841)</b>	(25,754)
Deferred income and social contribution taxes	10.b	<b>54,696</b>	31,854
INCOME BEFORE MINORITY INTEREST		<b>575</b>	15,888
Minority interest		<b>(559)</b>	(644)
NET INCOME		<b>16</b>	15,244
EARNINGS PER SHARE - R\$		<b>0.00</b>	0.07
NUMBER OF SHARES AT YEAREND		<b>226,695,380</b>	226,695,380

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

## Consolidated statements of changes in shareholders' equity

Years ended december 31, 2006 and 2005 (in thousands of Brazilian reais)

	Note	INCOME RESERVES							Total
		Capital stock	Revaluation reserve	Legal	Capital increase	Special statutory	Dividends in arrears	Retained earnings	
<b>Balance as of december 31, 2004</b>		826,283	2,489	9,445	55,337	62,108	-	-	955,662
Realization of revaluation reserve of jointly-controlled subsidiary		-	(2,489)	-	-	-	-	2,489	-
Net income		-	-	-	-	-	-	15,244	15,244
Proposed dividends		-	-	-	-	-	-	(4,352)	(4,352)
Transfer to reserves	17	-	-	762	9,117	3,502	-	(13,381)	-
<b>Balance as of december 31, 2005</b>		826,283	-	10,207	64,454	65,610	-	-	966,554
Net income		-	-	-	-	-	-	16	16
Transfer to reserves	17	-	-	1	9	1	5	(16)	-
<b>Balance as of december 31, 2006</b>		<b>826,283</b>	<b>-</b>	<b>10,208</b>	<b>64,463</b>	<b>65,611</b>	<b>5</b>	<b>-</b>	<b>966,570</b>

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

# Consolidated statements of changes in financial position

Years ended December 31, 2006 and 2005 (in thousands of Brazilian reais)

	2006	2005
<b>Sources of funds</b>		
Operation sources of funds (as described below)	284,221	142,307
New long-term loans	37,051	602,986
Increase of noncurrent liabilities	46,326	54,047
Decrease of noncurrent assets	7,189	47,017
Reduction of working capital resulting from consolidation of companies	-	111,715
Transfer of financing to long term	450,256	-
Transfer of investments to current assets	-	34,778
Transfer of supplier to long term	26,596	-
Other	11,500	2,881
<b>Total sources</b>	<b>863,139</b>	<b>995,731</b>
<b>Applications of funds</b>		
In noncurrent assets:		
Additions in investment (including goodwill)	-	696,366
Additions to property, plant and equipment	93,273	126,908
Additions to deferred charges	25,090	147,316
	<b>118,363</b>	<b>970,590</b>
Increase in noncurrent assets	68,627	145,042
Decrease of noncurrent liabilities	19,445	187,202
Dividends - proposed and paid	-	4,352
Aquisition of minority interest	2,986	951
Effects in working capital, net	47,305	-
Other	-	215
<b>Total applications</b>	<b>256,726</b>	<b>1,308,352</b>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>606,413</b>	<b>(312,621)</b>
<b>REPRESENTED BY</b>		
Variation in current assets	210,675	333,782
Variation in current liabilities	(395,738)	646,403
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>606,413</b>	<b>(312,621)</b>
<b>Operation sources of funds</b>		
From operations:		
Net income	16	15,244
Minority interest on income	559	644
Expenses (revenues) that do not affect working capital:		
Depreciation and amortization	118,718	68,151
Net book value of property, plant and equipment disposals	190,549	99,843
Deferred income taxes	(40,561)	(35,890)
Provision for losses with ICMS tax - long term	320	2,115
Provision for contingencies - long term	(2,728)	(3,197)
Goodwill amortization	57,321	19,762
Long-term interest charges, monetary variation and exchange losses	(39,096)	(27,922)
Other	(877)	3,557
<b>Funds from operations</b>	<b>284,221</b>	<b>142,307</b>

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

## Consolidated statements of cash flows

Years ended december 31, 2006 and 2005 (in thousands of Brazilian reais)

	2006	2005
<b>Cash flows from operating activities</b>		
Net income	16	15,244
Minority interest on income	559	644
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	118,718	68,151
Disposal of permanent assets	35,919	36,279
Goodwill amortization	57,321	19,762
Loss from dilution of participation in investees	-	3,789
Interest charges, monetary variations and foreign exchange losses (gains), net	87,181	(2,497)
Provision for contingencies and other	(2,728)	614
Deferred income taxes	(29,148)	(34,283)
Other	4,446	2,989
Changes in assets and liabilities:		
Decrease (increase) in trade accounts receivable	(162,375)	117,730
Increase (decrease) in inventories	17,190	(42,195)
Decrease (increase) in recoverable taxes	(31,861)	10,980
Decrease in other current and long-term assets	(59,961)	(299,659)
Increase in payables to suppliers	35,003	95,736
Decrease in other current and long-term liabilities	(151,060)	(22,356)
Cash flows from operating activities	<b>(80,780)</b>	<b>(29,072)</b>
<b>Cash flows from investing activities</b>		
Cash collected on sale of equipment/subsidiaries, net of cash of subsidiaries sold	125,461	65,747
Acquisitions, net of cash acquired (including goodwill)	(2,713)	(690,020)
Acquisition of minority interest	(2,986)	-
Additions to property, plant and equipment	(84,344)	(119,820)
Additions to deferred charges	(25,090)	(125,095)
Cash flows provided by (used in) investing activities	<b>10,328</b>	<b>(869,188)</b>
<b>Cash flows from financing activities</b>		
Payment of dividends	(4,180)	(28,092)
Proceeds from new loans	852,406	1,770,153
Payments of loans	(671,066)	(808,778)
Cash flows from financing activities	<b>177,160</b>	<b>933,283</b>
<b>Increase in cash and cash equivalents</b>		
	<b>106,708</b>	<b>35,023</b>
Cash and cash equivalents at the beginning of the year	197,323	162,300
Cash and cash equivalents at the end of the year	<b>304,031</b>	<b>197,323</b>

The Company disbursed during the year ended December 31, 2006 R\$107,594 to pay for interest on loans.

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

## 1. OPERATIONS

The operations of Suzano Petroquímica S.A. (the "Company"), a publicly-owned company, include: (a) manufacturing, development, importation and exportation of polypropylene used in the production of auto parts, household appliances, containers, bottles, packaging, carpets, furniture and other; (b) holding company of investments in any company or enterprise; (c) leasing or granting the use of its assets relating to the above activities referred to in item (a) above; and (d) rendering of services relating to the activities described above.

Up to November 30, 2005, the Company was a holding company which held certain investments in jointly-controlled companies. The Company began to have its own operations after the acquisitions described in Note 2 below.

As of July 11, 2006, the Company concluded the first phase of the increase in the production capacity of polypropylene at Mauá's plant. This project increased production capacity of polypropylene by 60,000 tons per year, to 360,000 ton per year, becoming the Mauá plant the largest polypropylene manufacturing facility in Latin America.

The Company holds investments in the following jointly-controlled subsidiaries:

### **Petroflex Indústria e Comércio S.A. ("Petroflex")**

Production of emulsion and solution elastomers used for production of tires, tread bands and rubber for shoes, televisions, refrigerators, hoses, gaskets, pads, bushing, carpets and other.

### **Rio Polímeros S.A. ("Rio Polímeros")**

Production (540,000 tons of capacity per year) of polyethylene from the fraction of natural gas extracted from Bacia de Campos, Rio de Janeiro.

On October 31, 2005, Rio Polímeros completed its premarketing operations, which included purchasing and resale of polyethylene manufactured by third parties, the objectives of which were the training of sales, logistics and technical assistance teams, and testing of distribution systems, to prepare for the operating phase of the plant. These premarketing operations were contemplated in the business plan and were reflected in results of operations for the first semester of 2005. All expenses not related to premarketing operations were capitalized during the preoperating phase, as they related to the construction project of the plant.

The operating phase began on March 31, 2006 after the conclusion of tests performed in accordance with the construction agreement. As a result, the statement of income includes operations for the period from April 1 to December 31, 2006.

In April 2006, Rio Polímeros started its industrial production and considered concluded the construction of the plant facilities denominated Gas Chemical Complex in Duque de Caxias, State of Rio de Janeiro. The services of construction, engineering and assembly were conducted by the consortium formed by ABB Lummus and Snamprogetti.

The net loss incurred by Rio Polímeros in the period of nine months ended December 31, 2006, amounting to R\$92,403 (being R\$30,798 the Company's share of that loss), was heavily impacted by the low margin experienced in the beginning of operations. Based on positive projected results of operations, management expects to realize both the investments in noncurrent assets and deferred income taxes on tax losses.

## 2. CHANGE IN OPERATIONS AND CORPORATE STRUCTURE

On September 1, 2005, the Company acquired all capital stock of Basell Brasil Poliolefinas Ltda. from Basell International Holdings BV ("Basell"). Basell Brasil Poliolefinas Ltda.'s sole asset was 50% of the capital stock of Polibrasil Participações S.A. ("Polibrasil"). As a result of this acquisition, the Company held 100% of the capital stock of Polibrasil, which in turn held 98.1% of the capital stock of Polipropileno S.A., which in turn owned 100% of the capital stock of Polibrasil Resinas S.A., an operating company with total annual production capacity of 625,000 tons of polypropylene and 25,000 tons of polypropylene compounds. At the same time the Company agreed to sell 100% of polypropylene compound business unit to Basell.

The price of the acquisition of Basell Brasil Poliolefinas Ltda., subsequently renamed Suzano Poliolefinas Ltda., amounted to R\$668,493, generating goodwill of R\$418,374, representing expectation of future profitability.

On September 30, 2005, the indirect subsidiaries Suzano Poliolefinas Ltda. and Polibrasil Participações S.A. were merged into the direct subsidiary Suzano Química Ltda., which became direct shareholder of Polipropileno S.A.

On November 29, 2005, the subsidiary Suzano Química Ltda. acquired an additional 1.38% of Polipropileno S.A. for R\$17,927 in a public offering, generating goodwill of R\$10,320. Polipropileno S.A. then redeemed its remaining capital stock (less than 5% of total stock) by means of a deposit of R\$6,582 to make future liquidation payments to the remaining minority shareholders that did not participate in the public offering. As a result, Suzano Química Ltda. became the owner of 100% of the capital stock of Polipropileno S.A.

On November 30, 2005, Suzano Química Ltda., Polipropileno S.A., Polibrasil Resinas S.A. and Polibrasil Compostos S.A. were merged into the Company, which became an operating company, a manufacturer of polypropylene.

On April 4, 2006, the subsidiary SPQ Investimentos e Participações Ltda. ("SPQ"), together with Sumitomo Chemical Company Limited and Itochu Corporation ("Japanese Group"), established a stock sale and purchase agreement with Braskem S.A., in order to sell their total capital stock in the jointly-controlled subsidiary Politeno Indústria e Comércio S.A. ("Politeno"). For its share on the capital stock of Politeno, the Company received an initial amount of R\$129,704 plus an agreement for an additional collection or payment dependent upon the behavior of the difference between the net price of polyethylene and the price of ethylene (the so-called spread of polyethylene), being ethylene referred to the price of naphtha, during the 18 months subsequent to the sale. This agreement for the future collection or payment of additional consideration was characterized as a hybrid derivative financial instrument and, accordingly, recorded at the fair market value computed on the basis of projections of the behavior of its variables in the future, determined by independent finance consultants. As a result, in the consolidated financial statements the Company recognized a gain of R\$29,453, which was classified as "Nonoperating income", in the consolidated statement of income. The recognition of this gain assumes a more favorable perspective of the behavior of the spread of polyethylene for that future period, based on the assumptions used by independent finance consultants.

On April 4, 2006, the Company, through its subsidiary Polipropileno Participações S.A., exchanged with Braskem S.A. 75,669,544 shares issued by Nordeste Química S.A. - Norquisa, which represents 8.9% of the voting capital and 10.9% of total capital, for 2,129,324 preferred "A" shares issued by Braskem S.A., which represent 0.6% of total Braskem's capital. On April 6, 2006, the market value of such shares was R\$33.5 million (R\$15.74 per share at BOVESPA - São Paulo Stock Exchange and the book value of Norquisa's stock was R\$24 million, resulting in a gain of R\$9.5 million, which was classified as equity in earnings of subsidiaries and as nonoperating income, in the individual and consolidated statements of income, respectively, for the quarter ended June 30, 2006. As of September 28, 2006, the subsidiary Polipropileno Participações S.A. was merged into SPQ, based on an appraisal of the book value of the investment performed and reported by an independent accountant.

On December 22, 2006, SPQ capital was increased by R\$52.5 million through the subscription, at book value, of shares by the Company, and paid with 4,759,274 common shares and 2,320,597 preferred shares of Petroflex previously owned directly by the Company.

### 3. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Brazilian accounting practices and the rules and regulations of the Brazilian Securities Exchange Commission (CVM).

Certain reclassifications have been made to the Company's financial statements as of and for the year ended December 31, 2005 to conform to the 2006 presentation, as well as to adequate such financial statements to the requirements of the CVM Deliberation No. 489/05. Certain reclassifications, modifications, and changes in terminology have been made, in order to conform more closely to reporting practices prevailing pursuant to generally accepted accounting principles in the United States of America - U.S. GAAP.

The Company's consolidated financial statements as of December 31, 2006 are not comparable to the consolidated financial statements as of and for the year ended December 31, 2005, which reflect the 33.89% ownership interest in Politeno and 50% ownership interest in Polibrasil.

Until March 31, 2006, Rio Polimeros was in preoperating phase.

The preparation of financial statements requires the use of estimates. Accounting estimates were based on objective and subjective factors, including management's judgment in determining the adequate amount to be recorded in the financial statements. Significant items subject to estimates and assumptions include the allowance for doubtful accounts, provisions for losses on other current assets, useful lives of fixed assets, goodwill and its amortization, deferred income tax assets, provision for contingencies and the fair value of financial instruments, including Politeno's stock sales agreement. The Company's management reviews its assumptions and estimates regularly.

Note 26 includes a "pro forma" balance sheet as of December 31, 2005 and "pro forma" statements of income for the years ended December 31, 2006 and 2005 as if Polibrasil had been consolidated by the Company from January 1, 2005 and not including Politeno in the consolidation for the first quarter of 2006 and year ended December 31, 2005.

