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SUSTAINABILITY Report



2006

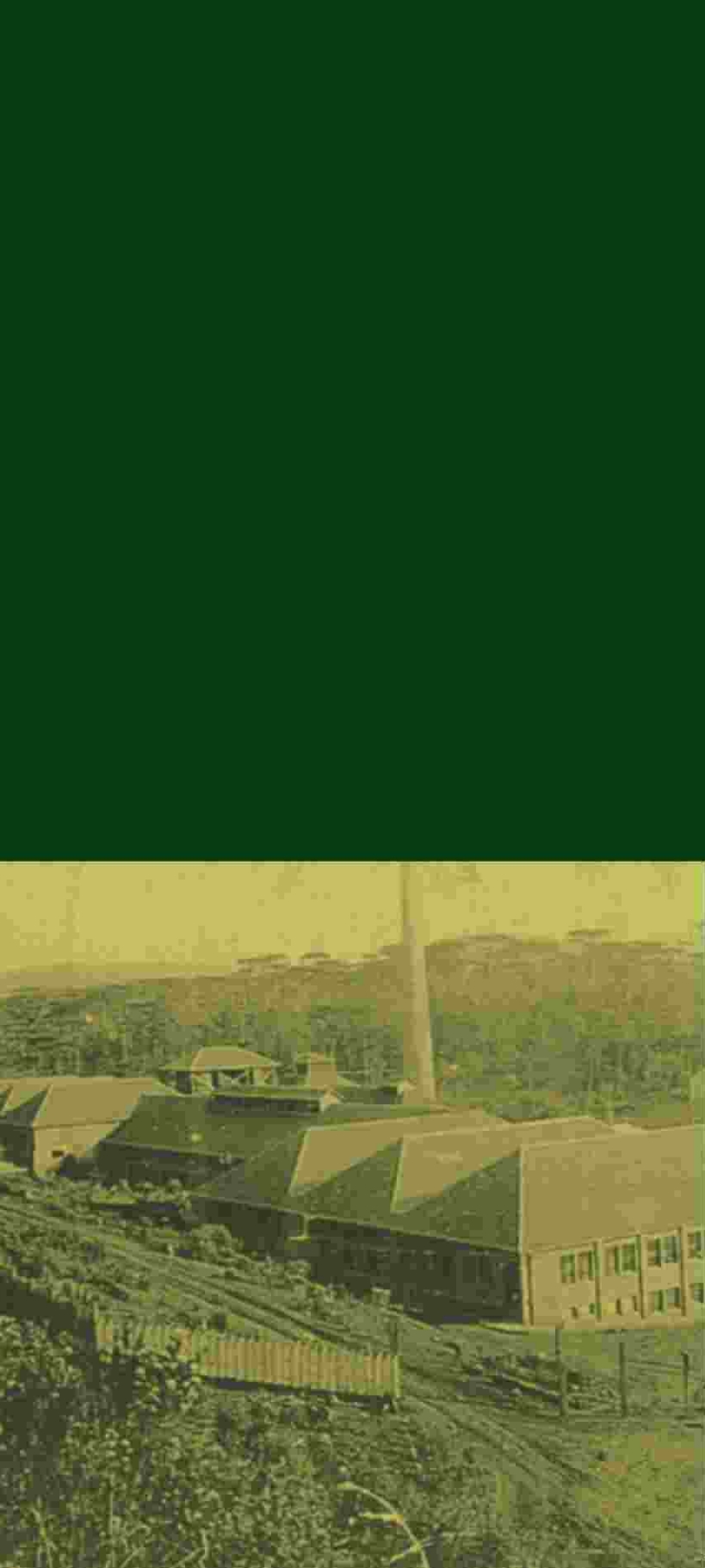
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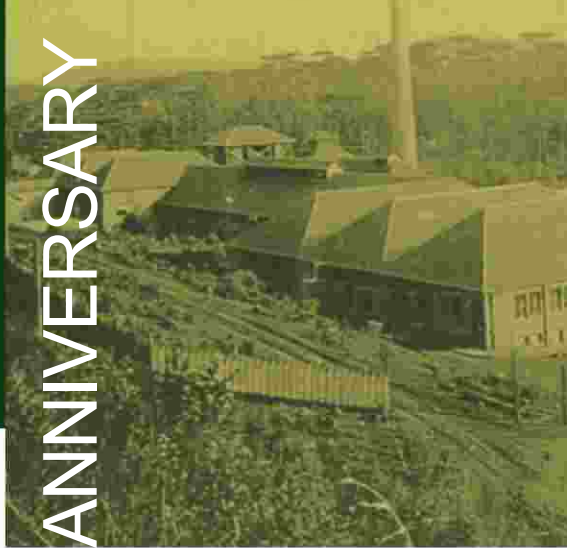
www.irani.com.br



Celulose Irani S.A.



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Strategy and Analysis

Sustainability Report 2006 

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Message from the President

In tune with the vision already expressed in the Social Balances previously published, we have adopted the present model of Sustainability Report based on an internationally accepted structure, rules and protocols with the aim of achieving transparency and a standardized information as regards IRANI's performance in the economic, social and environmental fields, thereby allowing for the external checking and validation, as well as an open access to its contents by those interested in these matters. More than a report, it is the systematic renewal of a commitment and declaration of faith present in the fundamental values of our companies since their foundation. This means that: 1) we will continue working with renewed efforts and a growing determination for a sustainable development, and will endeavor to grasp all the opportunities provided by globalization, knowledge and the access to technology to generate wealth and quality of life to the surrounding communities; b) we will delve deeply in the exercise of transparency as an essential element of our effective relationship with the stakeholders the interested parties or public, authorities, citizens, third sector organizations, clients, suppliers, investors, employees and shareholdersto back up our investment decisions and other relations with the market, while focusing on the triple bottom line, that is to say, the permanent measurement of the economic, social and environmental impact of our activities; c) we reaffirm the belief in the concept of a company/instrument, whose role is to distribute wealth and income, maintain jobs and produce profits to invest in consistent, harmonious and sustainable growth, ensure the investors' return and the accomplishment of all the stakeholders' legitimate interests on a consistent and on-going basis; d) we reinforce the certainty that the first social obligation of businessmen and executives is to reach the limits of their capacity, as individuals and as a team, to develop the company and speed up its growth according to the best of their skills and abilities, since

success lies indeed on achieving the best possible performance.

The purpose of sustainable development is to "satisfy the needs of the present without harming the capacity of future generations to meet their needs". Our reports will, always and objectively, show that our operations and activities do not go beyond or affect this threshold. Otherwise they provide positive results.

Sustainable development can and must be in harmony with investment decisions and daily operations, whether public or private, and economic, social and environmental aspects centered to an anthropocentric vision. The eradication of poverty, the improvement of basic health standards, education, income and security work strictly with environmental prevention as the only way to guarantee Man's survival with the necessary quality of life.

The certainty, recently acclaimed by the Intergovernmental Panel on Climatic Change, that global warming and its effects derive from human action, and the frightening revelation that the time available to avoid global catastrophe is dangerously nearby, will make the miracle possible to bring us all together even historically ideological arch-enemiesin one single effort to stop the situation from worsening, revert the damages and minimize the effects.

Radical measures, in terms of dimension, are being framed in the field of geo-engineering. These universally wide and high-cost projects require the conceptual engagement and financial commitment of all Nations. Several punctual actions, such as those considered in the Kyoto Protocol for countries and companies, will have to be reinforced and hastened. The message is short and simple: this is a time for action. Everything is going to be all right, since the survival instinct is part of human nature; and also because 30% of harmful emissions derive from the

ordinary and private movement of individuals according to their needs and aspirations.

The magnitude of the problem, besides urging the adoption of consequential universal policies, proposes a new perspective to evaluate the priorities of ordinary issues related to environmental protection, whether in urban or rural areas, such as increasing introduction of clean technologies and environmentally correct products and services, the reduction of greenhouse gases, the rationalization of power usage, water and other natural resources, which are all to be managed parsimoniously and creatively.


This new perspective has indeed to do with every day life, with the multiple relationships of economic agents and environment, with the interpretation of specific norms and standards and the establishment of absolute priorities. It should promote a dialog in which authorities, NGOs and companies sit on the same side of the table to establish policies and plan joint actions in search for economic, social and environmental sustainability. It is increasingly clearer to businessmen that the environment should be dealt with as a business matter and integrated into ordinary strategies, into the market economic model, while mobilizing all the innovation capacity and prompting results to be in alignment with the global collective efforts. The dialog counterparts should have the same ideological transparency and conviction for the models and results to be openly and publicly assessed. The protection of the environment has been an instability factor for the economic model, whether at a large-scale agribusiness level or the corporative structure of urban real-state business, taken as pillars of sustainability.

The best way to contribute as a whole is to do the part that falls to us well. The success of a global policy will always depend on the support and

efficiency of regional and local agents, and their concrete results.

I am proud to register our companies' pioneer spirit in the early and repeated exercise of concepts that are today widely recommended and adopted. We had already proclaimed that "social responsibility was our business", when this was not yet a common subject, to mean that social and environmental actions were definitely part of our strategies and programs as the bases for a differentiated positioning and effective results in the economic, social and environmental triple bottom line. Celulose Irani makes an effective contribution to the environment through its operations: its positive carbon surplus goes beyond the idea of neutralizing emissions adopted for some opportunistic environmental marketing campaigns. Neutral carbon means more than the integral compensation for the company's liability for global warming through the plantation of trees or even the conservation of native forests; it entails the investment in clean energy projects, the emissions reductions and the attainment of carbon credits within the framework of the Kyoto Protocol, the preservation of natural resources such as water, carbon capture even during the life of a product; it entails, above all, the investment in sustainability throughout the business chain to ensure the necessary effects.