### 4. DESCRIPTION OF SIGNIFICANT ACCOUNTING Policies

- a) Recognition of revenues and expenses:** Results of operations are recognized on the accrual basis. Sales revenue is recognized when all related risks and benefits of products are transferred to the customer. Revenue is not recognized if there is significant uncertainty as to its realization.
- b) Items denominated in foreign currencies:** Monetary assets and liabilities denominated in foreign currencies are recorded based on the exchange rate at the balance-sheet date. Changes in exchange rates result in transaction gains and losses which are recognized currently in income.
- c) Rights and obligations:** Monetarily restated according to contractual financial charges or exchange rates, to reflect amounts accrued through the balance sheet date.

- d) Cash and cash equivalents:** Include petty cash, bank accounts and highly-liquid temporary cash investments with original maturities of less than 90 days. Temporary cash investments are recorded at cost plus income accrued to the balance sheet date, which does not exceed market value.
- e) Marketable securities:** Represented by stock of listed companies recorded at the lower of cost or fair market value.
- f) Allowance for doubtful accounts:** Determined by means of the analysis of historic losses, assessment of balances with realization risks, specific risks of the portfolio, past experience and negotiations in process.
- g) Accounts receivable:** The discounted export receivables, discounted trade receivables and vendor operations were registered as reduction of accounts receivable.
- h) Inventories:** Stated at average cost of acquisition or production, which does not exceed market value. Production costs reflect the full absorption method based on normal utilization of production capacity; the impact of underutilization of capacity is charged to income currently. Spare parts are stated at acquisition cost and charged to manufacturing costs upon consumption or obsolescence.
- i) Investments:** The investment in jointly-controlled subsidiaries is stated under the equity method in the individual financial statements of the Company. All other investments are recorded under the cost method. Goodwill from acquisitions relates to the expectation of future profitability and is being amortized over periods of seven to ten years. The investments in the capital stock of companies which have been destined for sale is reclassified to current assets and is carried at the lower of cost or market value. The Company reviews the accounting practices used by subsidiaries and, in case of differences with the Company's accounting practices, makes adjustments to their shareholders' equity and results of operations, for purposes of application of equity method.
- j) Property, plant and equipment:** Stated at acquisition or construction cost, plus interest and other financial charges incurred during construction. Depreciation is computed under the straight-line method at the rates based on the estimated useful lives of the assets (see Note 13). Expenses related to scheduled shutdown of plants are capitalized in the cost of related assets and depreciated during the period between the current shutdown and the next scheduled shutdown, the intervals may vary from one up to three years.
- k) Deferred charges:** Expenditures incurred during the preoperating phase are recorded at cost and deferred and amortized after the start-up for ten years. In the consolidated balance sheet and in the Company's individual balance sheet after the merger of subject companies, balances of goodwill resulting from the acquisition of subsidiaries mentioned in Note 2 are reclassified to deferred charges. Goodwill from acquisitions relates to the expectation of future profitability, which has been amortized over a period of seven to ten years.
- l) Income and social contribution taxes:** Recognized on the accrual basis. Deferred income taxes have been provided for on temporary differences between the tax basis and book basis of assets and liabilities. Deferred income taxes on tax losses and temporary differences were recognized taking into account the historical profitability and the expectations of generation of future taxable income based on feasibility studies. Subsidiaries located in the State of Bahia or which operate plants located there are entitled to a benefit of reduction in and/or exemption of income tax which was granted in prior years. The benefit is deducted from income tax payable and recorded by the individual companies as capital reserves, directly in shareholders' equity. For purposes of the consolidated financial statements, income tax expense is stated at the amount net of the tax-incentive exemption or reduction.
- m) Provisions:** A provision is recorded in the balance sheet when the Company has an obligation by law or resulting from a past event and it is probable that funds or assets will be needed to settle such obligation. Provisions are recorded based on the best estimates of the risk involved which are supported by the external legal counsel's opinion. The balances of provisions are deducted of escrow, if applicable.
- n) Deferred income:** Related to negative goodwill from prior acquisitions of shares of Polibrasil companies that have been merged into the Company, which have been amortized over a period of seven years, the same period of amortization of the goodwill paid in the last acquisition of Polibrasil companies.
- o) Interest on capital:** Recorded originally in accounting records as finance income, when declared or paid by subsidiaries or affiliates, and as finance expense when interest is appropriated to shareholders. However, for purposes of the financial statements the Company uses the essence of the transaction and, accordingly, credits and charges for interest on capital are considered as dividends received and paid, respectively, and do not flow through income. Consequently, interest on capital received from subsidiaries and affiliates is credited to the investment caption, and interest on capital paid or payable to shareholders is charged to retained earnings.

**p) Pension plan contributions:** Contributions to private defined-contribution pension plans, computed according to the rules of such plans, are charged monthly to income. For the few cases of employees who remain entitled to defined-benefit plans, a provision is recorded to recognize the possible deficit, if any, determined on the basis of studies developed by independent actuaries. In case of excess assets in overfunded plans, the Company does not recognize the corresponding assets.

**q) Financial instruments - derivatives:** Derivative contracts are accounted at the balance sheet date using their respective settlement values. Gains and losses earned or incurred as from these instruments are recognized as revenues and expenses currently.

## 5. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements include the Company and its direct and indirect subsidiaries, and the Company's jointly-controlled subsidiaries, which were proportionally consolidated, according to the following percentage shares:

	2006		2005	
	Voting %	Total %	Voting %	Total %
Suzanopar Petroquímica Ltd.	100.00	100.00	100.00	100.00
Polipropileno Participações S.A.	(a)	(a)	96.46	93.40
Rio Polímeros S.A.	33.33	33.33	33.33	33.33
SPQ Investimentos e Participações Ltda.	100.00	100.00	100.00	100.00
Petroflex Indústria e Comércio S.A.	20.14	20.12	20.14	20.12
Politeno Indústria e Comércio S.A.	(b)	(b)	35.00	33.89
Politeno Empreendimentos Ltda.	(b)	(b)	99.99	99.99

(a) Merged into SPQ Investimentos e Participações Ltda. on September 28, 2006 (see Note 2).

(b) The interest was sold in April 2006 (see Note 2).

Description of the main consolidation procedures:

- Elimination of assets and liabilities between consolidated companies.
- Elimination of participation in capital, reserves and retained earnings of consolidated subsidiaries.
- Elimination of income, expenses and unrealized income from intercompany transactions.
- Segregation of minority interests from equity and results of operations.
- The elements of the financial statements of jointly-controlled subsidiaries were consolidated and eliminated (when this was the case) at the subject percent rate of participation in total capital (proportional consolidation).
- The financial position of the Securitization Fund (FIDC) formed by receivables of the jointly-controlled subsidiary Petroflex was consolidated into the Company according to its share on the subsidiary's capital. The amount of subordinated shares owned by the jointly-controlled subsidiary was eliminated against the equity of the FIDC, the net amount of which was classified as a current liability with FIDC investors.

## 6. CASH AND CASH EQUIVALENTS

	2006	2005
Petty cash	-	14
Bank accounts	41,891	159,243
Temporary cash investments	262,140	38,066
	<b>304,031</b>	<b>197,323</b>



## 7. TRADE ACCOUNTS RECEIVABLE

	2006	2005
Domestic clients	399,612	383,082
Foreign clients	151,975	86,441
	<b>551,587</b>	469,523
Discounted receivables	(56,317)	(37,462)
Vendor operations (*)	(162,339)	(189,642)
Allowance for doubtful accounts	(14,351)	(15,083)
	<b>318,580</b>	227,336
Receivables classified under current assets	<b>310,245</b>	214,312
Receivables classified under noncurrent assets	<b>8,335</b>	13,024

(\*) Operations by means of which customers obtain bank funding to settle in cash their purchases from the Company, which provides guarantees to the banks. In case of delinquency by customers, the Company must reimburse these banks.

The jointly-controlled subsidiary Petroflex established a securitization fund in December 2003, which has a three-year term, and is managed by Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda. The fund is formed primarily by accounts receivables of this subsidiary, originated from trade operations with domestic clients. As of December 31, 2006, the jointly-controlled subsidiary had 12,773,278.87 subordinated shares of the securitization fund corresponding to R\$20,163, and unit value of R\$1.5785 (16,553,907.54 subordinated shares, corresponding to R\$22,327 and unit value of R\$1.3487 as of December 31, 2005) equivalent to 16.79% of the total securitization fund, the remaining amounts belong to third parties.

The summary of aging of accounts receivable is as follows:

	2006	2005
Current accounts:		
From 1 to 30 days	313,995	176,183
From 31 to 60 days	104,028	150,906
From 61 to 90 days	51,490	54,210
From 91 to 360 days	19,593	38,624
More than 360 days	8,041	1,918
	<b>497,147</b>	421,841
Past-due accounts:		
From 1 to 30 days	32,647	22,066
From 31 to 60 days	2,957	4,072
From 61 to 90 days	1,694	1,886
From 91 to 360 days	11,568	5,869
More than 360 days	5,574	13,789
	<b>54,440</b>	47,682
	<b>551,587</b>	469,523

## 8. INVENTORIES

	2006	2005
Finished products	164,912	188,530
Work in progress	2,583	10,958
Raw materials	57,582	61,536
Auxiliary materials and other	1,527	13,615
Maintenance materials	32,580	21,068
Provision for losses in inventories	(2,987)	(3,278)
	<b>256,197</b>	292,429

## 9. RECOVERABLE TAXES

	2006	2005
Advances for income and social contribution taxes	6,737	13,365
Recoverable ICMS tax	192,241	193,039
Provision for losses on ICMS tax credits	(5,870)	(9,140)
Other	23,198	13,388
	<b>216,306</b>	210,652
Amount classified under current assets	38,207	69,360
Amount classified under noncurrent assets	178,099	141,292

The Company and its jointly-controlled subsidiaries have accumulated ICMS (State Value-Added Tax - VAT) tax credits as a result of the interstate sales, the tax rate of which is lower than the rate on purchases of raw materials, and of export sales which are exempted from this State tax.

The Company and the jointly-controlled subsidiaries have developed tax planning strategies for recovery of accumulated ICMS tax credits represented by the initiatives discussed below. The provisions for losses on these credits have been determined on the basis of the average discounts granted in negotiations for some plants.

### Company

#### Plant located in Camaçari - BA

- 1) Deferral (exemption) of ICMS tax on importation of materials used for manufacturing purposes, on purchases from suppliers located in the State of Bahia and on importation of machinery and equipment. As a result, beginning in March 2005, there have been no new credits on these acquisitions, permitting the realization of existing credits.
- 2) Monthly transfer of ICMS tax credits arising from local sales to the naphtha cracker (Bahiaplast Program, ProBahia and Desenvolve).
- 3) Pending approval from State tax authorities (Bahia), since August 2006, for the contracted alienation to third parties of R\$30 million of tax credits arising from the acquisition of raw materials.

#### Plant located in Mauá - SP

- 1) Negotiations with the State tax authorities for the transfer of ICMS tax credits on exports, amounting to R\$14 million, to be used for the payment of raw material purchases without any discount.
- 2) Negotiation with the State tax authorities for a special tax regime for appropriation and automatic transfer of export tax credits by means of insurance mechanism ("Fast-Track").
- 3) Negotiation of tax incentive project for the plastic transformation industry chain with the State tax authorities, aimed at the reduction of the intra-state tax rate of basic and intermediary petrochemical products to 12%, neutralizing the accumulation of unused balances of credits resulting from the interstate sales.
- 4) Restructuring of operations among plants to optimize the utilization of tax credits.

### Jointly-controlled subsidiaries

#### Rio Polímeros

The Company's participation on the tax credits of Rio Polímeros on December 31, 2006 amounts to R\$77,354 (R\$51,247 on December 31, 2005), being the portion of R\$72,757 related to deferred credits, recorded based on Decree-Law No. 25,665/99, charged in the importation of equipment utilized in the construction of the industrial facilities. The Decree allows the postponement of the payment of VAT for six years, considering the acquisition date, without charging interest. At the moment taxes become due, the jointly-controlled subsidiary has the right to compensate the amount with monthly VAT obligation generated in the course of its normal operations, in a period of 48 months.

The Company and the jointly-controlled subsidiaries will continue to review periodically the realization of ICMS balances and the need to adjust the provision to bring the asset to the likely value to be recovered.

## 10. INCOME AND SOCIAL CONTRIBUTION TAXES

### a) Deferred income tax assets

Deferred income tax assets of the Company, its subsidiaries and jointly controlled subsidiaries included in the financial statements arise from temporary differences and tax losses.

On December 31, 2006, the Company has accumulated tax losses for purposes of corporate income tax amounting to R\$152,799 (R\$120,603 in 2005) and tax losses for purposes of social contribution tax amounting to R\$166,153 (R\$135,451 in 2005).

The composition of deferred income tax assets is as follows:

2006				
	Suzano Petroquímica S.A.	Rio Polímeros S.A.	Petroflex Indústria e Comércio S.A.	Total
<b>Current:</b>				
Tax losses	-	-	35	35
Temporary differences	-	5,170	567	5,737
	-	5,170	602	5,772
<b>Long term:</b>				
Tax losses	53,315	11,506	-	64,821
Temporary differences	15,201	-	3,105	18,306
	68,516	11,506	3,105	83,127

2005					
	Suzano Petroquímica S.A.	Rio Polímeros S.A.	Petroflex Indústria e Comércio S.A.	Politeno Indústria e Comércio S.A.	Total
<b>Current:</b>					
Tax losses	12,488	-	35	-	12,523
Temporary differences	4,095	-	623	-	4,718
	16,583	-	658	-	17,241
<b>Long term:</b>					
Tax losses	29,830	984	-	-	30,814
Temporary differences	9,068	-	3,501	3,175	15,744
	38,898	984	3,501	3,175	46,558

The Company's management and management of jointly-controlled subsidiaries, based on profit projections, recognized tax credits on accumulated tax losses (for both corporate income and social contribution tax purposes). These tax losses do not expire, but are limited to 30% of yearly taxable income.

Based on mentioned estimated projections of the Company's management and management of jointly-controlled subsidiaries, the realization of such tax credits is expected as follows:

Year of realization	Consolidated
2007	5,772
2008	12,608
2009	857
2010	345
2011	1,108
As from 2012	68,209
Total	88,899

## b) Income tax expense reconciliation

	2006	2005
Income (loss) before income taxes	(26,280)	9,788
Unrecognized tax credits of certain companies	-	1,436
	(26,280)	11,224
Combined income and social contribution tax rate	34%	34%
Credit (expense) of income taxes at the combined rate	8,936	(3,816)
Exchange rate changes on foreign investments	-	(1,900)
ADENE tax incentives	101	7,073
Goodwill amortization	-	(3,242)
Tax credits on tax losses from prior years	-	9,575
Write-off of tax credit of merged subsidiaries	-	(4,523)
Tax credits on temporary differences from prior years	14,789	2,774
Other permanent additions	3,029	159
Total income tax credit	26,855	6,100
Current income taxes	(27,841)	(25,754)
Deferred income taxes	54,696	31,854
	26,855	6,100

The Company has tax incentives up to fiscal year 2013, consisting of a 25% reduction of corporate income tax on the portion of operating profits earned by the Camaçari plant, which is located in the State of Bahia, a tax-incentive region subject to the jurisdiction of ADENE (Northeast Region Development Agency).

The jointly-controlled subsidiary Petroflex has tax incentives up to fiscal year 2008, consisting of income tax exemption on the portion of operating profits earned in the tax-incentive region subject to ADENE jurisdiction.

## 11. INVESTMENTS

	2006	2005
Petroquímica União S.A. - common stock	33,385	33,385
Nordeste Química S.A. – Norquisa	-	63,427
Provision for losses	-	(30,596)
Other	2,426	4,867
	35,811	71,083

In the consolidated balance sheet as of December 31, 2006, negative goodwill amounting to R\$16,445, related to the jointly-controlled subsidiary Petroflex, has been reclassified to deferred income.

**Position and summary of activity of investments in consolidated subsidiaries:**

	<b>SPQ Investimentos e Participações Ltda.</b>	<b>Rio Polímeros S.A.</b>	<b>Petroflex Indústria e Comércio S.A.</b>	<b>Suzanopar Petroquímica Ltd.</b>	<b>Polipropileno Participações S.A.</b>	<b>Total</b>
a) Interest in the capital as of December 31, 2006						
Shares owned:						
Quotas	196,920,100	-	-	269,999	-	-
Common shares	-	423,965,910	4,759,274	-	-	-
Preferred shares	-	97	2,320,592	-	-	-
Voting capital	100.00%	33.33%	20.14%	100.00%	-	-
Total capital	100.00%	33.33%	20.12%	100.00%	-	-
b) Information on subsidiaries as of December 31, 2006						
Capital	227,042	1,469,806	161,880	632	-	-
Adjusted shareholders' equity	286,530	1,372,264	405,139	832	-	-
Adjusted results for the period	42,118	(92,403)	22,986	(56)	-	-
c) Investments						
Balance as of December 31, 2005	167,637	485,136	65,656	888	20,837	740,154
Dividends	(5,893)	-	-	-	-	(5,893)
Capital increase	-	3,088	-	-	-	3,088
Capital increase at SPQ with other investments	82,668	-	(52,545)	-	(30,123)	-
Acquisition of minority stock	-	-	-	-	1,794	1,794
Equity in earnings (losses)	42,118	(30,803)	4,482	(56)	7,492	23,233
	286,530	457,421	17,593	832	-	762,376
Negative goodwill- Petroflex (*)	-	-	(17,593)	-	-	(17,593)
Balance as of December 31, 2006	286,530	457,421	-	832	-	744,783

(\*) In December 2006, the Company increased and integralized capital at SPQ with its interest in the capital stock of Petroflex, at the book value deducted of negative goodwill.

The position and summary of activity of the investment of SPQ interest in its controlled subsidiary Politeno in 2005 was as follows:

	<b>Politeno Indústria e Comércio S.A.</b>
a) Interest in the capital as of December 31, 2005	
Voting capital	35.00%
Total capital	33.89%
b) Shares owned	
Common shares	21,847,901,299
Preferred shares class "A"	453,216,540
Preferred shares class "B"	117,770,373
c) Information on subsidiaries as of December 31, 2005	
Capital	359,868
Adjusted shareholders' equity	470,557
Adjusted results for the period	63,241
d) Investments	
Balance as of December 31, 2004	147,044
Distributed profits	(16,052)
Equity in earnings	29,692
Balance as of December 31, 2005	160,684
Last stock price at BOVESPA:	
October 11, 2005 - PNA	19.49
December 27, 2005 - PNB	5.01

The balance sheets and statements of income of the subsidiaries and proportionally consolidated subsidiaries as of and for the years ended December 31, 2006 and 2005 used in the consolidation are presented below (total amounts, without considering the Company's proportional interest):

	<b>SPQ Investimentos e Participações Ltda. (consolidated)</b>		<b>Rio Polímeros S.A. (company)</b>		<b>Petroflex Indústria e Comércio S.A. (consolidated)</b>		<b>Suzanopar Petroquímica Ltd. (company)</b>	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Assets</b>								
Current assets	<b>354,284</b>	101,642	<b>435,175</b>	157,321	<b>589,926</b>	499,468	<b>832</b>	888
Cash and cash equivalents	<b>166,878</b>	5,491	<b>4,372</b>	41,829	<b>148,018</b>	58,310	<b>832</b>	888
Trade accounts receivable	<b>43,723</b>	60,882	<b>141,958</b>	25,202	<b>214,930</b>	186,913	-	-
Inventories	<b>31,356</b>	25,594	<b>158,822</b>	64,360	<b>155,850</b>	182,188	-	-
Recoverable taxes	<b>11,413</b>	2,839	<b>21,406</b>	16,003	<b>50,639</b>	63,244	-	-
Other credits	<b>100,914</b>	6,836	<b>108,617</b>	9,927	<b>20,489</b>	8,813	-	-
Noncurrent assets	<b>97,908</b>	114,844	<b>3,265,249</b>	3,268,345	<b>581,702</b>	448,138	-	-
Long-term assets:								
Recoverable taxes	<b>8,159</b>	47,461	<b>263,194</b>	148,739	<b>25,126</b>	25,877	-	-
Other credits	<b>1,182</b>	8,547	<b>1,817</b>	1,621	<b>21,279</b>	3,244	-	-
Investments	<b>615</b>	10,611	-	-	<b>2,896</b>	2,225	-	-
Property, plant and equipment	<b>87,952</b>	46,805	<b>2,410,947</b>	2,517,354	<b>532,401</b>	416,792	-	-
Deferred charges	-	1,420	<b>589,291</b>	600,631	-	-	-	-
<b>TOTAL ASSETS</b>	<b>452,192</b>	216,486	<b>3,700,424</b>	3,425,666	<b>1,171,628</b>	947,606	<b>832</b>	888

	SPQ Investimentos e Participações Ltda. (consolidated)		Rio Polímeros S.A. (company)		Petroflex Indústria e Comércio S.A. (consolidated)		Suzanopar Petroquímica Ltd. (company)	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Liabilities and shareholder's equity</b>								
Current liabilities	<b>78,200</b>	45,093	<b>369,666</b>	266,560	<b>390,661</b>	462,162	-	-
Loans	<b>14,116</b>	23,331	<b>236,823</b>	146,411	<b>70,165</b>	156,233	-	-
Other liabilities	<b>64,084</b>	21,762	<b>132,843</b>	120,149	<b>320,496</b>	305,929	-	-
Noncurrent liabilities	<b>69,871</b>	3,756	<b>1,958,494</b>	1,703,699	<b>375,828</b>	159,108	-	-
Loans	<b>55,585</b>	1,788	<b>1,635,361</b>	1,515,779	<b>276,279</b>	81,111	-	-
Other liabilities	<b>14,286</b>	1,968	<b>323,133</b>	187,920	<b>99,549</b>	77,997	-	-
Deferred income	<b>17,593</b>	-	-	-	-	-	-	-
Shareholders' equity	<b>286,528</b>	167,637	<b>1,372,264</b>	1,455,407	<b>405,139</b>	326,336	<b>832</b>	888
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<b>452,192</b>	216,486	<b>3,700,424</b>	3,425,666	<b>1,171,628</b>	947,606	<b>832</b>	888
<b>Statement of income</b>								
Net sales	<b>118,458</b>	409,286	<b>957,970</b>	97,358	<b>1,361,545</b>	1,373,204	-	-
Cost of sales	<b>(102,207)</b>	(332,473)	<b>(879,737)</b>	(94,329)	<b>(1,200,075)</b>	(1,089,226)	-	-
Gross profit	<b>16,251</b>	76,813	<b>78,233</b>	3,029	<b>161,470</b>	283,978	-	-
Operating expenses	<b>(14,782)</b>	(41,707)	<b>(113,123)</b>	(11,117)	<b>(85,685)</b>	(119,765)	-	(22)
Interest income (loss)	<b>11,323</b>	(1,995)	<b>(104,589)</b>	154	<b>(45,686)</b>	(40,991)	<b>(56)</b>	885
Operating income (loss)	<b>12,792</b>	33,111	<b>(139,479)</b>	(7,934)	<b>30,099</b>	123,222	<b>(56)</b>	863
Nonoperating revenues (expenses)	<b>29,413</b>	-	-	-	<b>946</b>	(1,503)	-	-
Income taxes	<b>(89)</b>	(4,017)	<b>47,076</b>	2,633	<b>(8,059)</b>	(33,742)	-	-
Minority interest	<b>2</b>	-	-	-	-	-	-	-
NET INCOME (LOSS)	<b>42,118</b>	29,094	<b>(92,403)</b>	(5,301)	<b>22,986</b>	87,977	<b>(56)</b>	863

## 12. RELATED PARTIES

The balances and transactions with related parties are described below.

	Consolidated					
	2006			2005		
	Assets current	Liabilities current	Transactions	Assets current	Liabilities current	Transactions
	Accounts receivable	Accounts payable	Revenue (expense or purchases)	Accounts receivable	Accounts payable	Revenue (expense or purchases)
Company and jointly-controlled subsidiaries with nonconsolidated parties:						
Suzano Holding S.A.	-	-	-	-	282	(3,189)
Clion Indústria e Comércio Ltda.	8,374	-	25,540	11,724	-	31,462
SPP Agaprint Indústria e Comércio Ltda.	26,571	-	70,370	27,598	-	44,965
	<b>34,945</b>	<b>-</b>	<b>95,910</b>	<b>39,322</b>	<b>282</b>	<b>73,238</b>
Jointly-controlled subsidiaries with related parties of other shareholders:						
Rio Polímeros S.A.	2,826	30,506	13,613	108	-	3,019
Petroflex Indústria e Comércio S.A.	75	12,406	(112,460)	70	10,505	(88,732)
	<b>2,901</b>	<b>42,912</b>	<b>(98,847)</b>	<b>178</b>	<b>10,505</b>	<b>(85,713)</b>

The jointly-controlled subsidiaries Petroflex and Rio Polímeros had transactions with related parties of other shareholders, substantially related to the acquisition of raw materials.

## 13. PROPERTY, PLANT AND EQUIPMENT

	Weighted yearly average depreciation - %	Consolidated					
		2006			2005		
		Cost	Depreciation	Net book value	Cost	Depreciation	Net book value
Land	-	25,302	-	25,302	22,569	-	22,569
Buildings	4	137,852	(31,551)	106,301	95,525	(26,577)	68,948
Buildings	2.5	18,141	(2,261)	15,880	14,686	(2,596)	12,090
Buildings	5	-	-	-	21,809	(15,332)	6,477
Machinery and equipment	10	618,269	(300,570)	317,699	587,874	(243,240)	344,634
Machinery and equipment	3.3	740,998	(18,506)	722,492	66,917	(22,510)	44,407
Machinery and equipment	5.7	75,344	(27,115)	48,229	166,060	(133,830)	32,230
Furniture, fixture and installations	10	74,376	(48,860)	25,516	75,911	(46,903)	29,008
Vehicles	20	4,598	(2,962)	1,636	4,110	(2,759)	1,351
Leasehold improvements	50	327	(265)	62	2,220	(1,125)	1,095
Computer hardware and other	20	18,585	(14,793)	3,792	22,160	(16,242)	5,918
Other items	10	44,976	(4,238)	40,738	11,184	(4,658)	6,526
Construction in progress (*)	-	49,118	-	49,118	868,242	-	868,242
		<b>1,807,886</b>	<b>(451,121)</b>	<b>1,356,765</b>	<b>1,959,267</b>	<b>(515,772)</b>	<b>1,443,495</b>

(\*) At the beginning of the second quarter of 2006, Rio Polímeros started the chemical gas operation in Duque de Caxias, producing polyethylene from the fractioning of natural gas. For this reason, a large portion of the investments previously classified under "Construction in progress" caption was reclassified to "Machinery and equipment" caption.



### Transfer of land use rights

Under the agreement signed with the city authorities of Duque de Caxias, based on the applicable legislation, Rio Polímeros S.A. has the right of use of the land where the petrochemical plant is located for a period of 50 years, renewable for another 50 years. As per the agreement, the city authorities transferred the right of use of 87.49% of the land destined to the construction of the plant. The legal process aimed at transferring the right of use of the remaining portion of the land has been conducted at the 4<sup>th</sup> Civil Court of Duque de Caxias.

Before the application of the equity method and the consolidation process, the shareholders' equity of Petroflex was adjusted in order to exclude the effects of revaluation of assets recorded on the subsidiary's book in December 2006, which amounted to R\$13,420. The reversal was made to conform the financial position and results of operations of Petroflex to the accounting practices adopted by the Company.

## 14. DEFERRED CHARGES

	Suzano Petroquímica S.A.	Rio Polímeros S.A.	Politeno Indústria e Comércio S.A.	Goodwill reclassified from investments	Total
Technology	75,750	-	-	-	75,750
Preoperating expenses	35,892	212,286	-	-	248,178
Goodwill	418,404	-	-	-	418,404
Other	52,912	-	-	-	52,912
Amortization	(183,522)	(15,855)	-	-	(199,377)
Net book value - 2006	399,436	196,431	-	-	595,867
Net book value - 2005	454,983	200,210	1,420	4,007	660,620

### Technology

From the total balance of technology, R\$47,869 relates to the acquisition of rights for the use of the "Spheripol" technology by means of an agreement signed in 1998 with Baselltech USA Inc., which has been used in the Company's Mauá plant, and has been amortized over five years.

### Preoperating expenses

Suzano Petroquímica S.A.

Assets are related to the preoperating expenses of the merged company Polibrasil, which are almost fully amortized.

### Rio Polímeros

These deferred charges refer principally to manufacturing costs incurred during the preoperating phase of the Rio Polímeros plant (R\$117,576), construction of a water transportation system in partnership with Petrobras (R\$17,144), and disbursements for payroll, services, taxes and other (R\$77,566) incurred during the preoperating phase. In April 2006, Rio Polímeros started its operations.

### Goodwill

From the total balance of goodwill, R\$354,764 (net of amortization of R\$63,640) refers to the acquisition of Basell Brasil Poliolefinas Ltda. (see Note 2), which was computed based on the equity of Polibrasil as of August 31, 2005 and recorded based on the expectation of future profitability, and is being amortized over seven years, the period used in the projections that determined the business valuation. There has been no specific allocation from the acquisition price to property, plant and equipment since the book value approximated its fair value as determined by independent appraisers on the date of acquisition. After the merger of the acquired companies on November 30, 2005, the goodwill balance was transferred to deferred charges in the Company's balance sheet, maintaining the amortization period of seven years.