Péricles de Freitas Druck



Strategy and Analysis

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Mission, Vision, Principles and Values

Our Mission

To generate value to our clients by supplying excellent and reliable services and products based on renewable forest resources and showing our sound respect for both the environment and people. To guarantee business growth, sustainability and a fair and consistent return to our investors.

Our Vision

Our goal is to be among the top 5 largest companies of Brazil in the sector and among the 100 best companies to work for in Brazil. Our purpose is to be renowned and preferred by our customers, partners and suppliers, and to be attractive to our investors, always aiming for the highest levels of operational effectiveness and innovation for our products and services.

Our Principles and Values

Social and Environmental Responsibility

We act as promoting agents and multipliers of economic, social, environmental, community and personal development.

Ethics, Courage, Transparency and Friendliness

We are ethical, brave, transparent and friendly in all our attitudes and relationships.

Our Innovation and Pioneer Spirit

Our innovation and pioneer spirit are cultivated in our business, processes products, and services.

Main Impacts, Risks and Opportunities

IRANI's Environmental Sustainability is reflected in the size of its business, from forest management to the final disposal of its products', thereby producing a positive impact on society and the environment. The generation of wealth and income along with a sustainable production also have positive effects. The production of Celulose Irani S.A. is based on renewable and recyclable raw material (planted forests and paper waste). Thanks to its use of adequately collected and treated water and clean power, generated from renewable sources (biomass - hydroelectric and thermodynamic power plants) the IRANI production is a virtuous circle of environmental preservation and conservation.

Out of the 33,221 hectares of land located in the State of Santa Catarina, and the 13,646 hectares in the State of Rio Grande do Sul, the Company keeps 14,843 hectares of native forests in the State of Santa Catarina and 4,587 hectares of native vegetation in Rio Grande do Sul. Both native forests are integrated into the 24,571 hectares of planted forests of the Pine variety mainly. The integration of native and planted forests through appropriate forest-management processes contributes to the preservation of the biodiversity, promotes economic development based on the high productivity of planted forests and even reduces the level of greenhouse gases released into the atmosphere through the capture of carbon.



The companies of the sector are faced with the challenge of having to manage the harmful impact on biodiversity caused by the monoculture of exotic species. IRANI takes up this challenge as an opportunity. It is fully aware of the relevance of planting Pine trees, as it does not require any differentiated treatment for its adaptation. Regarding biodiversity IRANI keeps wide areas of conserved and preserved native forests and vegetation, which amounts to 44% of the total area in Santa Catarina State and 33% of the recently acquired areas in Rio Grande do Sul.

In Santa Catarina, there are 8,306 hectares, 25% of which is registered as Legal Reserve under the corresponding real-state registration, thereby exceeding the 20% required by law. With the 3,580 hectares of Permanently Preserved Areas and the 2,957 hectares of native forests conserved using the best management practices, the formation of ecological corridors is considered a priority. Therefore, the impact on the biodiversity produced by the plantation of the Pine variety used as raw material and a source of renewable energy is lessened.

The IRANI essentially shows its competence in recycling, using renewable raw material and producing energy using generation renewable resources, which results in its being increasingly competitive. In this respect, one envisions a promising long-term future for the business given the high yield of the raw material based on the growth of Pinus forests which puts IRANI at a great competitive advantage compared with its world competitors. Forest-production efficiency added to modern production processes results in business permanence. IRANI ensures its sustainability monitoring its impacts, risks and opportunities.

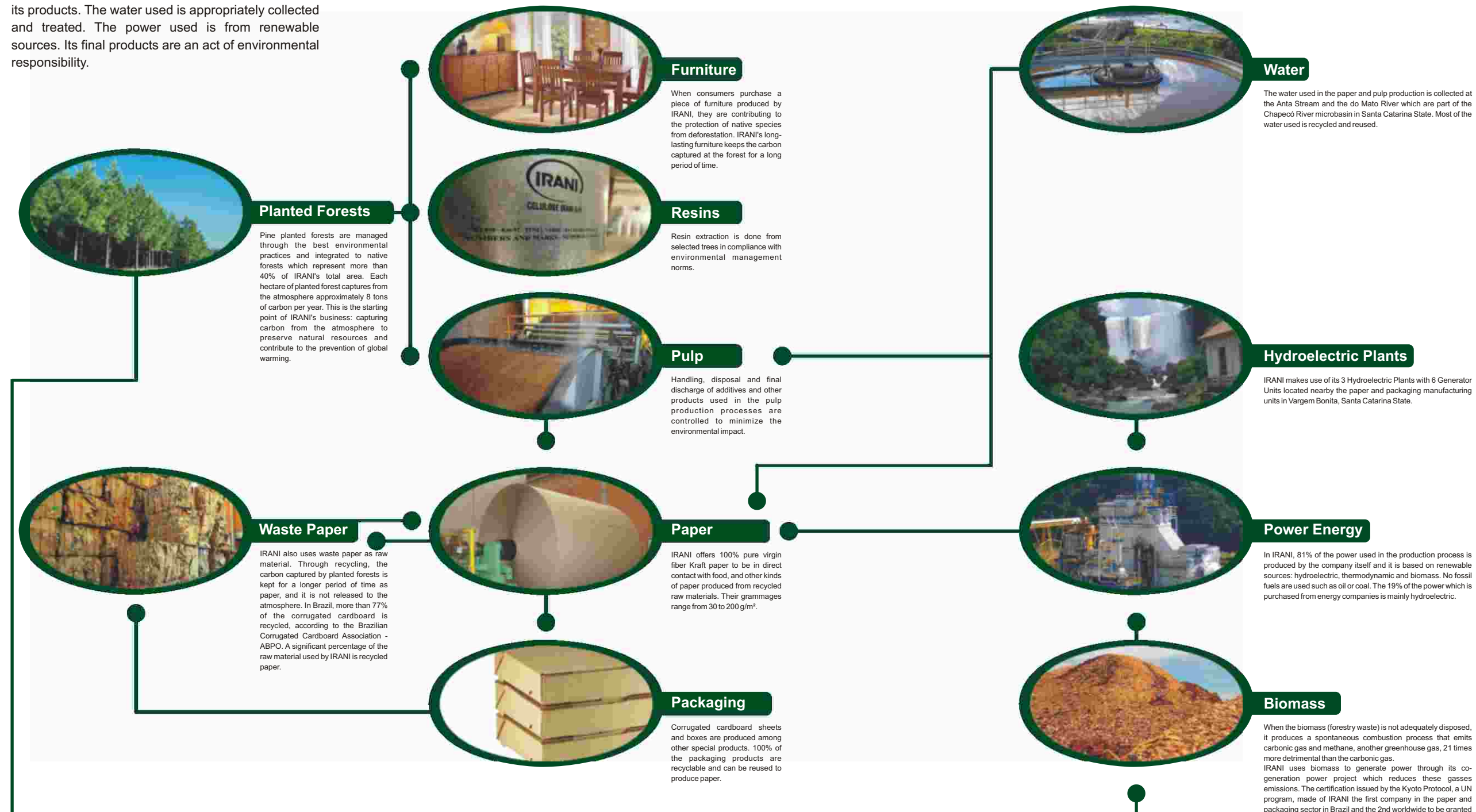
From the financial point of view, 2007 IRANI forecast's will be a growth of approximately 10% with higher returns that are now adjusted to the activity. Significant investments have also been planned for 2007 to increase the production capacity of the Packaging Unit and to modernize the machinery at the Paper Unit. And so, IRANI follows the footsteps of sustainability, placing the environment as a foremost priority and as a key factor of its business, always searching for an economic and financial success based on ethics and social responsibility.

Strategy and Analysis

Sustainability Report 2006 

IRANI's Environmental Sustainability

IRANI's significant contribution to the environment is the core of its business: neutral carbon balance. IRANI uses planted Pine and paper waste as raw material for its products. The water used is appropriately collected and treated. The power used is from renewable sources. Its final products are an act of environmental responsibility.



Profile

Celulose Irani S.A. is a publicly owned company founded in 1941. The company has a current workforce of 1,699 employees distributed throughout the Paper, Packaging, Furniture, Woods, Resins and Forest business units located in Vargem Bonita (State of Santa Catarina), Santana de Parnaíba (State of São Paulo), Rio Negrinho (State of Santa Catarina) and Balneário Pinhal (State of Rio Grande do Sul). The company has offices in São Paulo (State of São Paulo) and its headquarters are in Porto Alegre (State of Rio Grande do Sul). It is among the top 500 largest Brazilian companies according to the ranking published in the Isto É Dinheiro Magazine in 2006.

IRANI manufactures pulp, kraft paper, corrugated cardboard sheets and packaging, wood, resins and Pine furniture. The company supplies high-quality products made of wood from renewable forests. IRANI is committed to the success of all its stakeholders and seeks to strengthen its position as a reliable partner that is transparent in its business, active in its participation in environmental issues while demanding and fair according to its employees' performance.

The Group

In 2006, IRANI celebrated 65 years of a history of great economic growth and social action. Ever since its foundation, the company has grown and expanded its activities becoming renowned both nationally and internationally. Its raw material is of guaranteed certified origin and productive processes based on a sustainable-development concept and practice.

Thanks to its integrated production process, its own forest plantations and machines and equipment, IRANI has the installed capacity and operational efficiency to deliver excellent quality products that meet the customers' needs.

Packaging Factory
State of São Paulo



Paper Factory
State of Santa Catarina

Packaging Factory
State of Santa Catarina



Furniture Factory
State of Santa Catarina



Resins Factory
State of Rio Grande do Sul



Wood Factory
State of Santa Catarina



Sustainability Report 2006

Investment

Celulose Irani invests in the updating and automation of its productive processes. In 2006, important investments were allocated to reforestation for the ongoing enhancement of its production processes, machines and equipment.

| | 2006 Investment Distribution (in thousand of Brazilian Reais) |
|-------------------------------|--|
| Forestation and Reforestation | 5,539 |
| Equipment and installations | 26,684 |
| Buildings and Construction | 6,123 |
| Total | 38,346 |

In 2006, 95.36% of the shares held by Habitasul Florestal S.A. were bought at the price of R\$ 69,999 thousand. This acquisition increased the Company's forest plantations by approximately 50%.