## 15. loans

	Index or currency	Yearly interest rate %	2006		2005	
			Current	Long term	Current	Long term
<b>Company</b>						
In local currency:						
BNDES (National Bank for Economic and Social Development)	TJLP	TJLP + 5	20,794	-	27,195	20,396
Promissory notes	CDI	CDI + 0.60	-	-	377,184	-
Compror	CDI	56.70 of CDI	53,052	-	6,382	-
Export credit note - Banco Itaú	CDI	CDI + 0.462	13,569	75,000	1,738	75,000
Export credit note - Banco Bradesco	CDI	105.50 of CDI	2,909	96,000	3,945	96,000
Export credit note - Banco do Brasil	CDI	106 of CDI	5,942	100,000	140	100,000
FINEM (enterprise funding)	TJLP	TJLP + 3.02	170	18,214	-	-
			<b>96,436</b>	<b>289,214</b>	416,584	291,396
In foreign currency:						
IFC - Portion A	US\$	Libor + 2.75	389	106,900	-	-
IFC - Portion B	US\$	Libor + 2.00	979	299,320	-	-
IFC - Portion C	US\$	Libor	52	21,380	-	-
Advance on export contracts	US\$	5.60 to 6.40	59,460	-	-	-
Advanced export - Banco ABN Amro Real	US\$	Libor + 1.60	68	117,590	53	128,739
Advanced export - Banco Itaú	US\$	Libor + 1.79	-	-	7,501	4,422
Export credit note - Banco Votorantim	US\$	7.97	5,065	213,800	5,046	234,070
FINIMP (import funding)	US\$	5.20	-	-	57,656	-
Advanced export - Banco Santander	US\$	Libor + 1.79	958	26,725	861	29,268
FINEM (enterprise funding)	US\$	2.52	53	1,996	-	-
			<b>67,024</b>	<b>787,711</b>	71,117	396,499
			<b>163,460</b>	<b>1,076,925</b>	487,701	687,895

	Index or currency	Yearly interest rate %	2006		2005	
			Current	Long term	Current	Long term
<b>Subsidiaries</b>						
<b>Rio Polímeros S.A.:</b>						
Local currency:						
BNDES - Subcredit A	TJLP	TJLP + 5	13,850	186,935	16,347	161,105
BNDES - Subcredit B	TJLP	TJLP + 5	2,721	36,732	3,204	31,656
BNDES - Subcredit C	Currency basket	BNDES + 5	3,570	47,219	4,651	44,979
BNDES - Sub A	TJLP	TJLP + 4.50	475	6,405	638	5,471
BNDES - Sub B	US\$	UMBNDDES + 3	76	1,039	116	996
FUNDES	-	6.17	148	10,164	-	-
Compror	CDI	90 of CDI	4,494	-	-	-
Compror	CDI	50 of CDI	2,560	-	-	-
Compror	CDI	50 of CDI	3,466	-	-	-
Compror	CDI	103 of CDI	1,595	-	-	-
			<b>32,955</b>	<b>288,494</b>	24,956	244,207
Foreign currency:						
U.S. Exim Bank	US\$	5.51	9,959	147,032	10,102	152,741
SACE	US\$	5.51	7,254	109,594	13,746	108,312
Advance on export contracts	US\$	5.10 to 5.43	28,773	-	-	-
			<b>45,986</b>	<b>256,626</b>	23,848	261,053
			<b>78,941</b>	<b>545,120</b>	48,804	505,260
<b>Petroflex Indústria e Comércio S.A.:</b>						
Local currency:						
BNDES (National Bank for Economic and Social Development) Resolution No. 2,770	TJLP/UMBNDDES	TJLP + 3.50 e UMBNDDES + 5	1,553	3,480	1,580	4,841
FINEP	CDI	105.50	-	-	22,921	-
	TJLP	TJLP + 0.40	627	6,392	739	5,756
			<b>2,180</b>	<b>9,872</b>	25,240	10,597
Foreign currency:						
U.S. Exim Bank	US\$	Libor + 1.25	303	508	223	418
Interest on discount export bills	US\$	5.26	195	-	160	-
Advanced exports	US\$	Libor + 1.66	398	12,044	66	3,768
BNDES (National Bank for Economic and Social Development)	UMBNDDES	UMBNDDES + 11.17	405	971	466	1,535
Advances on export exchange contracts	US\$	5.60	10,304	-	2,451	-
FINIMP (import funding)	US\$	4.50	-	-	2,827	-
			<b>11,605</b>	<b>13,523</b>	6,193	5,721
			<b>13,785</b>	<b>23,395</b>	31,433	16,318
<b>Politeno Indústria e Comércio S.A.:</b>						
Local currency:						
BNDES (National Bank for Economic and Social Development)	TJLP	3.30	-	-	654	428
FINAME	TJLP	8.30 to 9.30	-	-	325	212
FINEP	TJLP	2.36	-	-	139	-
			-	-	1,118	640
Foreign currency:						
FINIMP (import funding)	US\$	Libor + 2	-	-	15,590	1,148
Advances on export exchange contracts	US\$	2.75 to 3.98	-	-	6,611	-
			-	-	22,201	1,148
			-	-	23,319	1,788
<b>SPQ Investimentos e Participações Ltda.-</b>						
Overdraft bank account			-	-	12	-
<b>Consolidated:</b>						
Local currency			131,571	587,580	467,910	546,840
Foreign currency			124,615	1,057,860	123,359	664,421
			<b>256,186</b>	<b>1,645,440</b>	591,269	1,211,261

TJLP - long-term interest rate. CDI - interbank deposit certificate. UMBNDDES - monetary unit of BNDES

In January 2006, the subsidiary Petroflex issued debentures amounting to R\$160,000, with a total term of five years (final maturity at December 1, 2010). These debentures bear interest at 104.50% of the accumulation of daily averages of DI rates (interbank deposit certificates).

On December 31, 2006, the proportional amount of the obligation consolidated by the Company was R\$331, current portion, and R\$32,191, noncurrent portion.

As of December 31, 2006, the long-term portion of loans matures as follows:

	Jointly-controlled subsidiaries			
	Company	Rio Polímeros S.A.	Petroflex Indústria e Comércio S.A.	Consolidated
2008	84,353	53,617	5,818	143,788
2009	121,852	60,205	6,956	189,013
2010	122,862	58,214	6,174	187,250
2011	154,409	58,214	4,446	217,069
2012 hereafter	593,449	314,871	-	908,320
	1,076,925	545,121	23,394	1,645,440

### Guarantees of loans

#### Company

The loans with International Finance Corporation - IFC (world bank group), limited to US\$80,000, are guaranteed by the parent company, Suzano Holding S.A., with a cost of 0.60% per year, and are guaranteed by Company's installations and machinery and equipment of the plants located in Mauá, State of São Paulo, and in Camaçari, State of Bahia.

The FINEM loan is guaranteed by a junior mortgage of a property of the plant in Duque de Caixas, State of Rio de Janeiro.

#### Jointly-controlled subsidiaries

- Rio Polímeros S.A. – Cash flow of future operations, supported by export contracts, capital stock of Rio Polímeros owned by shareholders Suzano Petroquímica S.A., Unipar - União de Indústrias Petroquímicas S.A. and Petrobras Química S.A. - Petroquisa, and subrogation of the license of use of land.

Due to the delay in the construction of the plant and of the beginning of testing phase, Rio Polímeros concluded on April 17, 2006 the negotiations with banks to postpone the interest and principal due in 2006 to April 2007 and the extension of loan terms by a year, postponing last installment to April 2016.

- Petroflex – BNDES – guarantee provided by related companies Braskem S.A., Suzano Petroquímica S.A. and Unipar - União de Indústrias Petroquímicas S.A. and mortgage of property located in Triunfo, State of Rio Grande do Sul. FINEP – first degree mortgage of property located in Duque de Caxias, State of Rio de Janeiro. Debentures indenture requires the achievement of certain financial covenants, which the subsidiary is in compliance with.

Index or rate	Yearly rate - %
Long-term Interest Rate - TJLP (b)	6.50
Interbank Deposit Certificate - CDI (b)	13.19
Monetary Unit of BNDES - UMBNDES (a)	(8.50)
TJLP Related Ratio - URTJLP (a)	1.79
Reference Rate - TR (a)	2.07
General Market Price Index - IGP-M (a)	3.83

(a) Fluctuation in 2006.

(b) As of December 31, 2006.

The Company is in compliance with all financial covenants relating to its loan agreements, computed using financial statements prepared in accordance with generally accepted accounting principles in Brazil, as required by the agreements with Banco Votorantim and BNDES.

Currently, the Company is in compliance with its commitments as agreed in financial contracts. The Company's obligations, measured based on U.S. GAAP financial statements, required by the agreements with ABN Amro Real and IFC, were revoked for the year ended December 31, 2006. The non-compliance with any of the commitments, as well as the occurrence of certain events, would give to the creditors the right to request the anticipation of the payment of the loan balances.

## 16. PROVISIONS AND COMMITMENTS

The provision recorded to recognize probable losses in administrative and judicial disputes related to tax, labor and government-mandated pensions is considered sufficient, according to the assessment of legal counsel and other legal advisors.

The summary of the activity of the provision for contingencies during 2006 is as follows:

### a) Provisions

	Consolidated				2006
	2005	Additions	Reversal and/or payments	Interest charges	
Labor	6,072	-	(23)	607	<b>6,656</b>
Tax	5,123	2	(1,776)	50	<b>3,399</b>
Civil	7,202	2,232	(3,444)	94	<b>6,084</b>
Other	1,967	-	(1,967)	-	-
	20,364	2,234	(7,210)	751	<b>16,139</b>
Escrow	(4,371)	-	500	-	<b>(3,871)</b>
Total	15,993	2,234	(6,710)	751	<b>12,268</b>

As of December 31, 2006, the Company is involved in other legal disputes amounting to R\$37,000 (R\$43,000 - consolidated), and the likelihood of losses is considered possible (not probable) by outside legal counsel, which, accordingly, have not been provided for. This amount does not include the Clause 4<sup>th</sup> labor claim (also a possible loss as per the legal counsel's opinion) the exposure amount cannot be determined. The Company's management is of the opinion that such other cases do not require a provision for losses.

As of December 31, 2006, the Company has contingent assets, and its outside legal counsel is of the opinion that a favorable outcome is probable, amounting approximately to R\$18,200. The gain will be recorded only after the subject final court decisions.

### Labor lawsuit concerning Clause 4th (relating to the former subsidiaries Polibrasil Resinas and Politeno)

Under the collective negotiation agreement between Polibrasil Resinas (plant located in Camaçari, State of Bahia) and Politeno, among other companies with plants in the Camaçari petrochemical hub, and the petrochemical workers' union, salaries and benefits paid to those workers, in the period from September 1989 to August 1990, should be monetarily restated based on the IPC (consumer price index), being prohibited the substitution of the IPC for any other lower index.

In March 1990, the Brazilian government introduced an economic plan known as Collor Plan, which established certain indices for the monetary restatement of the employees' salaries, however, without including the IPC of April 1990. Based on former court decisions, the association of petrochemical companies understood that the Collor Plan did not determine salary increases based on the IPC, which was contrary to the terms of the annual collective negotiation. Thus, the employers' association filed a lawsuit against the workers' union claiming a statement that the monetary restatement indices established by the Collor Plan prevailed over the conflicting provisions of the collective agreements. The Regional Labor Court decided in favor of the workers' union, and this decision was later changed in part due to the appeal filed with the Superior Labor Court. In 1998, the companies' association filed an extraordinary appeal with the Federal Supreme Court.

Initially the Federal Supreme Court decided favorably to the workers' union, but changed its decision in December 2002, stating that the collective agreement cannot prevail over Federal law, particularly law concerning the public order in Brazil. The Federal Supreme Court's decision on this matter is not definitive. The Company's management believes that appeals are still possible, and considers it is not possible to determine the amounts involved in the lawsuit; accordingly, no change to the accounting procedures adopted until then has been made, i.e., no provision for possible loss arising from the outcome of the lawsuit has been recorded.

## b) Commitments

The production capacity of the Company is 685 thousand tons/year of polypropylene. In order to attend its production capacity, the Company has assured through long-term agreements the supplying of raw material of the following suppliers: Braskem S.A., Petróleo Brasileiro S.A. - Petrobras, Petroquímica União S.A. and Rio Polímeros S.A.

These agreements, besides supplying guarantees, require take or pay obligations.

### Rio Polímeros S.A.

Under the terms of the raw material supply agreement signed with Petrobras on December 22, 2000, Rio Polímeros has acquired the right to receive raw materials (ethane and propane) to produce 500,000 tons/year of ethylene. Besides the supply guarantee, the contract foresees sale and purchase obligations of the subject raw material ("take or pay" and "supply or pay").

This agreement has a 15-year term, beginning on the first supply of ethane and/or propane, realized after the conclusion of the plant's performance tests phase, renewable for successive periods of two years.

### Petroflex Indústria e Comércio S.A.

The jointly-controlled Petroflex has entered into supplying agreements with Braskem S.A. and Lyondell Chemical Company, ending 2016 and 2007, respectively, to acquire butadiene and styrene. Such agreements establish a minimum acquisition volume. In 2006, Petroflex is in compliance with such clauses. In case of default, the penalties are the following:

- Braskem - payment of the amount correspondent to the quantity of products not purchased by Petroflex, considering 50% of the average sales price in the quarter that the default event occurred.
- Lyondell - reduction in quantity to be supplied during the year in the proportion of the quantity not acquired.

## 17. CAPITAL STOCK AND DIVIDENDS

Capital stock subscribed and paid-in is represented by 226,695,380 nominative shares without par value, being 97,375,446 common shares and 129,319,934 preferred shares.

The bylaws establish a minimum dividend of 30%, computed on adjusted income. Preferred shares have no voting rights, except for some instances related to the requirements to join the Level 2 of Corporative Governance of BOVESPA, and are entitled to the same dividend as common shares. The bylaws provide for the recognition of a special reserve for future capital increase, in the amount of 90% of the profits remaining after appropriation of the legal reserve and dividend distribution, aiming to assure adequate operating conditions. The balance of this special reserve cannot surpass 80% of the amount of capital. The amount remaining after the constitution of this special reserve for future capital increase might be destined to the statutory reserve till this reserve reaches 20% of capital.

### Dividends

The computation of dividends proposed by management, according to the Company's bylaws, is as follows:

	2006	2005
Net income	16	15,244
Legal reserve (5%)	(1)	(762)
	15	14,482
Minimum statutory dividends - 30%	5	4,345
Proposed dividends	-	4,352

The minimum compulsory dividends computed for the year ended December 31, 2006 correspond to R\$5. Considering the quantity of stock representing the capital stock, the distribution of dividends in this reduced amount is not feasible. Consequently, the Company's management applied this amount to postponed dividends reserve. The amount will be included in the dividends to be distributed in subsequent periods. The proposal above will be submitted to the approval of shareholders on the Shareholders' General Meeting.

## 18. NET SALES AND COST OF SALES

	2006			2005		
	Net sales	Cost	Gross profit	Net sales	Cost	Gross profit
Domestic market	1,966,682	(1,640,042)	326,640	1,553,625	(1,284,952)	268,673
Foreign markets	515,800	(510,262)	5,538	363,044	(334,346)	28,698
	<b>2,482,482</b>	<b>(2,150,304)</b>	<b>332,178</b>	<b>1,916,669</b>	<b>(1,619,298)</b>	<b>297,371</b>

## 19. COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

	2006	2005
Compensation	<b>10,441</b>	8,919

The compensation of directors and senior management officers is classified under "General and administrative expenses" account.

## 20. FINANCIAL INCOME (EXPENSES)

	2006	2005
Financial expenses:		
Interest (mainly financing and debentures)	<b>(197,531)</b>	(63,634)
Monetary variation on financing	<b>(3,409)</b>	-
Exchange rate variation on financing	<b>23,614</b>	26,419
Exchange rate variation on suppliers balance	<b>6,854</b>	-
Exchange rate variation on advanced export contracts	<b>(3,260)</b>	-
Bank expenses	<b>(22,493)</b>	(7,024)
Losses on hedge	<b>(2,412)</b>	-
Other expenses	<b>(14,016)</b>	(42,512)
	<b>(212,653)</b>	(86,751)
Financial income:		
Interest on receivables	<b>3,191</b>	-
Monetary variation	<b>38</b>	3,793
Exchange rate variation	<b>78,729</b>	(8,812)
Gain on hedge/swap	<b>12,091</b>	-
Other financial income	<b>26,499</b>	23,664
	<b>120,548</b>	18,645
Financial expense, net	<b>(92,105)</b>	(68,106)
Financial expenses, net	<b>(194,768)</b>	(94,525)
Exchange rate variation, net	<b>102,663</b>	26,419
Financial result	<b>(92,105)</b>	(68,106)

## 21. FINANCIAL INSTRUMENTS

The Company and the jointly-controlled subsidiaries participate in operations involving the usual financial instruments described below.

The fair market values estimated for the assets, liabilities and financial instruments recognized in the Company's financial statements as of December 31, 2006 which are different from the corresponding book values can be summarized as follows:

	Book value	Fair value
Marketable securities (stocks for sale)	34,727	40,343
Investments carried at cost- Petroquímica União S.A.	33,385	42,271

The jointly-controlled subsidiaries disclosed in their financial statements that there are no relevant differences between the fair market values and book values of assets, liabilities and financial instruments recorded in the consolidated financial statements.

### a) The criterion for determination of fair market values stated above is as follows:

#### • Marketable securities

The economic value of preferred shares from Petroquímica União S.A. ("PQU") was estimated based on technical analysis of discounted cash flows developed by third parties. In addition to these shares, the Company owns other shares which are available for sale, amounting to R\$1,342, reflecting market value in light of the fact that this is lower than book value.

#### • Investments carried at cost - Petroquímica União S.A. (common stocks)

As mentioned, the fair value was estimated based on the actual price of the stock. However, it should be considered that there is a low volume of negotiation of such shares at stock exchange and the current price could not necessarily represent the market value.

The Company and the jointly-controlled subsidiaries had no off-book financial instruments as of December 31, 2006.

The Company, through SPQ, has 2,129,324 preferred shares class "A" from Braskem S.A., which represents 0.60% of the total equity. The book value of such shares as of December 31, 2006 was R\$33.5 million. The Company, based on studies from market analysts, concluded the book value is not higher than the fair value estimated for December 2006.

### b) Credit risk

The financial instruments that potentially expose the Company to credit risk concentration are consisted mainly of banking balances, short-term investments and trade accounts receivable. The trade accounts receivable balance is spread out in several different customers; there is no customer that represents a concentration of 10% or more of the total net sales. To reduce such risk, the Company has individually evaluated the credit limits to be granted, but, as a market trend, no advances from customers are required, or guarantees, except for exports, which require letters of credit. The Company's management addresses the credit risk on accounts receivable evaluating the need of recording an allowance for doubtful accounts.

### c) Exchange rate variation risk

The Company is susceptible to the effects of the volatility of exchange rate variation over assets and liabilities denominated in foreign currencies, mainly the U.S. dollar.



## 22. INSURANCE COVERAGE (UNAUDITED)

The Company and the jointly-controlled subsidiaries adopt a policy of maintaining adequate insurance coverage for property, plant and equipment items and inventories subject to risk, based on the orientation of insurance consultants. The coverage of principal insurance policies is as follows:

Entity and type of risk	Object	Coverage amount
Suzano Petroquímica S.A.:		
Fire and unrealized profits	Plants	876,986
Civil responsibility	Directors and management officers	42,760
Civil responsibility	Overseas inventories, operations and other	42,760
Petroflex Indústria e Comércio S.A.:		
Fire and unrealized profits	Plants	69,612
Civil responsibility	Directors and management officers	4,301
Civil responsibility	Overseas inventories, operations and other	2,012
Rio Polímeros S.A.:		
Acts of terrorism	Business interruption	226,953
Fire and unrealized profits	Plants	4,705,862
Civil responsibility	Directors and management officers	48,265
Civil responsibility	Overseas inventories, operations and other	241,327

## 23. GUARANTEES GRANTED TO OTHERS

Guarantees assumed by the Company in connection with the obligations of subsidiaries and jointly-controlled subsidiaries are as follows:

	2006	2005
Petroflex Indústria e Comércio S.A.-		
BNDES	12,742	16,746
Rio Polímeros S.A.:		
Credit letter - Unibanco	19,643	49,085
Credit letter - Banco Safra	12,828	-
Credit letter - Banco do Brasil	9,127	9,027
	41,598	58,112
	54,340	74,858

## 24. PENSION PLANS

In January 2005, the Company created a private defined-contribution supplementary pension plan for its employees. This plan, named Suzano Prev, is sponsored also by other Companies of Suzano Group. In the terms of the pension plan bylaws, the contributions made by the Company for the year ended December 31, 2006 amounted to R\$109 (R\$97 in 2005).

### Previnor – Associação de Previdência Privada

As a result of the merger of Polibrazil Participações and subsidiaries, the Company assumed the responsibility for the pension plan relating to the employees of these companies, which is managed by Previnor - Associação de Previdência Privada (private pension association plan), a private pension entity. The main objective of Previnor is to supplement pension benefits provided by the Federal social security system to the employees of Previnor and its sponsors and their relatives. Previnor collects monthly contributions from the sponsors, computed on the basis of the monthly compensation of employees, and maintains a defined contribution plan for scheduled benefits and defined-benefit plan for risk and proportional benefits. Contributions for 2006 amounted to R\$3,082 (R\$2,018 in 2005). The Company has responsibility to pay for plan deficits in relation to the plan obligations determined by actuarial calculations. As of November 30, 2006, an actuarial report prepared by independent actuaries resulted in a plan surplus for Previnor of R\$5,677 (R\$4,253 as of November 30, 2005). This surplus, which has not been recognized in the Company's financial statements, is represented by the following:

	11/30/06	11/30/05
Present value of plan obligations	(37,212)	(41,071)
Fair value of plan's assets	44,969	47,130
Net result	7,757	6,059
Portion attributable to sponsor	(2,080)	(1,806)
Net surplus	5,677	4,253

The main actuarial assumptions used for the computations above (expressed in weighted averages) are as follows:

	11/30/06	11/30/05
	%	%
Discount rate of the actuarial obligation	10.25	11.30
Expected earnings on the plan's assets	12.00	11.30
Expectation of inflation	4.50	5.00
Estimated future salary raises	6.05	6.05
Turnover of employees	0.50	0.50
Future increase of benefits	5.00	5.00
Proportion of employees opting for early retirement	100.00	100.00

The pension plan of Politeno and a portion of the plan of Petroflex are also managed by Previnor.

Petroflex, besides being sponsor of the plan managed by Previnor, for a portion of its employees is co-sponsor of Fundação Petrobras de Seguridade Social - Petros (Petrobras sponsors 90% of the plan), which is a defined-benefit plan. The estimated actuarial obligation of Petroflex is recognized and the Company's participation on this liability amounts to R\$3,044 as of December 31, 2006 (R\$4,476 in 2005).

In 2006 and 2005, the percentage over the contribution salary was 12.93% to Petros and 8% to Previnor. The contribution made by Petroflex in 2006 amounted to R\$432 (R\$450 in 2005) - Petros and R\$317 (R\$298 in 2005) - Previnor.

The jointly-controlled subsidiaries Petroflex disclose in their financial statements the information required by CVM Instruction No. 371/00, and there is no additional deficit arising from pension plans attributable to these companies to be recorded.

In 2004, Rio Polímeros joined Previnor, having as main objective providing supplemental benefits regularly provided by the Government pension plan to employees. The monthly contributions are based on the employees' salaries. During 2006, the total contribution made by the jointly-controlled subsidiary was R\$535 (R\$744 in 2005).

## 25. CONTRACTUAL RIGHTS

According to construction contract of Rio Polímeros plant facilities ("EPC Contract"), the Consortium of Building Contractors is obliged to indemnify the jointly-controlled subsidiary by US\$200 thousand (US\$67 thousand proportional amount) per day of delay in the conclusion of the construction of the facilities. The indemnification period is from April 2005 until the date of the operational acceptance on March 31, 2006.

The agreement established that in the calculation of the number of days that conclusion was delayed, Rio Polímeros must deduct the days affected by events nonattributable to the consortium. Both parties are under negotiation to define the responsibilities for the events that caused the delay. On December 31, 2006, the Company did not record any asset arising from these negotiations.

## 26. "PRO FORMA" FINANCIAL INFORMATION

As a result of the sale of Politeno, the consolidated statement of income for the period ended September 30, 2006 is not comparable with the consolidated statement of income for the period ended September 30, 2005 due to the proportional consolidation of Politeno.

The original statements of income included 33.89% of Politeno's operations from January to December 2005 and from January to March 2006 and 50% of Polibrasil's operations from January to August 2005 and 100% from September 2005.

In order to provide appropriate comparison of the financial information, the Company decided to disclose the consolidated "pro forma" financial statements, which presents the Company's results of operations and balance sheet as if Polibrasil had been acquired and merged since January 1, 2005, being the 50% participation of Basell in Polibrasil recorded as minority interest, and Politeno treated as nonconsolidated subsidiary since January 1, 2005.

The "pro forma" information is presented only to permit additional analysis from the comparison of balances and transactions, and does not purport to be indicative of what would have occurred if the participation at Politeno had actually been sold as of January 1, 2005 and if the Polibrasil companies had actually been merged since January 1, 2005, are not aimed at representing the isolate statements of a legal identity nor are necessarily indicative of the trend of future operating results.

The following criteria and assumptions were used in the preparation of the "pro forma" financial information:

- a) The participation acquired from Basell on September 1, 2005 (50%) was classified as minority interest for periods prior to the acquisition date.
- b) The participation in results of operations for the year ended December 31, 2005, equivalent to the shares acquired from Basell on September 1, 2005, was treated as minority interest.
- c) The "pro forma" financial information does not include "pro forma" adjustments relating to the amortization of goodwill resulting from the acquisition.
- d) The "pro forma" financial information does not include "pro forma" adjustments relating to the additional interest cost that would have been incurred to fund the acquisition.
- e) Except for the impacts discussed in item a) and b) above, the statements of income of Polibrasil and its subsidiaries for the period ended August 31, 2005 were integrally consolidated to the statements of income of the Company and other controlled and jointly-controlled subsidiaries.
- f) The proportional consolidation of statement of income elements of Politeno in the consolidated statement of income, for the quarter ended March 31, 2006 and for the year ended December 31, 2005, has been reversed with the elimination of its effects from individual and consolidated results of operations. Additionally, it must be observed that the statements of income for the years ended December 31, 2006 and 2005 are not comparable, as Rio Polímeros started its normal operations in 2006.
- g) The assumptions related to the acquisition of Polibrasil do not consider the whole interest in the profit, the financial costs that would be incurred and the goodwill amortization retroactive to January 1, 2005.