2006 Assets

| Consolidated in 2006 (in thousand of Brazilian Reais) | |
|---|----------------|
| Current Assets | |
| Cash | 1,523 |
| Client accounts receivable | 52,069 |
| Provision for possible credit collection losses | (2,495) |
| Open vendor operations | (5,838) |
| Advances for bills of exchange | (2,150) |
| Stock of goods | 23,922 |
| Taxes to recover | 3,498 |
| Other receivables | 7,584 |
| Total current assets | 78,113 |
| Long-term Assets | |
| Judicial deposits | 6,139 |
| ICMS and IPI tax credits | 3,744 |
| Other receivables | 27 |
| Total long-term assets | 9,910 |
| Permanent Assets | |
| Permanent investments | 41,660 |
| Property, plant and equipment | 199,996 |
| Deferred charges | 867 |
| Total Permanent Assets | 242,523 |
| Total Assets | 330,546 |

2006 Liabilities And Net Assets

| Consolidated 2006 (in thousand reais) | |
|--|----------------|
| Current Liability | |
| Suppliers | 24,594 |
| Financial Institutions | 51,147 |
| Taxes payable | 8,488 |
| Salaries and social charges | 4,386 |
| Advance payment of clients | 1,807 |
| Related parties | 6,530 |
| Payable Dividend | 776 |
| Other payable accounts | 5,404 |
| Total current liability | 103,132 |
| Long-term Liabilities | |
| Financial Institutions | 52,566 |
| Taxes payable | 17,608 |
| Contingency Prevision | 6,735 |
| Related Parties | 20,678 |
| Other payable accounts | 5,441 |
| IRPJ and CS Prevision over re-evaluation reserve | 6,422 |
| Total long-term liabilities | 109,450 |
| Minoritary Participation | |
| Liquid Asset | 1 |
| Social Capital | 39,090 |
| Advance payment for future capital growth | 24,291 |
| Re-evaluation reserve | 24,149 |
| Legal reserve | 2,265 |
| Retained earnings | 28,168 |
| Total liquid assets | 117,963 |
| Total passive and liquid assets | 330,546 |



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Profile



Products

Celulose Irani S.A. invests in researches for the development of differentiated products by offering personalized and innovative solutions to the market.

Paper

The Paper Unit is located in Vargem Bonita (State of Santa Catarina) and supplies the national and international market.

To meet the market demands, IRANI produces white and brown Kraft paper ranging from 35 to 200 grams in different lines: *FineKraft*, *FlashKraft*, *FlatKraft*, *FlexiKraft*, and *FancyKraft*. As to paper for specific uses, the special types of Kraft paper produced by IRANI have differentiated characteristics in terms of strength, moisture content and neutral pH. For the manufacture of corrugated cardboard sheets and packaging products, it manufactures *Kraft Liner*, *Test Liner*, *Miolo*, and *Capinha*.

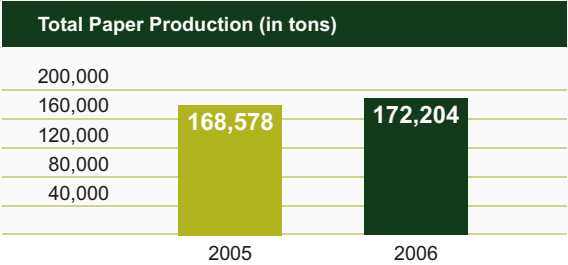


IRANI provides support to its clients, when developing the appropriate Kraft paper to meet their specific needs for a safe conditioning of their final products. Its preventive technical assistance offers technical support and permanent follow-up.

The company invests continuously in training its professional and in technology: machines, equipment and quality control laboratories. Its investment in training and in the renewal of its manufacturing stock are aligned with the sustainable development premises.

In 2006, it held the 10th position in the largest paper-producer ranking of Brazil according to the Brazilian Paper and Pulp Association (Bracelpa - *Associação Brasileira de Celulose e Papel*) and the 5th position in the paper and packaging sector.

Paper Production at the Company's Facilities



Packaging

IRANI is one of the leading Brazilian manufacturers in the sector of corrugated cardboard sheets and packaging, with revenues amounting 45.31 % of the company's total income. Its manufacturing units are located in Vargem Bonita (State of Santa Catarina), and in Santana de Parnaíba (State of São Paulo).

Its line of products ranges from low grammage paper to container-type packaging made of simple, double and triple-wall corrugated cardboard. It develops corrugated cardboard packaging besides the HardSystem system for large bulk packaging of high mechanical resistance.

The Packaging Unit increased its market share in the Brazilian packaging sector by 3.5% in 2006 according to the sales information provided by the Brazilian Corrugated Cardboard Association - ABPO (*Associação Brasileira do Papelão Ondulado*).

The packaging production grew 16.3% in 2006 compared with the previous year. This growth reflects the better use of the company's installed capacity and the optimization of its production processes in both manufacturing plants.

Wood

The Wood Unit is located in Vargem Bonita, State of Santa Catarina. Its production meets the demands of the Furniture Unit located in Rio Negrinho (State of Santa Catarina).

To ensure business sustainability, the company plants its own reserves and those from the third-parties' working in partnership with IRANI through the Reforestation Incentive in the western part of the state to ensure the necessary wood supply for the business expansion.



Furniture

Located in Rio Negrinho (State of Santa Catarina), the Unit used to only focus on the foreign market. In 2006, the Company implemented a sales system through the Internet. Thanks to its site www.meumoveldemadeira.com.br, IRANI started operating on the domestic market.

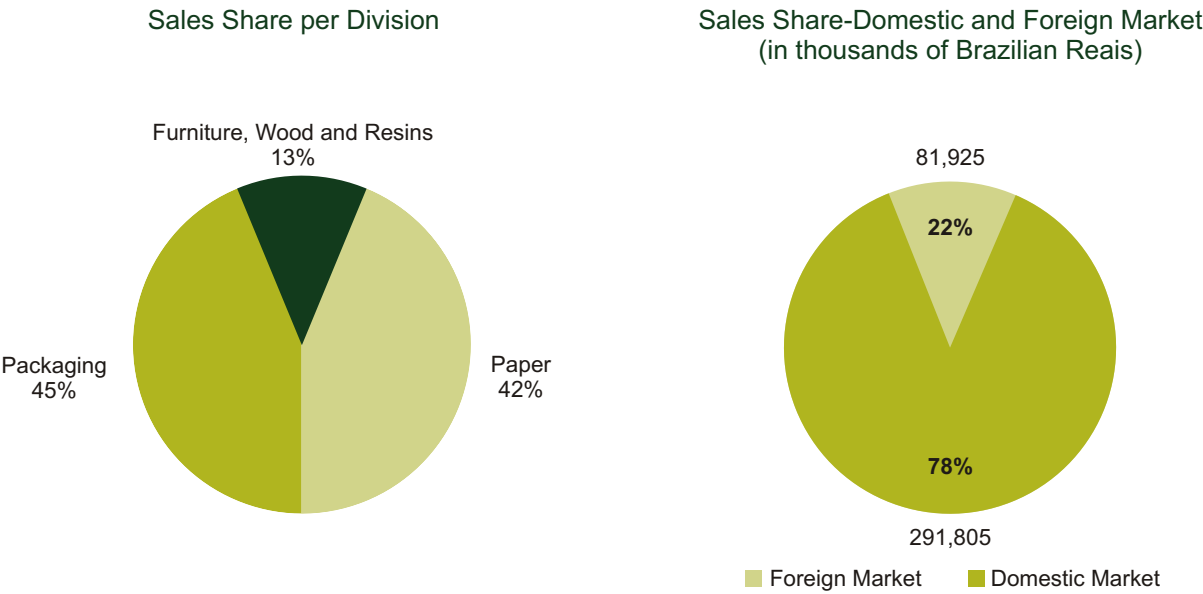
The production profile includes solid Pine wood bedroom furniture, living-room furniture and accessory pieces. All the furniture is made according to international forest management standards and requirements and is of a modern design and high quality.



Resins

The Resin Unit is located in Balneário Pinhal (State of Rio Grande do Sul). It produces tar and turpentine using the raw resin gum extracted from the Pine trees. The process is carried out with selected trees following environmental management standards. The product obtained is then commercialized for the production of varnish, paint, soaps, glue, adhesive, enamel, disinfectants, insulators, and perfumes. In 2006, 5,415 tons of tar and turpentine were produced, 5,398 of which were destined for the foreign market.

IRANI Sales Distribution



Performance Based on the GRI Principles



Celulose Irani S.A. publishes its Sustainability Report to show its performance on issues that are fundamental for the sustainable development of its business.

Since 2004, the Company has published its Social Balance using the Ibase and Ethos models as a reference. This year, IRANI has adopted the method used in the guidelines of the Global Reporting Initiative - GRI, version 3 (2006 - G3).

The GRI is based on three pillars: economic, social and environmental, following the model known as the triple bottom line. Its purpose is to assist the organization that writes the report and the interested parties in understanding their contribution towards sustainable development.

Celulose Irani focused on the fundamental indicators according to the GRI method and chose to answer some of the additional indicators relevant to its business. The company plans to gradually include more of these indicators, whenever relevant, in future reports, as it adjusts internal data follow-up processing formats.

The measurement techniques of environmental, economic and social data and calculation bases used are accurate and based on the ERP information (Microsiga System) used by the Company. Other environmental data, such as control of emissions, amounts of waste used and measurement of areas are systematically monitored through electronic flowcharts in the areas in charge, besides using the BRISA, SÍMULA and SIG Systems.

2006 Acknowledgements

| Award | Scope | Unit |
|--|--|--|
| ISO 9001:2000 | Brazil | Paper and Packaging Units Recertification - Santa Catarina State |
| Export Quality Madeira Magazine Paper Sector | Paraná State | Paper Unit |
| Bronze Medal The Gaucho Quality and Productivity Program | Rio Grande do Sul State | Paper Unit |
| 2006 Corporate Citizenship Company Category: Environmental Preservation | Santa Catarina State | Paper Unit |
| Demonstration an Ecological Behavior - Category: Pollution Control and Production Input Conservation | Santa Catarina State, Paraná State and Rio Grande do Sul State | Paper Unit |

GRI Application Level Statement

Celulose Irani S.A. made its self-assessment based on the application level of the GRI Guidelines and believes its 2006 Sustainability Report to be of level B+ according the following levels:



The Company is committed to deepen its understanding of the methodology in future Sustainability Reports.

The faleconosco@irani.com.br channel is available for the Company's interested parties to answer any questions and/or send suggestions to improve future reports.

The 2004 and 2005 Social Balances, and the 2006 Sustainability Report are available in English and Portuguese on the company's webpage www.irani.com.br.

To request a 2006 Sustainability Report, please send an e-mail to faleconosco@irani.com.br.

Governance, Commitment and Engagement

Corporate Responsibility Policy

IRANI formulated this Corporate Responsibility Policy to improve its practice and ensure the accomplishment of standards and behaviors in line with the Company's culture.

Social Responsibility Policy

- To make sure no forced or child labor is used throughout the production chain.
- To implement health and safety standards of excellence in all its units in compliance with the Health and Safety Policy so as to avoid occupational accidents and make sure that contracted third parties adopt the same standards.
- To respect diversity without considering the following aspects when making decisions: race, social class, nationality, religion, impairment, gender, sexual orientation, age, political party or union affiliation.
- To make sure no type of physical, sexual and/or moral harassment or abuse is committed on the premises, and to respect the employees, ensuring them the right to be affiliated to the union of their choice.
- To comply with the law concerning working hours according to the terms agreed upon in collective assembly, besides the salary and benefits guaranteed to all employees without discrimination.
- To build a better world through the support given to the communities with which it is directly related to, strengthening sustainable development by working in joint projects with solid institutions that work with children and teenagers or which are related to the company's business.

- To take upon the responsibility of producing products from a renewable forest base resulting from an integrated production process to ensure the generation of value to clients and society as a whole, as well as growth and sustainability by preserving the environment according to the Environmental Policy.

Environmental Policy

- To follow the current Environmental Legislation in Brazil and to promote corporate responsibility at local, regional and global levels.
- To adopt technically tested and economically feasible environment protection measures and systems in its activities.
- To consider research and the transfer of technology in all its activities.
- To keep an Environmental Management System for the permanent improvement of its activities.
- To bring satisfaction to shareholders and clients through added value products and services resulting from environmentally healthy and socially fair practices.
- To promote the sustainable use of its forests through practices recognized nationwide and to pass on these concepts to its partners.
- To include environmental criteria in the contracts and activities with suppliers, service providers and any other third parties.

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Quality Policy

- To seek our clients' satisfaction by delivering quality products that meet the agreed specifications, intended use, statutory and regulatory requirements along with a safe delivery and good customer service.
- To endeavor continuously develop of new products and solutions to optimize the performance of the production chain of which we are part.
- To endeavor continuously improve of the quality management systems, without losing track of the overall vision and focus on the final result.
- To follow the procedures and standards defined correctly to ensure the quality and cost of our services.
- To seek stable and transparent partnerships focused on mutual benefit with clients and providers.
- To value the personal and professional performance of our employees and to promote team work as a determining factor for the company's success.
- To live harmoniously with the environment and to contribute to the preservation of Nature.
- To contribute to the survival and sustainable growth of IRANI by promoting the suitable return to investors and ensuring work and income to the communities where it is based.

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Governance, Commitment and Engagement



Disabled People Inclusion Policy

- To promote a better quality of life beyond the legal criteria and to ensure accessibility and adjustment as to provide a proper work environment.
- To stimulate individual responsibility, professional qualification, commitment and performance through the integration and training sessions for all the employees.
- To prioritize the employment of disabled people whenever there is a vacancy.
- To take disabled people in as young apprentices or/and interns.
- To provide a good work environment to the disabled people hired by checking the accessibility standards and adjusting the work place and access ways as necessary.



Social Investment Policy

- To make donations to benefit the child, youth and culture related fields thanks to the tax incentives.
- To benefit the inhabitants of nearby cities and institutions that work for the development of children and teenagers as well as Projects or Programs related to the Company's business in line with the Social Responsibility Policy.
- To favor institutions which allow for long-term partnerships.
- To sponsor events and projects related to the development of education, sports, the environment, and culture.
- To make donations to institutions that have already signed partnerships with the company or wish to sign a joint project by contract to help manage the donations.
- To make an annual plan to support social initiatives.
- To fix the amount to be donated in the yearly budget every year.
- To conduct a assessment per year of the results and social impact, considering how efficient the effects and impacts are, and the use of resources to reach the goals and targets as well as the sustainability of the actions.
- To encourage transparency rules in the project management project (result assessment, reporting).

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Health and Safety Policy

- To plan and carry out actions towards people's health and well-being.
- To encourage the Healthy Lifestyles.
- To implement programs for the prevention of work-related accidents and diseases based on occupational health statistics.
- To continuously improve Occupational Safety and Health Services.
- To continuously improve Occupational Safety and Health Services.



Corporate Volunteers Policy

- To encourage volunteer actions promoted by employees, provided that they are aligned with the mission, vision and principles of the Company.
- To support the participation of volunteers in the actions promoted by the Company without forgetting that it is up to the employees to choose freely to take part.
- To ensure that once employees are committed to do voluntary work, they follow the rules established, carry out the tasks regularly and responsibly, and report the work done to the Company by filling out the specific action and project follow-up forms.
- To encourage the exchange of management and technical skills through voluntary work.
- To allow employees to be absent during working hours to do voluntary work as long as they provide proof of it back.
- To advise employees who wish to participate in voluntary activities on the best voluntary work they may do according to their profile as long as aligning the particular characteristics of the actions with the volunteer's personal skills and thereby maximizing their chance of success in the action.

Governance, Commitment and Engagement

Engagement with Stakeholders

IRANI works dutifully according to the type of public it is dealing with, and favors long-term partnerships based on respect and transparency. With this approach in mind, it builds efficient and reciprocal communication channels, as well as bonds of mutual trust to meet the demands and thereby strengthen its own growth: 'its partners', and that region where it is based. In this report, IRANI seeks to provide a balanced amount of information considering the interests and expectations of interested parties and different types of public which it interacts with.

Shareholders

The Company tries to provide returns suitable to the shareholders' investment. In this respect, it keeps management practices such as the Strategic Planning Cycle, the Annual Budget Program, the ongoing market analysis (Business Intelligence) and the macroeconomic analysis, among others. The Company reviews its transactions in the Quarterly Information Report ITR- sent to the CVM (Brazil's Securities and Exchange Commission) and BOVESPA (Brazil's Stock Exchange), as well as its Annual Financial Report and its Sustainability Report.

Customers

The Company creates practices and procedures to strengthen the partnership relations with its customers on an ongoing basis. The IRANI Customer Service (SIC - *Serviço IRANI para o Cliente*) for instance, which receives any criticism and suggestion, as well as the Satisfaction Survey, IRANI Online and its Preventive Technical Assistance are some of these initiatives.

Employees

Through Participative Management, the Company encourages internal communication in all directions and through many channels. The Employee Involvement Program in Results - EIP (*Programa de Participação nos Resultados* - PPR) draws people closer together through the follow-up of success factors. Employees who meet the annual goals are recognized and acknowledged. The Annual Budget is also elaborated thanks to the employees' participation.



Suppliers

To build long-term partnerships which are based on trust and mutually beneficial, and make sure that service providers' employees work within legal health and safety standards: these are some of the criteria that IRANI takes into account when choosing suppliers. The IRANI Online application has also contributed to making the communication with suppliers flow more easily.

Government and Society

IRANI always boosts the growth and development of the region where its production units are based; this benefits the entire society and has a direct impact on employment in the cities surrounding its manufacturing units. It also uses its tax incentives, to apply resources in the area and monitors the processes to guarantee their efficient use.

Communities

Besides sponsoring social projects in surrounding communities to benefit children and teenagers, it encourages its employees to do voluntary work in the programs it finances.

Corporate Governance

Last year, on December 31, the Company's social capital was of 6,403,450 shares, 92% (5,897,371) of which were ordinary shares with voting rights, and 8% (506,079) of which were preference shares without any voting rights.