## 27. CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2006 AND "PRO FORMA" CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005

ASSETS	2006	2005 Pro forma
<b>Current</b>		
Cash and cash equivalents	304,031	211,062
Marketable securities	89,304	34,779
Trade accounts receivable	310,245	153,430
Inventories	256,197	266,835
Recoverable taxes	38,207	66,848
Deferred income taxes	5,772	17,241
Other credits	79,511	29,743
Prepaid expenses	7,171	5,132
Total current assets	<b>1,090,438</b>	<b>785,070</b>
<b>Noncurrent assets</b>		
Long-term assets:		
Deferred income taxes	83,127	43,383
Recoverable taxes	178,099	93,831
Escrow	889	1,367
Trade accounts receivable	8,335	11,406
Other credits	26,120	25,831
Investments	35,811	221,188
Property, plant and equipment	1,356,765	1,396,690
Deferred charges	595,867	659,200
Total noncurrent assets	<b>2,285,013</b>	<b>2,452,896</b>
TOTAL ASSETS	<b>3,375,451</b>	<b>3,237,966</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Payables to suppliers	197,620	193,958
Loans	256,186	567,949
Debentures	331	-
Securitization fund liabilities	-	23,747
Taxes other than income tax	23,931	11,121
Salaries and payroll charges	13,830	21,785
Customer advances	5,543	31,743
Related parties	-	282
Dividends payable	213	4,386
Other accounts payable	51,319	44,676
Total current liabilities	<b>548,973</b>	<b>899,647</b>
<b>Noncurrent liabilities</b>		
Long-term liabilities:		
Payables to suppliers	40,931	14,044
Loans	1,645,440	1,209,473
Debentures	32,191	-
Deferred income taxes	1,413	1,412
Taxes other than income taxes	73,655	55,871
Provision for contingencies	12,268	14,026
Swap contracts	-	3,946
Other accounts payable	12,102	21,727
Provision for pension plans	3,044	4,476
Total noncurrent liabilities	<b>1,821,044</b>	<b>1,324,975</b>
DEFERRED INCOME	<b>38,864</b>	<b>45,318</b>
MINORITY INTEREST	-	1,472
<b>Shareholder's equity</b>		
Capital stock	826,283	826,283
Income reserves	140,287	140,271
Total shareholders' equity	<b>966,570</b>	<b>966,554</b>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<b>3,375,451</b>	<b>3,237,966</b>

**“Pro forma” consolidated statements of income for the years ended december 31, 2006 and 2005**

	<b>2006 Pro forma</b>	<b>2005 Pro forma</b>
GROSS OPERATING REVENUES	<b>3,064,281</b>	2,741,155
Taxes on sales and other sales deductions	<b>(678,621)</b>	(629,882)
NET SALES	<b>2,385,660</b>	2,111,273
Cost of sales	<b>(2,067,791)</b>	(1,812,123)
GROSS PROFIT	<b>317,869</b>	299,150
OPERATING (EXPENSES) REVENUES		
Selling expenses	<b>(166,378)</b>	(148,133)
General and administrative expenses	<b>(83,282)</b>	(66,103)
Financial expense, net	<b>(212,880)</b>	(85,262)
Exchange variation	<b>120,580</b>	19,506
Goodwill amortization	<b>(57,321)</b>	(20,692)
Other operating revenues	<b>14,039</b>	29,632
OPERATING INCOME (LOSS)	<b>(67,373)</b>	28,098
Nonoperating revenues (expenses)	<b>36,962</b>	(26,272)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	<b>(30,411)</b>	1,826
Current income and social contribution taxes	<b>(25,964)</b>	(25,613)
Deferred income and social contribution taxes	<b>54,264</b>	26,347
INCOME (LOSS) BEFORE MINORITY INTEREST	<b>(2,111)</b>	2,560
Minority interest	<b>2,127</b>	12,684
NET INCOME	<b>16</b>	15,244

**28. SUMMARY AND RECONCILIATION OF THE DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN BRAZIL (BRAZILIAN GAAP) AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA (U.S. GAAP)**

**I - Description of GAAP differences**

The consolidated financial statements of the Company are prepared in accordance with BR GAAP, which comply with those prescribed by Brazilian corporate law and specific standards established by the CVM. Note 3 to the consolidated financial statements summarizes the accounting policies adopted by the Company. Accounting policies, which differ significantly from U.S. GAAP, are summarized below:

**a) Inflation accounting**

Under BR GAAP, the Company discontinued accounting for the effects of inflation as of December 31, 1995. As of January 1, 1996, the carrying value of all nonmonetary assets and liabilities became their historical basis. Under U.S. GAAP, Brazil was considered to be a highly inflationary economy until July 1, 1997, and the effect of inflation was recognized until December 31, 1997.

In determining amounts under U.S. GAAP, the effects of inflation for the years ended December 31, 1996 and 1997 were determined using the “Índice Geral de Preços -Mercado - IGP-M” index, which is a widely-accepted and respected index published monthly by the Fundação Getúlio Vargas.

Through December 31, 1995, the Company used indexes established by the government to restate balances and transactions for purposes of its corporate law financial statements.

**b) Reversal of fixed asset revaluations and related deferred tax liabilities**

For U.S. GAAP reconciliation purposes, the revaluation of fixed assets and the related deferred income tax effects recorded in the financial statements prepared in accordance with BR GAAP have been eliminated in order to present fixed assets at historical cost less accumulated depreciation. Accordingly, the depreciation on such revaluation charged to income has also been eliminated for U.S. GAAP reconciliation purposes.

**c) Capitalization of interest in relation to construction in progress**

Under BR GAAP, prior to January 1, 1996 the Company was not required to capitalize the interest cost of borrowed funds as part of the cost of the related asset. Under U.S. GAAP, capitalization of borrowed funds during construction of major facilities is recognized as part of the cost of the related assets.

Under U.S. GAAP, interest on construction-period financing denominated in foreign currencies is capitalized using contractual interest rates, exclusive of foreign exchange or monetary correction gains or losses. Interest on construction-period financing denominated in Brazilian reais is capitalized.

**d) Deferred charges**

BR GAAP permits the deferral of research and development costs and of preoperating expenses incurred in the construction or expansion of a new facility until the facility begins commercial operations. Deferred charges are amortized over a period of five to ten years.

For U.S. GAAP reconciliation purposes, such amounts do not meet the conditions established for deferral and, accordingly, have been charged to income, and the related amortization under Brazilian GAAP has been reversed.

**e) Different criteria for amortization of technology**

Under BR GAAP, the amount of R\$47,869 of legal rights to use the technology Polibrasil acquired from Basell is being amortized by the straight-line method over five years, which is a period allowed by Brazilian corporate law.

Under U.S. GAAP, the technology right is being amortized by the period of the contract which allows Polibrasil to use this technology, which is twenty years. The difference presented in the shareholders' equity reconciliation relates to the timing effects of these two different amortization periods used.

**f) Accounting for direct financing lease**

BR GAAP does not require specific accounting for different classifications of lease arrangements by the lessor. Consequently, virtually all lease contracts are considered operating leases, with receipt of payments and depreciation of the fixed asset being recorded in the statement of operations throughout the period of the lease arrangement.

U.S. GAAP requires the lessor to determine if the lease arrangement is a sales-type lease, direct finance lease or operating lease as defined under SFAS No. 13, "Accounting for Leases". The Company entered into a lease with Petrobras as a lessor on September 30, 2003, which under U.S. GAAP is considered a direct financing lease.

The reconciling adjustments include the reversal of the depreciation of the leased equipment and related rental revenue recorded under BR GAAP and the recognition of the earned income under U.S. GAAP. Also in 2005, the reconciliation includes the reversal of the loss recorded on the sale of the leased asset under Brazilian GAAP and the loss recorded under U.S. GAAP.

On December 29, 2005, Petrobras, the lessee, exercised a purchase option included in the lease agreement and paid a total amount of R\$65,748. Under U.S. GAAP, the Company recorded a loss in the amount of R\$24,723 upon exercise of the purchase option.

**g) Pension plan**

In determining the pension benefit obligations for BR GAAP, Brazilian Accounting Standard NPC No. 26 is effective for financial statements beginning with the year ended December 31, 2001. As permitted by NPC No. 26, the transitional obligation at adoption date, which is the difference between the plan's net assets and the projected benefit obligation at that date, was fully recognized directly to retained earnings.

For the purpose of U.S. GAAP, the Company recognizes these effects according to SFAS No. 87, "Employer's Accounting for Pensions". An initial transition obligation determined based on an actuarial valuation is recognized and actuarial gains and losses, as well as unexpected variations in plan assets and the projected benefit obligation and the effects of amendments, settlements and other events, are recorded in accordance with these standards and therefore result in deferral differences. Under SFAS No. 87, the Company defers actuarial gains and losses.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", which amends SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions", and SFAS No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)". This Statement requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements. SFAS No. 158 also requires the measurement date for plan assets and liabilities to coincide with the sponsor's yearend. The Standard provides two transition alternatives related to the change in measurement date provisions.

## h) Acquisitions

Under Brazilian accounting practices, assets and liabilities of acquired entities are reflected at book values. Goodwill is represented by the excess of purchase price paid over the book value of net assets and is amortized on a straight-line basis over the periods estimated to be benefited.

Under U.S. GAAP, business combinations are accounted for by the purchase method utilizing fair values. Goodwill is not amortized and is tested annually for impairment or more frequently if events or changes in circumstances indicate that the goodwill is impaired. Such impairment test is performed utilizing a two-step method. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure the amount of impairment loss, if any, by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the implied fair value of reporting unit goodwill is lower than the carrying amount of such goodwill, an impairment loss is recognized.

## i) Polibrasil acquisition

As mentioned in Note 2, on September 1, 2005, the Company acquired from Basell International Holdings BV 100% of the outstanding shares of Basell Brasil Poliolefinas Ltda., a holding company which owned 50% of Polibrasil Participações S.A. ("Polibrasil"). With this acquisition, the Company increased its economic and voting interest to 100% in Polibrasil, which owns 98.1% of Polipropileno S.A. and in turn its wholly subsidiary, Polibrasil Resinas S.A., the operating entity. Simultaneously, the Company sold its 50% interest in Norcom to Basell. The results of Polibrasil's operations have been included in the consolidated financial statements as from September 1, 2005. Polibrasil is a manufacturer of polypropylene used for production of auto parts, household appliances, containers, packaging, carpet, furniture and other. As a result of this acquisition, the Company becomes the Latin American leader in the production of polypropylene and the second largest Brazilian producer of thermoplastic resins.

Additionally, on November 29, 2005, in a Public Offering of Purchase of Shares ("OPA"), the Company acquired 1.89% of the minority interest of Polipropileno S.A. for R\$17,927. Under U.S. GAAP, the cost of acquisition is comprised as follows:

Amount paid for 50% of Basell Brasil Poliolefinas Ltda., plus acquisition cost of R\$8,465	668,493
Amount received for 50% interest in Norcom	(54,862)
Fair value of 50% of Norcom	27,345
Cash paid for acquisition of additional minority interest in Polipropileno	17,927
Purchase price	<u>658,903</u>

The Company has recorded such acquisition based on the fair value of the assets acquired and liabilities assumed and determined goodwill in accordance with the purchase method of accounting prescribed by SFAS No. 141, "Business Combinations".

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Fair value of Polibrasil's net assets:	
Current assets	400,115
Inventories	212,926
Property, plant and equipment	618,026
Other assets	202,431
Current liabilities	162,754
Other liabilities	69,598
Debt	526,288
Supply agreement intangible asset	18,606
Deferred tax liabilities	97,690
Net assets	558,562
Interest acquired (50%)	279,281
Fair value of Basell Brasil Poliolefinas Ltda.'s other assets and liabilities:	
Current assets	647
Property, plant and equipment	42
Total liabilities	(84)
Fair value of total net assets acquired	279,886
Purchase price	658,903
Goodwill recorded under U.S. GAAP	379,017
Tax deductible goodwill recorded under BR GAAP	428,780
Difference between BR GAAP and U.S. GAAP	49,763

#### j) Impairment test

SFAS No. 142, "Goodwill and Other Intangible Assets", addresses financial accounting and reporting for acquired goodwill and other intangible assets. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life, but rather it will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, negative goodwill is recognized as an extraordinary gain at the time of the business combination.

The Company performed impairment tests for all of its goodwill recorded under U.S. GAAP as of December 31, 2006 and 2005 and, as a result, no impairment charge was recognized during 2006 and 2005.

#### k) Impairment of long-lived assets

Under BR GAAP, the carrying value of fixed assets is written down to realizable values when it is estimated that such assets will not be realized when compared to the results of future discounted cash flow projection. Under U.S. GAAP, SFAS No. 144, "Accounting for the Impairment of Long-lived Assets and Long-lived Assets to Be Disposed of", addresses accounting for the impairment of long-lived assets. Under SFAS No. 144, a provision for impairment is recorded against long-lived assets when there is an indication, based on a review of undiscounted future cash flows, that the carrying value of an asset or a group of assets may not be recoverable. No impairment provision was required under U.S. GAAP nor BR GAAP for all periods presented.

#### l) Earnings per share

Under BR GAAP, net income per share is calculated on the number of shares outstanding at the balance sheet date; no information is disclosed on diluted earnings per share. Information is disclosed per lot of one thousand shares, because generally this is the minimum number of shares that can be traded on the Brazilian stock exchanges. Subsequent changes in the Company's share capital are not retroactively reflected in the disclosure of number of shares outstanding and in the calculation of earnings per share under BR GAAP.



Under U.S. GAAP, since the preferred and common shareholders have different voting and liquidation rights, basic and diluted earnings per share have been calculated using the “two-class” method, pursuant to SFAS No. 128, “Earnings per Share”, which provides computation, presentation and disclosure requirements for earnings per share. The “two-class” method is an earnings allocation formula that determines earnings per share for preferred and common stock according to the dividends to be paid as required by the Company’s bylaws and participation rights in undistributed earnings. Basic earnings per common share are computed by dividing net income by the weighted-average number of common and preferred shares outstanding during the period. In accordance with Emerging Issues Task Force - EITF No. 03-6, “Participating Securities and the “Two-class” Method under FASB Statement No. 128”, since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders.

The computation of basic earnings per share is as follows:

	2006			2005		
	Common	Preferred	Total	Common	Preferred	Total
Basic and diluted:						
Net (loss) income available under U.S. GAAP	43.8	58.1	101.9	(73.9)	-	(73.9)
Weighted average shares outstanding	97,375	129,320	226,695	97,375	129,320	226,695
(Loss) earnings per share under U.S. GAAP (in Brazilian reais - R\$)	0.45	0.45	-	(0.76)	-	-

#### m) Investments in affiliated companies

As discussed in Note 5, under BR GAAP, the Company consolidates jointly-controlled subsidiaries using proportional consolidation. The Company’s principal investments accounted for using proportional consolidation are Polibrasil (up to August 2005), Petroflex, Rio Polimeros and Politeno (2005 and up to March 2006). Under U.S. GAAP, proportional consolidation is not applied. This is a presentational difference only and does not affect the net income nor shareholders’ equity as determined under U.S. GAAP. Refer to item o) below.

For U.S. GAAP reconciliation purposes, less than 20% owned affiliated companies have been accounted for at cost, and investments with voting participation of more than 20% and less than 50% have been accounted for on the equity method for all years presented.

#### n) Reversal of proposed dividends

Under BR GAAP, at each yearend, management is required to propose an annual dividend distribution from earnings and to accrue for this in the financial statements, subject to ratification by the shareholders’ meeting. However, Brazilian corporate law requires that a certain amount of dividends be distributed to shareholders, defined as minimum compulsory dividends, not subject this determination to the controlling shareholders. For this portion, as determined by Brazilian corporate law, the Company is liable to pay minimum compulsory dividends at the balance sheet date. The Brazilian statutory law gave to the Company’s bylaws the power to define the dividends calculation basis, as long as it is clearly defined and does not subject the dividends calculation to the judgment of the management or to the judgment of the majority of the shareholders. Suzano’s bylaws define the minimum compulsory dividend to be 30% of adjusted net income (as defined in the Brazilian corporate law). The dividends should be equally paid to both common and preferred shares.

Under U.S. GAAP, since proposed dividends in excess of the minimum compulsory dividend may be ratified or modified at the annual shareholders’ meeting, such dividends would not be considered declared at the balance sheet date and would therefore not be accrued.

#### o) Transactions between entities under common control

Under U.S. GAAP, accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interest shall initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer.

Under BR GAAP, some transactions between entities under common control could be recognized based on values other than transferred carrying amounts.

The adjustment presented under this caption represents the above-mentioned difference relating to transference of shares of the subsidiaries Petroflex and SPQ Investimentos e Participações occurred among entities under common control of the Company.

#### p) Minority interest

Minority interest corresponds to the respective participations of minority shareholders in all adjustments from subsidiaries in these financial statements. As detailed in Note 11, not all subsidiaries are wholly owned by the Company and therefore the U.S. GAAP adjustments identified for each of such subsidiaries are allocated to their respective minority shareholders based on their participation.

#### q) Accounting for derivative financial instruments

Under BR GAAP, derivative financial instruments are recorded at liquidation values as determined on each balance sheet date. Under U.S. GAAP, since none of the Company's derivative financial instruments qualify for hedge accounting, the derivative instruments are reported at fair value on each balance sheet date and classified as an asset or a liability.

As of December 31, 2006, the Company had no outstanding derivative instruments. The following table provides a detail of our derivative financial instruments outstanding as of December 31, 2005:

Type	Maturity date	Notional amount	Gain (loss)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2008	8,333	(899)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2009	8,333	(918)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2009	8,333	(914)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2010	8,333	(875)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2010	8,333	(894)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2011	8,333	(843)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2011	8,333	(777)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2012	8,333	(603)
CDI rate x interest of 7.84% p.y. + U.S. dollar	2005 to 2012	8,333	(698)
Total fair value			(7,421)
Settlement value recorded under BR GAAP			3,946
U.S. GAAP adjustment in December 2005			(3,475)

#### r) Equity adjustment - Norquisa

The equity adjustment reflected in the reconciliation refers to the investment that Politeno and Polipropileno Participações hold in Norquisa, considering the adjustments posted into its financial statements in accordance with U.S. GAAP. These adjustments are mainly represented by the equity adjustment on those entities as a consequence of the investment that Norquisa holds in Braskem S.A. (a petrochemical operating company located in the Northeast Region of Brazil) and relate basically to price level adjustment, deferred charges reversal, pension plan, business combinations and deferred taxes.

Under U.S. GAAP, both Politeno and Polipropileno Participações discontinued applying the equity method when their investments at Norquisa were reduced to zero, as the U.S. GAAP shareholders' equity of Norquisa was negative by the time Company's subsidiaries Politeno and Polipropileno Participações ceased to have influence over the administration of Norquisa, changing the valuation criteria of this investment from equity method to cost method. The subsidiaries did not provide for additional losses as they have neither guaranteed obligations of Norquisa nor are otherwise committed to provide further financial support for Norquisa.

#### s) Classification of export notes

Certain subsidiaries of the Company have discounted certain export notes under recourse financing arrangements with financial institutions operating in Brazil. If the original debtors fail to pay their obligations when due, these subsidiaries would be required to repay the financed amounts. Under BR GAAP, such transactions are classified as a reduction of accounts receivable as mentioned in Note 7. Under U.S. GAAP, these transactions are recorded gross as accounts receivable and bank loans. As a consequence, current assets and liabilities under U.S. GAAP would be increased by R\$56,317 and R\$11,427 as of December 31, 2006 and 2005, respectively. This U.S. GAAP difference has no net income nor equity effect.

#### t) Temporary loss on investments held for sale

Under Brazilian accounting practices, permanent losses on equity securities held for sale shall be recorded in the statement of income based on the lower of cost or market value.

Under U.S. GAAP, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company shall evaluate if the loss is temporary or permanent. The temporary loss must be treated as unrealized gain or loss and shall be classified in shareholders' equity in the account named "Other comprehensive income". The Company shall evaluate periodically such investment in order to determine if it is still a temporary loss or if it became a permanent one. When the loss is determined as permanent, the Company should reclassify it from "Other comprehensive income" to statement of income of the period. The Company concluded that the current market price of Braskem's stock at São Paulo stock exchange (Bovespa) has not represented a permanent loss. Accordingly, the difference of R\$1,580 between the carrying amount of Braskem shares as of December 31, 2006 and the price of the shares at Bovespa has been considered as "Other comprehensive income" under U.S. GAAP, while it has not yet affected the Brazilian GAAP financial statements.

#### u) New accounting pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This Statement amends SFAS No. 133 to permit fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation. This Statement also eliminates the interim guidance in SFAS No. 133 Implementation Issue D-1, which provides that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133. Finally, this Statement amends SFAS No. 140 to eliminate the restriction on the passive derivative instruments that a qualifying special-purpose entity (SPE) may hold. This Statement is effective for all financial instruments acquired or issued in the first fiscal year beginning after September 15, 2006. Management does not expect the adoption of this SFAS will have an impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Company will adopt SFAS No. 157 in fiscal year 2009. Management does not expect the adoption of this SFAS will have an impact on the Company's financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48), which supplements SFAS No. 109, "Accounting for Income Taxes", by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. The Interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment would be recorded directly to retained earnings in the period of adoption and reported as a change in accounting principle. This Interpretation is effective as of the beginning of the first fiscal year beginning after December 15, 2006. Management is assessing the impact on Company's financial condition and results of operations.

#### II - Reconciliation of the differences between U.S. GAAP and BR GAAP in net income

	Ref.	2006	2005
Net income as reported under BR GAAP		16	15,244
U.S. GAAP adjustments relating to investments accounted for using the equity method	(m)	27,428	(80,574)
Adjustments from consolidated companies:			
Inflation accounting, net of depreciation	(a)	(1,222)	(831)
Different criteria for capitalization of interest, net from depreciation	(c)	11,078	4,325
Pension plan	(g)	1,539	2,103
Different criteria for amortization of technology	(e)	3,921	840
Derivative financial instruments	(q)	3,475	(3,475)
Direct financing lease	(f)	-	(7,866)
Business combinations Polibrasil	(i)	30,750	318
Transactions between entities under common control	(o)	1,148	668
Minority interest on U.S. GAAP adjustments	(p)	(1,665)	(1,576)
Equity adjustment in Norquisa's investment	(r)	24,827	-
Deferred income tax on the above adjustments		669	(3,075)
Net income under U.S. GAAP		101,964	(73,899)
Pension plan	(g)	2,355	-
Temporary loss on investments held for sale	(t)	(1,580)	-
Deferred income tax on the above adjustments		(264)	-
Comprehensive income under U.S. GAAP		102,475	(73,899)

### III - Reconciliation of the differences between U.S. GAAP and BR GAAP in shareholders' equity

	Ref.	2006	2005
Shareholders' equity as reported under BR GAAP		<b>966,570</b>	966,554
U.S. GAAP adjustments relating to investments accounted for using the equity method	(m)	<b>(118,291)</b>	(145,719)
Adjustments from consolidated companies:			
Inflation accounting, net of depreciation	(a)	<b>4,445</b>	5,667
Different criteria for:			
Capitalization of interest, net from depreciation	(c)	<b>(48,890)</b>	(59,968)
Pension plan	(g)	<b>6,251</b>	4,712
Different criteria for amortization of technology	(e)	<b>7,749</b>	3,828
Derivative financial instruments	(q)	-	(3,475)
Direct financing lease	(f)	-	-
Minority interest on U.S. GAAP adjustments	(p)	-	1,665
Business combinations Polibrasil	(i)	<b>71,806</b>	41,056
Transactions between entities under common control	(o)	<b>17,593</b>	16,445
Equity adjustment in Norquisa's investment	(r)	-	(24,827)
Deferred income tax on the above adjustments		<b>(2,125)</b>	(2,794)
Shareholders' equity under U.S. GAAP		<b>905,108</b>	803,144
Accumulated comprehensive income under U.S. GAAP		<b>511</b>	-

### IV - Additional disclosures required by U.S. GAAP

#### a) Pension plan

Information with respect to the Company's defined benefit plan in the form required by SFAS No. 132(R), "Employers' Disclosure about Pensions and Other Postretirement Benefits" (revised 2003), for the year ended December 31, 2006, is as follows:

	2006	2005
Change in benefit obligation:		
Benefit obligation at beginning of year	<b>41,274</b>	-
Effect of Polibrasil consolidation	-	40,620
Service cost	<b>12</b>	3
Interest cost	<b>4,101</b>	1,374
Benefits paid from plan assets	<b>(2,461)</b>	(781)
Actuarial (gain) loss	<b>(5,543)</b>	58
Benefit obligation at end of year	<b>37,383</b>	41,274

	2006	2005
Change in plan assets:		
Fair value of plan assets at beginning of year	47,617	-
Effect of consolidation of Polibrasil	-	45,106
Actual return on plan assets	821	3,283
Employer contribution	12	9
Benefits paid from plan assets	(2,461)	(781)
Fair value of plan assets at end of year	45,989	47,617
Funded status	8,605	6,343
Unrecognized prior service cost	(1,949)	(2,126)
Unrecognized net actuarial loss	(811)	(11)
Effects of business combinations	405	506
Net amount recognized under U.S. GAAP	<b>6,250</b>	<b>4,712</b>

The accumulated benefit obligation for the defined benefit pension plan was R\$37,374 at December 31, 2006.

The components of the Company's net periodic benefit cost (income) were as follows:

	2006	2005
Service cost	12	4
Interest cost	4,101	1,374
Expected return on plan assets	(5,563)	(1,788)
Amortization of prior service cost	(177)	(59)
Effects of business combinations	101	(127)
Net periodic benefit cost under U.S. GAAP	<b>(1,526)</b>	<b>(596)</b>

The actuarial assumptions used in the accounting for the Company's benefit plans were as follows:

	Pension liability - %	
	2006	2005
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	10.25	10.25
Expected return on plan assets	12.00	12.00
Average rate of compensation increase	6.05	6.05
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	10.75	10.25
Average rate of compensation increase	5.55	6.05

The expected long-term rate of return for the plan assets was set up based on the pension portfolio's past average rate of earnings, discussion with portfolio managers and comparisons with similar companies.

## Plan assets

The Company's pension plan weighted-average asset allocations at December 31, 2006 by asset category were as follows:

	%	
	2006	2005
Equity securities	0.05	20.00
Fixed income	94.05	72.00
Real estate	4.5	6.00
Loans	1.40	2.00
Total	100.00	100.00

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension benefits	
	2006	2005
2007	2,593	2,522
2008	2,701	2,636
2009	2,840	2,757
2010	2,941	2,914
2011	3,059	3,033
2011 through 2016	18,070	18,043

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension Plans and Amendments of FASB Statements Nos. 87, 88 and 132(R)". SFAS No. 158 requires companies to recognize the overfunded or unfunded status of a defined benefit postretirement plan as an asset or liability in its statements of financial position and to recognize changes in that funded status through comprehensive income. Accordingly, Company adopted SFAS No. 158 in the fourth quarter of fiscal year 2006 and the total effect, net of taxes, in other comprehensive income is as follows:

	2006
Net actuarial gain	2,355
Income taxes effect	(801)
Total, net of taxes	1,554

## b) Concentrations of credit risk

The Group's sales policy is linked to the credit rules fixed by management, which seek to minimize any problems arising from defaults by its customers. This objective is achieved by attributing credit limits to clients according to their ability to pay and by means of diversification of accounts receivable (spreading the risk). At and for the years ended December 31, 2006 and 2005 no customer individually represented more than 10% of trade accounts receivable or revenue.

The Company requires letters of credit for sales to foreign markets, thereby reducing the risk of default on such sales.

**c) Commitments**

The Company's purchase commitments amount to R\$10,021,255 and relate to raw materials.

The purchase commitments have the following maturity:

Year	Amount
2007	929,614
2008	929,614
2009	929,614
2010	929,614
2011	929,614
2012	929,614
2013 up to 2026	4,443,571
Total	10,021,255

**d) Intangible assets subject to amortization**

Following is a summary of the Company's intangible assets ("Spheripol" technology) subject to amortization under U.S. GAAP:

	2006	2005
Gross	47,869	47,869
Accumulated amortization	(13,563)	(10,492)
Net	34,306	37,377

Aggregate amortization expense for the above intangible assets amounted to R\$3,072 at December 31, 2006.

The estimated aggregate amortization expense for the next five years is as follows:

	Amount
2007	3,072
2008	3,072
2009	3,072
2010	3,072
2011	3,072

**e) Supplementary information - valuation and qualifying accounts for accounts receivable**

	2006
Balance beginning of the year	6,505
Additions	6,944
Balance at the end of the year	13,449

**f) Condensed financial information under U.S. GAAP**

Based on the reconciling items and discussion above, the Company's consolidated balance sheet, statement of operations, and statement of changes in shareholders' equity under U.S. GAAP are as follows:

**(i) Condensed balance sheets under U.S. GAAP**

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents	272,794	185,388
Short-term investment	66,666	40,521
Trade accounts receivable	271,439	119,440
Inventories	171,901	208,727
Deferred income taxes	1,341	16,583
Other credits	97,716	75,069
Prepaid expenses	14,176	11,868
Total current assets	896,033	657,596
Investments	442,925	591,237
Goodwill, net	421,291	424,290
Property, plant and equipment	467,583	469,773
Long-term assets:		
Intangible, net	34,306	37,377
Deferred income tax	72,625	38,898
Recoverable VAT	96,819	45,530
Trade accounts receivable	8,042	11,406
Other credits	25,518	28,377
Total long-term assets	237,310	161,588
Total assets	2,465,142	2,304,484

<b>Liabilities and shareholders' equity</b>	<b>2006</b>	<b>2005</b>
Current liabilities:		
Trade accounts payable	127,641	130,837
Payroll and related charges	16,054	17,009
Taxes payable other than income	10,858	5,135
Short-term debt	185,380	468,254
Interest payable on short-term debt	34,397	30,755
Dividends proposed and payable	173	-
Deferred income taxes	2,676	-
Other accounts payable	37,450	77,708
Total current liabilities	414,629	729,698
Noncurrent liabilities:		
Loans and financings	1,076,925	678,318
Fair market value of derivative financial instruments	-	7,421
Provision for contingencies	9,585	16,014
Interest payable on long-term debt	-	9,577
Deferred income taxes	46,551	30,598
Other accounts payable	11,833	29,906
Total noncurrent liabilities	1,144,894	771,834
Minority interest	-	(192)
Shareholders' equity:		
Share capital	826,283	826,283
Other comprehensive income	511	-
Profit reserves	78,825	(23,139)
Total liabilities and shareholders' equity	2,465,142	2,304,484



**(ii) Condensed statements of operations under U.S. GAAP**

	2006	2005
Net sales	1,826,814	594,765
Cost of sales	(1,561,574)	(525,762)
Gross profit	265,240	69,003
Operating (expenses) revenues:		
Selling and marketing	(127,966)	(50,243)
General and administrative	(62,694)	(30,105)
Other operating income (expenses), net	82,284	(7,099)
Operating expenses	(108,376)	(87,447)
Nonoperating income (expenses):		
Financial expenses, net	(41,144)	(59,989)
Other	-	374
Income (loss) before income tax, equity in affiliates and minority interest	115,720	(78,059)
Income tax benefit (expense):		
Current	-	(13,160)
Deferred	(4,324)	35,331
Income before equity in earnings (losses) of affiliates and minority interest	111,396	(55,888)
Equity in earnings (losses) of affiliates	(7,761)	(16,388)
Income (expenses) before minority interest	103,635	(72,276)
Minority interest	(1,671)	(1,623)
Net income (loss) for the year	101,964	(73,899)
(Loss) earnings per share - common	0.45	(0.76)
Earnings per share - preferred	0.45	-

**(iii) Statement of comprehensive income**

Under Brazilian accounting practices, the concept of comprehensive income is not recognized. Under U.S. GAAP, SFAS No. 130, "Reporting Comprehensive Income", requires the disclosure of comprehensive income. Comprehensive income is comprised of net income and other comprehensive income that include charges or credits directly to equity which are not the result of transactions with owners. Since the Company has no transactions that result in other comprehensive income, net income (loss) is equal to comprehensive income (loss) for all periods presented.