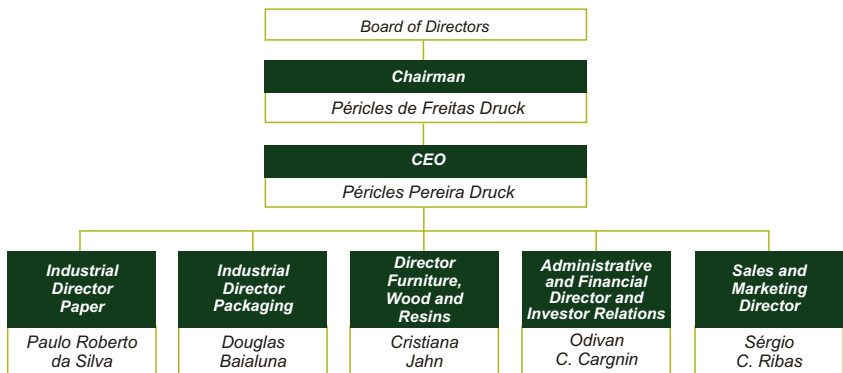
The High Management, with deliberative functions, together with the Board of Directors, with representative and executive functions, are responsible for IRANI's administration. The Board of Directors meets whenever needed and focuses on the Company's strategic issues such as business risks, market relations, Corporate Policies, investments and follow-up of the results reflected in the Financial Statement Report. All the attributions of the Board of Directors are stated under article 12 of the Company's Articles of Incorporation. The inspection of the Directors' management practices is one of them; it allows the Counsellors to examine the Company books and papers any time and request information about contracts or any other procedures.

| | 2004 | 2005 | 2006 |
|---|------|------|------|
| Number of members of the Board of Directors | 8 | 9 | 8 |
| Non Executive Councilors | 6 | 7 | 6 |

*Non Executive Councilors have no management functions

The Company does not have any theme boards. The strategy is devised jointly by the Executive Board, which is responsible for specifying the market research and by the Board of Directors, which reviews the concepts behind the strategy proposed and approves it for its execution.

The position of Chief Executive Officer (CEO) is held by the Chairman of the Board of Directors. However, the specific function of CEO of the Company is carried out by the Superintendent Director. In this case, the CEO's main function is to monitor and give advice to the Executive Management on matters of great importance.



The Executive Board attends the ordinary meeting every month and holds a videoconference meeting once a week.

The Company has a direct communication channel called "Direto Diretoria" between the employees and the Executive Board. Similarly, among its management processes, the Company conducts surveys to assess the company's climate at all levels, as well as a 360° Assessment of the leaders in all its business units. In the company climate survey, employees can describe subjects related to economic, social and environmental performance. The Executive Board also undergoes the 360° Assessment. The results of these management tools are reported to the Company's Board of Directors.

Relation between the remuneration of the highest governance body, the executive board and the organization's performance including social and environmental aspects. (in thousand R\$)

| Board of Directors Remuneration | Executive Board Remuneration* | Socio-environmental Investments | Gross Operational Income | Net Result |
|---------------------------------|-------------------------------|---------------------------------|--------------------------|------------|
| 1,3 | 2,059 | 8,775 | 377,689 | 974 |

*Considering Executive Directors as an elective position, as stated in the Company's Articles of Incorporation.

The Company has Independent Auditors to verify the consistency and integrity of its operations. They are responsible for issuing a quarterly and annual "Independent Auditors' Report".

The Company's business sustainability is assessed at least twice a year, during the meeting of the Board of Directors.

Management and Performance Indicators

Corporate Responsibility

IRANI's Management is based on the business sustainability concept, which aims to balance economic, social and environmental aspects. Corporate responsibility principles ensure the development of future generations is not jeopardized thanks to transparent practices and the involvement of all interested parties in its business.

In 2005, the Company completed its Strategic Planning Cycle based on the Balanced Scorecard (BSC) concepts. The process brought together department leaders who drew guidelines and goals for each area. Since then, every concept and resolution is communicated to every employee.

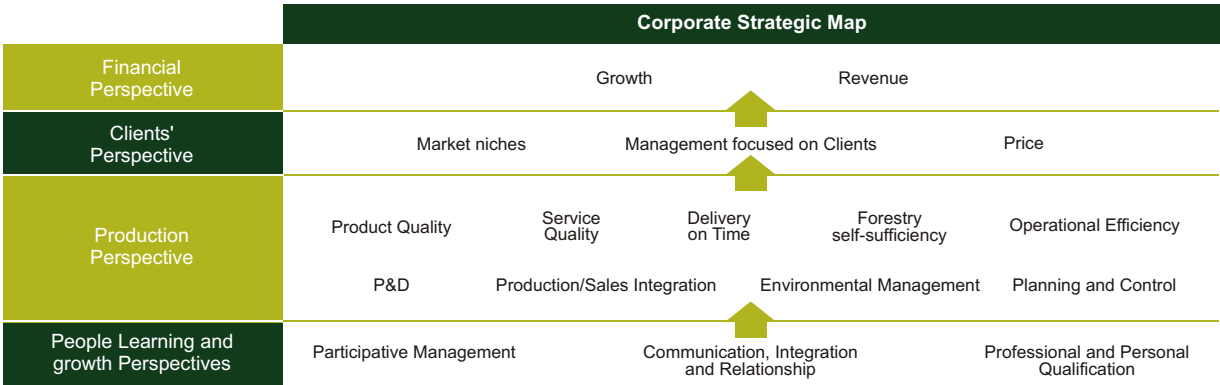
Social and Environmental Responsibility

IRANI has a Social and Environmental Responsibility Management Plan that is aligned with its Strategic Plan, Mission, Vision, Principles and Values, and with the Quality Management System - National Quality Program (Programa Nacional da Qualidade - PNQ) it has adopted. This Plan together with its Corporate Responsibility Policy define the stakeholders as well as the projects and actions to be carried out. The results of this initiative are revealed through the Environmental Development Indicators. In the search of excellence in its processes and products, the Company complies with the principles of the Quality Management System based on the ISO 9011:2000 standard. And so, it implements the necessary actions to reach the results planned and improve the processes on an ongoing basis.

Economic and Financial Responsibility

One of IRANI's strategic goals is to aim for economic growth. Every level of the organization is dedicated to obtaining the operations' profitability and the Company's growth. Obtaining positive financial results is just as important for the company as the way these were achieved, applied and reverted to shareholders, investors and other interested parties. Economic and Financial decisions and resolutions are communicated to all employees through the IRANI communication channels.

In its Mission and Vision Statement, IRANI commits to permanent sustainable growth for the permanence of its activities. The Company Budget Program is the quantitative reflection of its strategy which aims to meet its goals in the short term. It states the goals of the Strategic Plan according to the agents and investors' expectations, and reflects the employees' responsibility in the face of the challenges set. It also provides the parameters for the continuous evaluation and control of costs, expenses and investors' returns.



GRI Development Indicators

The Development Indicators are considered in terms of economic, social and environmental aspects. They provide quantitative and qualitative information relevant to the different types of public that IRANI relates with.

Economic Development Indicators

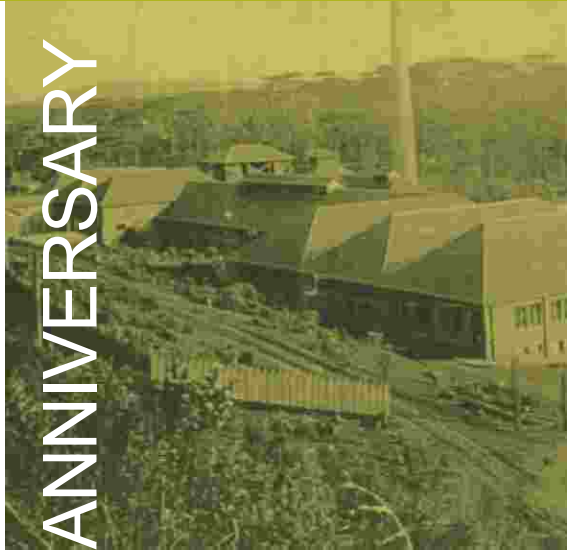
Market Presence

As the year before, 2006 was characterized by the low economic growth of Brazil and consequently regions where IRANI operates. On the overvaluated Real in relation to the Dollar, following the scenario observed in 2005, reduced the net profit margins of exported products and influenced the prices on the domestic market. This had a huge impact on the Company's results, especially during the 1st half year.

The operational efficiency of the different business units improved significantly, resulting in a favorable 2nd half year.

In this scenario, the Company broke records in terms of production and product shipments. The average price of paper increased on the domestic market while that of packaging dropped following the market trend according to the data provided by the Brazilian Corrugated Cardboard Association - ABPO (*Associação Brasileira do Papelão Ondulado*). In 2006, the Furniture Unit started to develop a new commercialization model to obtain better margins. The Internet sales channel was also developed and consolidated on domestic market. The Resins Market received a significant boost thanks to the sharp increase in international prices, which consequently had a positive impact on the results.

Despite the low economic growth of Brazil, the Company managed to significantly increase its market share, especially in the corrugated cardboard sector. IRANI increased the volume of corrugated cardboard boxes and sheets sold between 2005 and 2006 by 20%, going from a 3.02% market share in 2005 to a 3.59% market share by the end of 2006.



ANNIVERSARY
65th

Management and Performance Indicators

Sustainability Report 2006 

Economic Development

IRANI's Gross Income on 2006 was 3.3% higher than that registered in 2005, amounting to R\$ 377,689 thousand. In dollars, the Gross Income was US\$ 173,608 thousand. The Net Operating Income was R\$ 300,569 thousand, 5.9% higher than that registered on 2005. The Gross profit was R\$ 74,766 thousand, and the Gross Margin was stable remaining at 24.9%. The Net Operating Income on 2006 was R\$ 1,190 thousand negative, while in 2005 it had been R\$ 180 thousand negative.

The EBITDA Margin registered a slight growth, going from 12.6% in 2005 to 12.9% in 2006, reaching the absolute value of R\$ 38,802 thousand. The financial income was R\$ 16,693 thousand negative, of which R\$ 165 thousand represented the trading exchange gains and losses and 16,858 corresponded to the actual financial expenses (interests, bank expenses, CPMF, and discounts granted).

Main Financial Indicators

| 2006 Consolidated (in thousand Reais) | |
|---------------------------------------|---------|
| Gross Operating Income | 377,689 |
| Domestic Market | 295,764 |
| Foreing Market | 81,925 |
| Net Operating Income | 300,569 |
| Gross profit | 74,766 |
| Gross margin | 24.9% |
| Net Operating Income | (1,190) |
| Net Income | 974 |
| EBITDA | 38,802 |
| EBITDA Margin | 12.9% |
| Current Liquidity Ratio | 0.76 |

The Company's Net Result in 2006 was R\$ 974 thousand, compared to the R\$ 49 thousand verified in the previous year. Also, in 2006, the re-evaluation of part of the assets to R\$ 2,294 thousand was not considered as part of the income in the Fiscal Year Results (183/95 Resolution of the Brazilian Exchange Commission), but will be added to the dividend distribution base and thereby to the cash and fiscal year profits.

*EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization

| 2006 Consolidated (in thousand Reais) | |
|---|---------|
| Net Result | 974 |
| IRPJ (Legal Entity Income Tax) and CSLL (Social Contribution on the Net Profit) | (1,831) |
| Results Before the IRPJ and CSLL Taxes | 2,805 |
| Depreciation | 15,850 |
| Depletion | 3,454 |
| Financial Income | 16,693 |
| EBITDA | 38,802 |

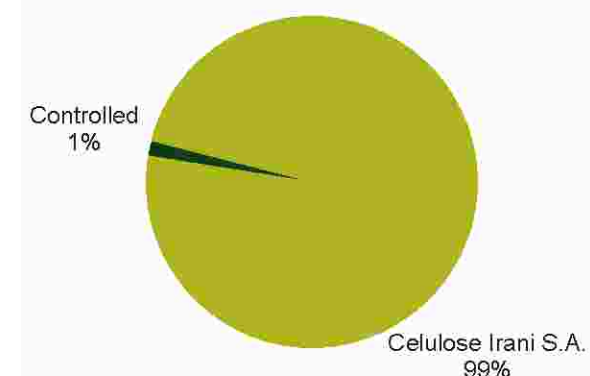
* Earnings before interest, taxes, depreciation and amortization.



The 2006 income will be allocated to the minimum distribution of mandatory dividends and the legal reserve, and the rest will be re-invested in the Company itself.

Participation of the Gross Operating Income Consolidated in 2006

Participation of the Gross Operating Income by the Company



Value Added Statement (Demonstrativo do Valor Adicionado - DVA)

| 2006 Consolidated (in thousand Reais) | |
|--|---------|
| 1. Income | 380,349 |
| 1.1. Service, Products and Market Sales | 377,689 |
| 1.2. Provision for Dubious Debtors (Rev./Constitution) | (1,481) |
| 1.3. Nonoperating Income | 4,141 |
| 2. Inputs acquired from third parties | 255,698 |
| 2.1. Consumed Raw Material | 182,607 |
| 2.2. Cost of Goods and Services Sold | 1,643 |
| 2.3. Material, Power, Third Party Services and Others | 71,448 |
| 3. Gross value added (1 - 2) | 124,651 |
| 4. Retentions | 19,304 |
| 4.1. Depreciation, Amortization and Depletion | 19,304 |
| 5. Entity net value added produced (3-4) | 105,347 |
| 6. Value added received in transfer | 6,199 |
| 6.1. Income Using the Equity Method | 71 |
| 6.2. Financial Income | 6,128 |
| 7. Total value added to distribute | 111,546 |
| 8. Value added distribution | 111,546 |
| 8.1. Personnel and Charges | 45,381 |
| 8.2. Taxes, Rates and Contributions | 34,661 |
| 8.3. Interest and Rentals | 28,562 |
| 8.4. Interest on Owned Capital and Dividends | 776 |
| 8.5. Retained Profits /FY Loss | 2,166 |

Environmental Performance Indicators

Celulose Irani fully respects the environment. It monitors the actions and the interaction resulting from its operations to prevent any risk and optimize existing resources.

As it is concerned about global warming and the environmental forecasts, IRANI monitors the impact it has on the environment and implements the use of technologies to contribute to change the current situation.

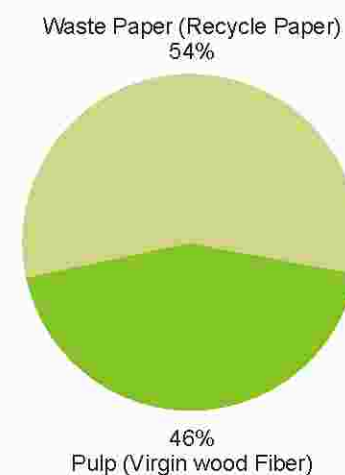
Material

The pulp taken from correctly managed forests is the main raw material used to produce paper. Waste paper is also used for specific lines of product.

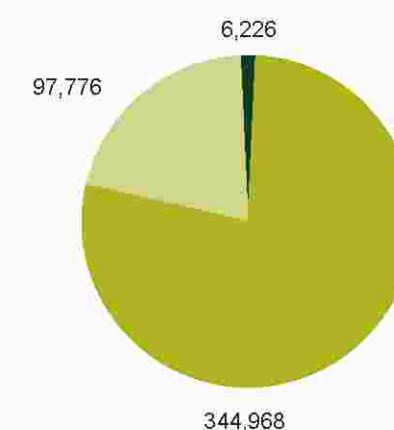


Percentage of Material Used in the IRANI Paper Production

Mixed Paper and 100% Virgin Wood Fibers



Material used in 2006 (tons)

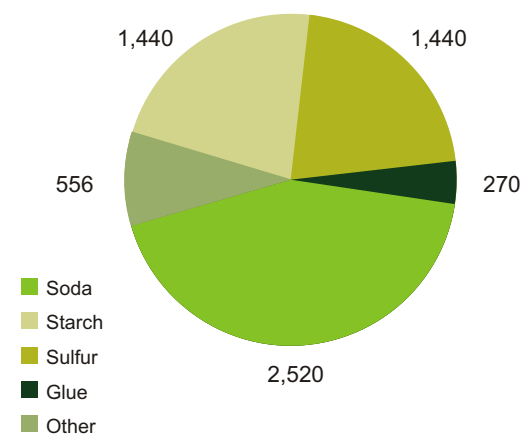


■ Wood
■ Waste Paper
■ Additives

Management and Performance Indicators

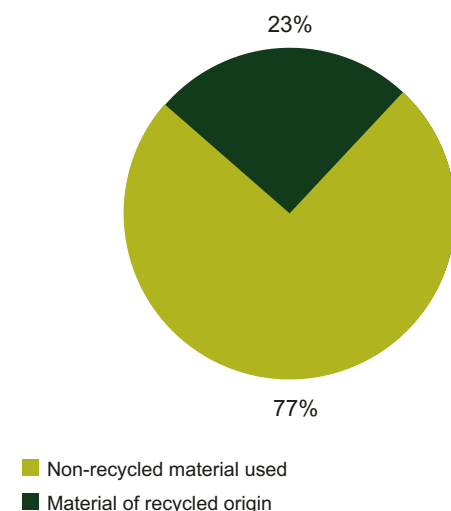
Besides the main products used for the manufacture of paper, the Company's activities also entail the use of additives certified by the Food and Drug Administration-FDA, the U.S. Federal Agency responsible for the control of food products and packaging. The other products used are also controlled to avoid any harmful impact on the environment.

Inputs used in 2006 (tons)



On its search of increasingly more sustainable processes, IRANI uses waste paper to reduce its demand of virgin raw material.

Percentage of Recycled Material Used



Power Energy

The forestry waste, which the Company and other wood companies in the area used to discard, is now used to generate power energy. IRANI also has its own hydroelectric plants nearby the manufacturing unit in Vargem Bonita, Santa Catarina State, to complete its power energy sources and make the Company almost self-sufficient.

Technology and Sustainable Development

Pioneers in obtaining Carbon Credits through the Kyoto Protocol.

IRANI has developed a Clean Development Mechanism-CDM project for the Co-generation of Energy at the Paper Unit thanks to the investment of approximately R\$ 23,630 (thousand Reais) granted by Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social* - BNDES). The biomass-based Co-generation Energy Plant at the Paper Unit produces power energy, reducing the methane and carbonic gas emissions known for causing the greenhouse effect. The project was acknowledged by the UN - United Nations in July 2006, and in September 2006 the CERs - Certified Emission Reductions were issued.



Brazil's first company in the sector of paper and packaging that has credits of carbon emitted by Kyoto Protocol.

Sustainability Report 2006

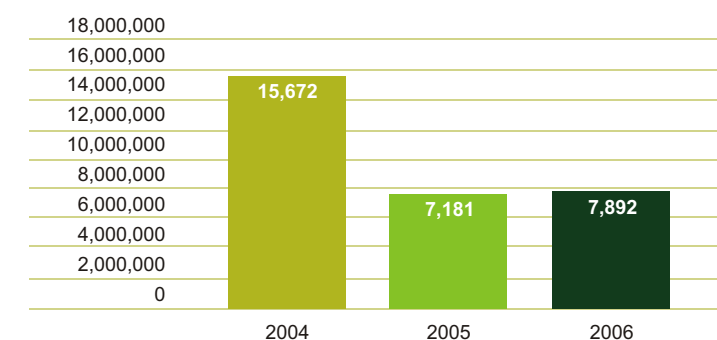
The project allowed for a reduced consumption of power generated from non-renewable natural resources through the use of forest waste which used to be dumped in landfills or inappropriate places. Once the waste decomposed, it generated gases such as methane and carbonic gas responsible for the greenhouse effect.

| | 2005 | 2006 | Total |
|---|---------|---------|---------|
| Certified reductions issued through the Kyoto Protocol (tons of CO ₂ equivalent) | 115,233 | 135,611 | 250,844 |

The Protocol sets forth credits for a period of up to 21 years.