**(iv) Condensed statements of changes in shareholders' equity under U.S. GAAP**

	2006	2005
At beginning of the year	803,144	892,437
Net (loss) income	101,964	(73,899)
Dividends and interest attributed to shareholders' equity declared	-	(15,394)
At end of the year	905,108	803,144

**g) Statements of cash flows**

The consolidated statements of cash flows for the two years ended December 31, 2006 and 2005 are presented in accordance with the presentational format determined by U.S. GAAP using amounts determined under BR GAAP, adjusted to remove the effect of proportional consolidation.

	2006	2005
OPERATING ACTIVITIES		
Net income for the year	16	15,244
Adjustments to net income (loss) reconciliation:		
Depreciation and amortization	75,094	27,093
Goodwill amortization	57,321	16,718
Write-off of goodwill	-	1,840
Equity net losses on jointly controlled and affiliated companies	23,491	(64,184)
Gain on sale of Norcom	-	(264)
Dividends from subsidiaries	4,387	-
Loss on sale of property, plant and equipment (splitter)	35,583	13,900
Provision for losses on accounts receivable	6,944	5,246
Increase on interest payable	113,355	608
Monetary and exchange variation	(59,231)	4,531
Deferred income tax	(13,035)	(39,963)
Minority interest	559	644
Other	(5,525)	-
Changes in assets and liabilities:		
Trade accounts receivable	(110,688)	114,860
Inventories	37,117	(21,122)
Taxes recoverable	(26,208)	(4,262)
Prepaid expenses	(1,211)	(2,993)
Dividends receivable	-	78,345
Other receivables	(176,587)	(10,311)
Suppliers	(3,196)	(2,988)
Salaries, taxes, charges and contributions	(3,179)	(1,379)
Provision for contingencies	(2,728)	(688)
Advances from customers	(25,288)	28,444
Other payables	-	17,834
Net cash provided by operating activities	<b>(73,009)</b>	177,153

	2006	2005
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	<b>129,938</b>	63,526
Capital expenditures	<b>(70,847)</b>	(7,024)
Proceeds from the sale of net assets of Norcom	-	46,854
Payment for purchase of 50% of Polibrasil, net of cash acquired	-	(678,770)
Acquisition of minority interest	<b>(2,984)</b>	(3,362)
Capital increase in jointly-controlled subsidiaries	<b>(5,802)</b>	(113,724)
Net cash used in investing activities	<b>50,305</b>	(692,500)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt	<b>700,372</b>	957,571
Repayment of debt	<b>(585,600)</b>	(327,375)
Repayment of debt - related parties	-	(25,007)
Dividends paid	<b>(4,662)</b>	(23,779)
Net cash provided by financing activities	<b>110,110</b>	581,410
Increase in cash and cash equivalents	<b>87,406</b>	66,063
<b>REPRESENTED BY</b>		
Cash and cash equivalents, at beginning of the year	<b>185,388</b>	119,325
Cash and cash equivalents, at end of the year	<b>272,794</b>	185,388
Increase in cash and cash equivalents	<b>87,406</b>	66,063
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Income and social contribution taxes paid	-	(11,426)
Interest paid	<b>(107,594)</b>	(25,760)
Acquisition of technology through loan	-	22,222
Purchase of remaining interest in subsidiary:		
Cash and cash equivalents	-	14,956
Current assets (-) cash and cash equivalents	-	530,505
Noncurrent assets	-	61,583
Permanent assets	-	678,069
Current liabilities	-	(472,647)
Noncurrent liabilities	-	(281,072)
Negative goodwill	-	(21,743)
Minority interest	-	(2,414)
(-) Interest held before the remaining acquisition	-	(249,597)
Goodwill	-	428,780
Purchase price paid in cash	-	686,420
(-) Cash acquired	-	(7,651)
Purchase price paid in cash, net of cash acquired	-	678,770

## FISCAL BOARD REPORT

Dear Shareholders,

The members of the Suzano Petroquímica FISCAL BOARD, in a meeting held on this date and making use of their legal and statutory attributions, have hereby examined the Management Report, Financial Statements and Consolidated Financial Statements regarding year-end 2006 for the aforementioned Company, accompanied by the opinion of the independent auditors Deloitte Touche Tohmatsu Auditores Independentes, and have found the reports to be in conformity with the prescribed legal requirements and commend favorably to their approval.

São Paulo, February 14th, 2006.

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# Verification Statement

The Bureau Veritas Certification was contracted by Suzano Holding S.A., to accomplish an independent verification of the Sustainability Report of Suzano Petroquímica S.A, comprehending the period of 2006, in order to evaluate the consistence and reliability of the social and environmental information presented. This work was performed in the period of February until March of 2007 including the industrial sites Mauá (SP), Duque de Caxias (RJ), Camaçari (BA), administration office at São Paulo (SP), and it was driven starting from the policies, procedures and records that Suzano Petroquímica S.A. maintains for the rising and analysis of the information presented in the Sustainability Report.

The used methodology was of interviews with the personnel responsible by the areas that contribute directly or indirectly with the data, and verification of as these data are worked for in order to generate the information included in this publication. This verification was, therefore, based on the data and information available to the verification team, and Bureau Veritas Certification cannot be considered co-responsible for any interested part for decisions taken or not with base in this verification statement.

Bureau Veritas Certification understands that Suzano Petroquímica S.A. has a system of data collection and information consolidation properly implemented for their processes and initiatives of social and environmental character, and that the same ones are satisfactory for spreading representative information of these processes.

In this way, it is Bureau Veritas Certification opinion to consider that all the social and environmental information presented in the Sustainability Report 2006 of Suzano Petroquímica S.A. reflect on a consistent and reliable way all collected data in its production units and in the company head office.

For more information Bureau Veritas Certification is accessible on the site [www.bureauveritascertification.com.br/faleconosco.asp](http://www.bureauveritascertification.com.br/faleconosco.asp) or by phone + 5511 5070-9800.

São Paulo, March de 2007

# Glossary

- **1st Generation Producer:** petrochemical cracking unit which converts naphtha and/or natural gas (following processing through the Natural Gas Processing Unit) into other petrochemical feedstocks such as ethylene and propylene, which are then directed to 2nd generation producers
- **2nd Generation Producer:** converts 1st generation petrochemical feedstocks into resins, elastomers and other intermediary and finished petrochemical derivatives
- **3rd Generation Producer:** converts resins, elastomers and other derivatives from 2nd generation producers into finished products such as films, packages and tires
- **Big Bag:** is a heavy-duty bag with the capacity to hold up to 1,250 kg of polypropylene. Its main advantage is agility in internal logistics, which maximizes on-site handling of resin
- **Biodiversity:** the set of species and its natural habitats existing in a given area
- **Bulk delivery:** transport modality pioneered by the Company for servicing customers with existing infrastructure to receive packaged products from a straight truck without the need for bagging. For this purpose, customers must have silos installed in their facilities to receive the product. Bulk delivery also enables the automation of resin handling
- **Capital market:** a securities trading system e.g. shares and debentures composed of stock exchanges, government agencies, banks and brokerage houses, among others. Its main function is to ensure financial resources for commerce, industry and the government. It is, therefore, connected to the country's economic growth
- **Ebitda:** financial acronym meaning earnings before interest, income taxes, depreciation, and amortization. It represents a company's operating cash flow excluding the accounting effects
- **Effluents:** residues and/or emissions generated by industrial process
- **Greenhouse effect:** the warming of the Earth's crust caused by the emission of gases e.g. carbon dioxide and methane that trap the sun's heat in the atmosphere
- **Level 2:** Bovespa listed companies which, besides abiding by Level 1 procedures, are committed principally to guaranteeing additional rights to minority or non-voting shareholders
- **Monomer:** a chemical compound made up of molecules capable of combining with each other and with others to form polymers
- **Naphta:** is a petroleum distillate used mainly as a petrochemical feedstock ("petrochemical naphtha" or "non-energetic naphtha") in the production of ethylene and propylene, besides other liquid residual fractions such as benzene, toluene and xylene
- **Net income or net earnings:** operating profit minus non-operating expenses and minus provisions for tax liability and contributions to pay over profit
- **Net revenue:** gross revenues minus product returns and taxes paid by the Company
- **Pallet:** a system of 55 bags of polypropylene totaling 1,375 kg which are tightly wrapped by a shrink film, protecting the product against environmental conditions while also providing excellent quality, flexibility and safety in conveyance and storage operations
- **Petrochemical Raw Material Unit:** an independent industrial facility for the processing of condensed gas, natural gas, naphtha and other petrochemical feedstocks. The facility features a thermal cracker unit using steam cracking (pyrolysis unit) and/or a catalyst reform unit, and also an area for the separation of petrochemical products (cooling area). It mainly produces basic feedstocks for the petrochemical industry such as ethylene, propylene, butene, butadiene and their compounds; benzene, toluene, xylene and their compounds
- **Polypropylene:** is a semicrystalline thermoplastic resin which is produced through polymerization of propylene monomers
- **Propylene:** a non-saturated hydrocarbon composed of three carbon atoms and six hydrogen atoms (C<sub>3</sub>H<sub>6</sub>) found in gaseous colorless state and obtained from hydrocarbon cracking, especially naphtha. Commonly used as raw material for polypropylene production
- **Shares:** a security which represents a fraction of a company's registered capital. Also known as "stock" in the financial market

## Annual Sustainability Report – Suzano Petroquímica

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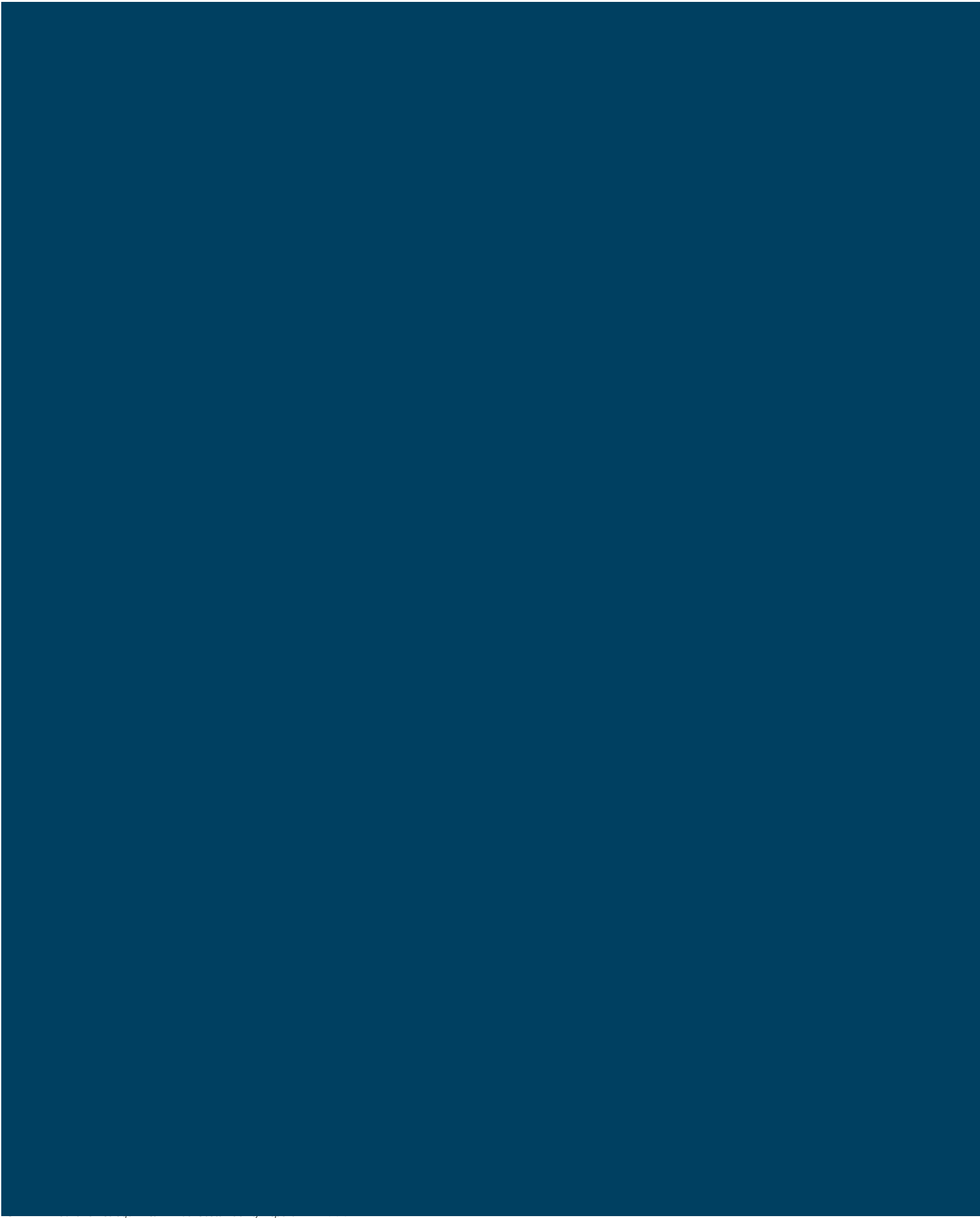
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