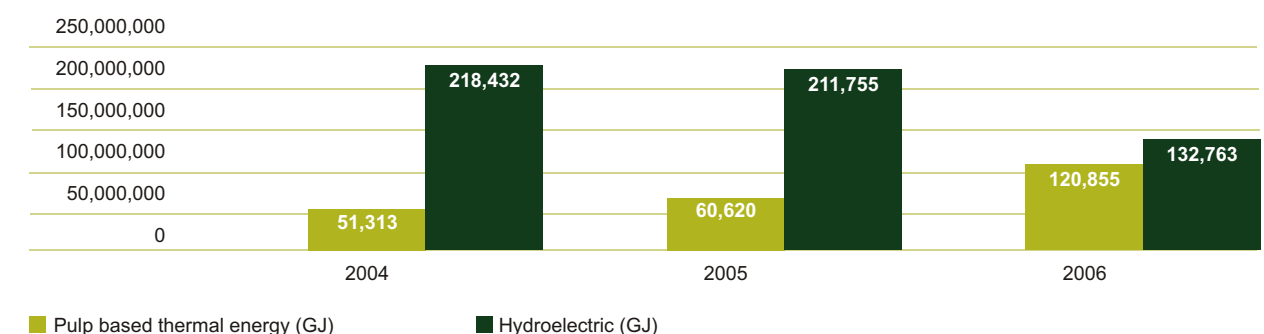
Today, all the forest waste generated by the Company is used at the Co-generation Energy Plant to reduce environmental implications.

Purchased Power Energy (GJ-Giga joule)



Direct Power Consumption Segmented by Primary Source

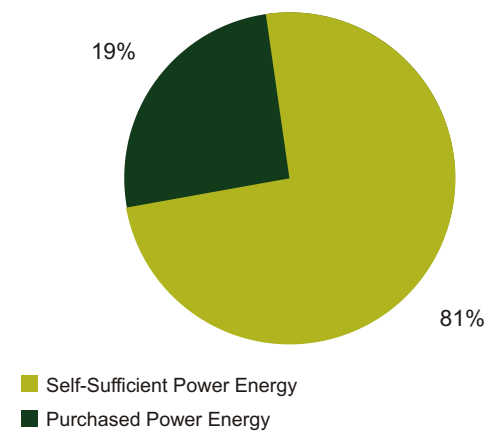
Thermal Energy (50 Hertz), Thermal (60 Hertz) and Hydric Energy (50 Hertz) Self-Sufficient



The power energy produced by IRANI is 100% clean.

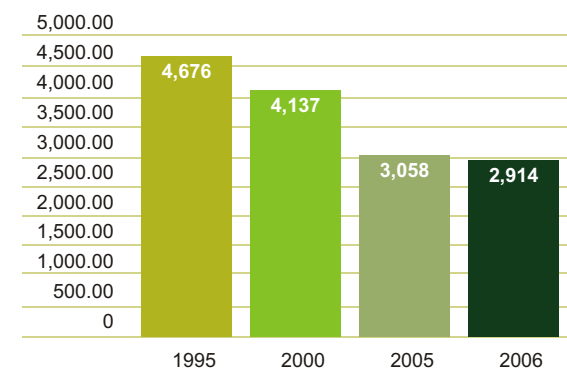
Management and Performance Indicators

Self-Sufficient Power Energy x Purchased Power Energy (Gigajoule - GJ)



IRANI monitors its power energy consumption continuously. The following chart shows the evolution since 1995. You notice the growing efficiency resulting from the improvement of internal processes at the Paper Unit.

Electric power consumption (Gigajoule) /paper liquid tons



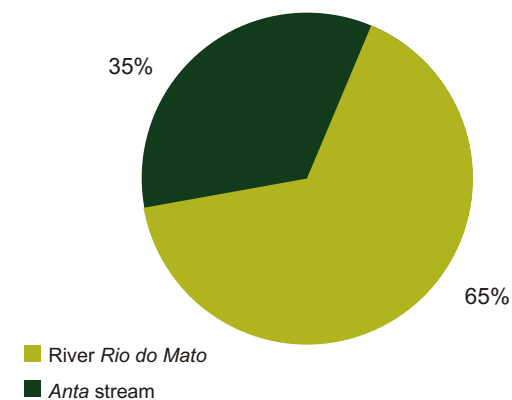
The Company currently produces 38% less power energy per net ton of paper.

Water

The water collection for consumption is done at two points of the Chapecó River microbasin, which is part of the Uruguay River Basin, in the State of Santa Catarina.

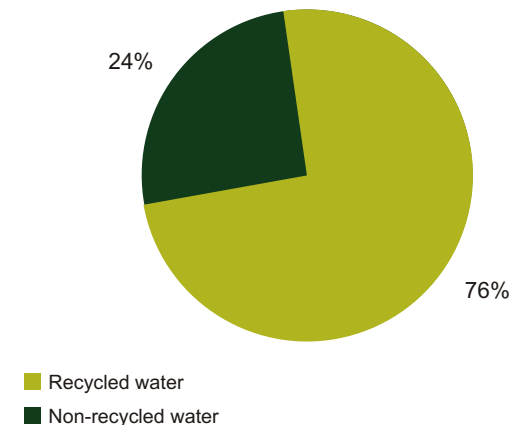
One of the collection sites is a 5.57 hectare water reservoir, off the Anta Stream, a tributary of Rio do Mato, a river where the most important collection site of the State of Santa Catarina is located.

Percentage of water collected per site



In 2006, the Company consumed a total of 27,350,000 m³ of water, most of which was recycled and reused.

Percentage of recycled water



Sustainability Report 2006



Biodiversity

The Company invests in the sustainable development of its business, researching and looking for new approaches to deal with biodiversity, since it believes its current actions must not jeopardize the quality of life of future generations or affect the balance of Nature.

The IRANI premises, located in the West of Santa Catarina State, amount to 33.2 thousand hectares of land spread over the cities of Vargem Bonita, Ponte Serrada, Irani, Água Doce, Caçador and Catanduvas. The Company has reforested part of these areas for its wood consumption and left quite a significant part of Native Forests, which belongs to the Mata Atlântica Bioma, also known as Mixed Ombrofila Forest or Araucaria Forest.

| Use of Land | | Area (ha) | % |
|------------------|--|---------------|-------------|
| Production Areas | Pine | 14,509 | 43.7% |
| | Eucalyptus | 1,514 | 4.6% |
| | Other Species | 142 | 0.4% |
| Preserved Areas | Permanent Preservation Area - APP (Área de Preservação Permanente) | 3,132 | 9.4% |
| | Legal Reserve | 8,307 | 25.0% |
| | Other Areas | 3,155 | 9.5% |
| Infrastructure | | 2,463 | 7.4% |
| Total | | 33,222 | 100% |

Aiming for business sustainability and the development of the region, besides its own forested areas, IRANI has signed partnerships with local rural producers as a strategy for the supply of raw material. This also provides income opportunities and contributes to the development of the area.

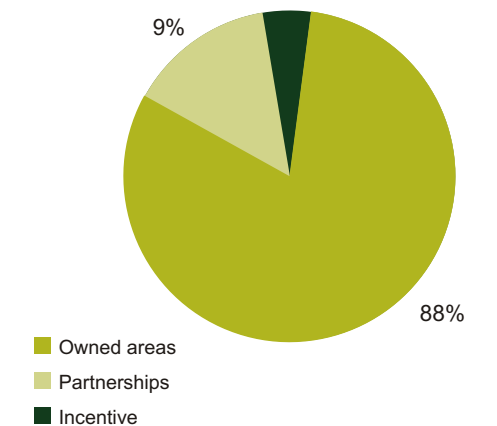
There are two modalities depending on the partner's characteristics and the location of the land:

Forestry Partnership - When becoming an IRANI partner, the rural producer has no extra expenses for planting and maintaining the forest. Later, the wood produced is shared between the parties according to a fair and predefined

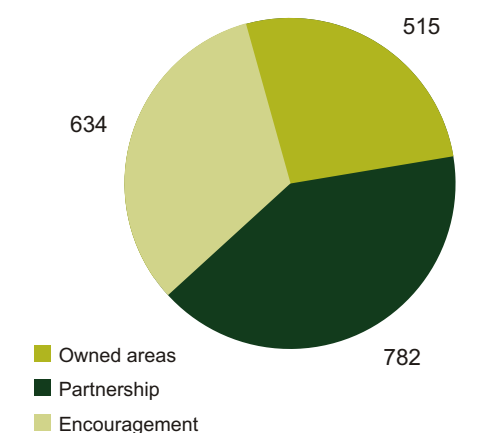
basis. A rough 30 partners already follow this model in 15 cities.

Forestry Incentive - Thanks to the agreements signed with city councils, IRANI provides seedlings to small rural landowners in exchange for the preference when selling their production. Eight (8) city councils have signed the agreement including 187 landowners in this modality so far.

Planted Area



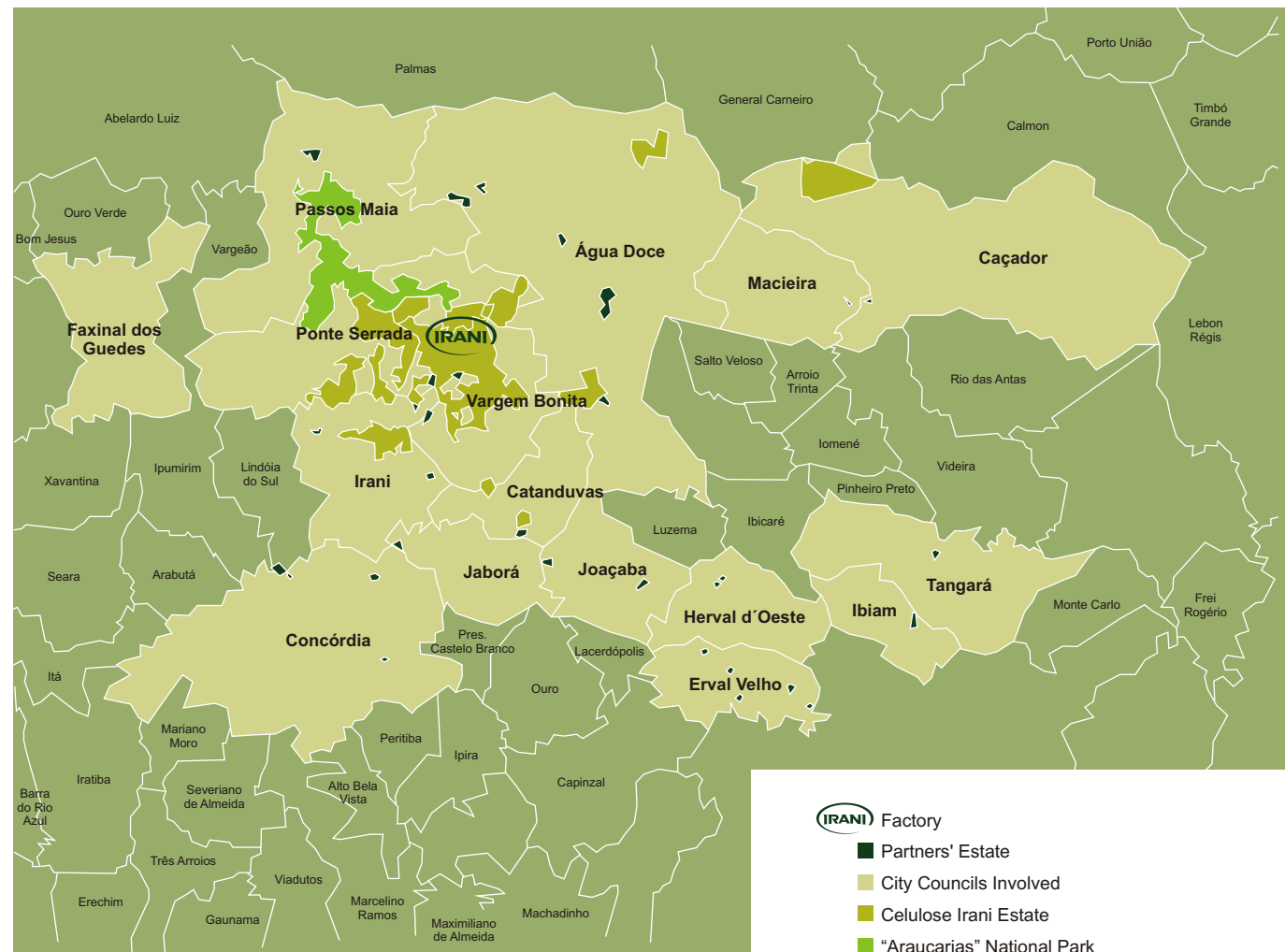
Planted Area in 2006 (ha)



Management and Performance Indicators

Sustainability Report 2006 

Reforestation - Celulose Irani S.A.



In December 2006, IRANI bought an area of 13,646 hectares in the State of Rio Grande do Sul. The forest has 8,500 hectares of Pine trees, 650 hectares of infrastructure, and the remaining areas are preserved and conserved forests. With this acquisition, the Company increased its planted areas by almost 50%.

Celulose Irani is located in an ecosystem which used to be seriously endangered, since little of its original area is left. Concerned about this issue, the Company keeps a clear division of the areas to be reforested, reserved and conserved.

The Geographical Information System (SIG - *Sistema de Informações Geográficas*) is used as a control and monitoring tool for the soil use. Field activities are carefully planned to minimize any possible environmental impact.

In 2006, 25% of the total owned area was registered as a Legal Reserve, a percentage higher than that required by law. It has 8.3 thousand hectares of typical Native Forest over plots of the remaining estate of different sizes. Most of these plots join through forest strips which serve as a protection of the existing water resources besides helping the transit of the fauna and the gene flow and thereby guarantee the maintenance of biodiversity.

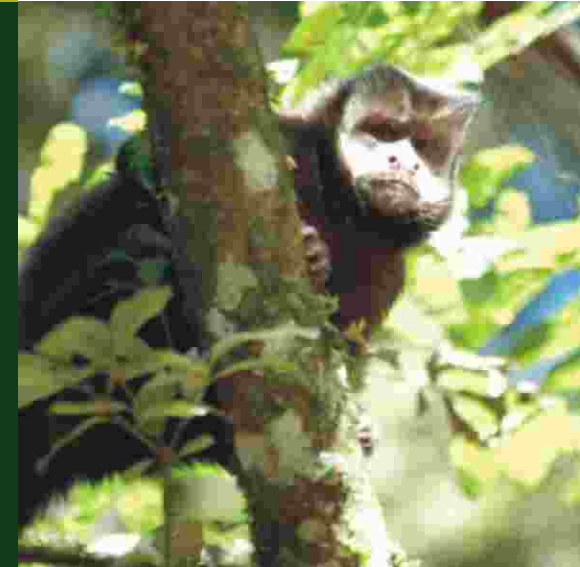
Since most of the planted forest is Pine species, which is characteristic for its easy dispersion and natural regeneration, the Company adopts permanent control and monitoring practices to conserve mainly its Native Forests located near the "Araucarias" National Park.

The Company carries out environmental research projects together with other institutions, such as the Capuchin monkey Project with the Brazilian Agricultural Research Corporation (*Empresa Brasileira de Pesquisa Agropecuária - EMBRAPA*) and the Anura Biodiversity Project (Amphibians) with the São Paulo State University (*Universidade Estadual Paulista - UNESP*) always with the aim of accomplishing the sustainable management of its forests.

Capuchin Monkey Project - In May 2006, IRANI signed a Technical Cooperation Agreement with Embrapa Florestal (the Brazilian Forest Research Corporation) of Curitiba City in the State of Parana. The project is divided into 4 stages: the identification and study of the flora and the Capuchin monkey's eating habits, the population study and management action plan.

Anura Biodiversity - The purpose of the project, developed by researchers of the Animal Biology Post-Graduate Program of the São Paulo State University (UNESP) - in the city of São José do Rio Preto, is to conduct a survey on the anura fauna living in forest segments of the Celulose Irani estate to determine the richness and abundance of species in the adult and larvae phases.

Anphibioans have an important ecological value given their position as an intermediary link of the trophic chains, besides the potential economic value derived from the chemical substances secreted by their skin. Their characteristics also make of them good indicators of the environmental quality. The presence of certain species and/or communities has laid the basis for the proposal of ecosystem management and conservation planning activities.



Management and Performance Indicators

Number of species included in the IUCN Red List of threatened species whose habitat is in affected areas specified according to their level of extinction risk.

| Name | | Family | Category |
|--|---|-----------------|----------------------------|
| Scientific | Common | | |
| <i>Aspidia pohlil</i> Backer | " " | COMPOSITAE | Data Deficient (DD) |
| <i>Vriesea triangularis</i> Reitz | Gravatá, Bromélia e Monjolinha | BROMELIACEAE | Data Deficient (DD) |
| <i>Aechmea apocalyptica</i> Reitz | " " | BROMELIACEAE | Critically Endangered (CE) |
| <i>Billbergia alfonso-joannis</i> Reitz | Poço de Jacó, Gravatá, Monjola e Bromélia | BROMELIACEAE | Endangered (EN) |
| <i>Dyckia hatschbachii</i> L.B. Smith | Gravatá e Bromélia | BROMELIACEAE | Endangered (EN) |
| <i>Vriesea biguassuensis</i> Reitz | Gravatá, Bromélia e Monjolinha | BROMELIACEAE | Data Deficient (DD) |
| <i>Aechmea blumenavii</i> Reitz | Gravatá, Monjola e Bromélia | BROMELIACEAE | Critically Endangered (CE) |
| <i>Araucaria angustifolia</i> (Bertol) O. Kuntese* | Pinheiro do Paraná | ARAUCARIACEAE | Vulnerable (VU) |
| <i>Dyckia ibiramensis</i> Reitz | Gravatá e Bromélia | BROMELIACEAE | Endangered (EN) |
| <i>Helosis cayannensis</i> (Swartz) | Sangue de dragão | BALANOPHORACEAE | Vulnerable (VU) |
| <i>Sprengel</i> var. <i>cayennensis</i> | | | |
| <i>Ocotea porosa</i> (Nees) Barroso | Imbuia | LAURACEAE | Vulnerable (VU) |
| <i>Vriesea brusquensis</i> Reitz | Gravatá, Monjola e Bromélia | BROMELIACEAE | Critically Endangered (CE) |
| <i>Aechmea kleinii</i> Reitz | Gravatá, Monjola e Bromélia | BROMELIACEAE | Critically Endangered (CE) |
| <i>Dicksonia sellowiana</i> (Presl) Hook | Samambaiaçu-imperial | DICKSONIACEAE | Endangered (EN) |
| <i>Dorstenia tenuis</i> Bompl. ex Bur | Violeta-da-montanha e Violeta-montes | MORACEAE | Vulnerable (VU) |
| <i>Vriesea mulleri</i> Mez | Gravatá | BROMELIACEAE | Critically Endangered (CE) |
| <i>Aechmea pimentii-velosii</i> Reitz | Gravatá, Monjola e Bromélia | BROMELIACEAE | Critically Endangered (CE) |
| <i>Brosimum glaziovii</i> Taubert | Marmelinho | MORACEAE | Critically Endangered (CE) |
| <i>Dyckia cabrerai</i> Smith et Reitz | Gravatá e Bromélia | BROMELIACEAE | Endangered (EN) |
| <i>Ocotea catharinensis</i> Mez | Canela preta | LAURECEAE | Vulnerable (VU) |
| <i>Vriesea pinottii</i> Reitz | Gravatá, Monjola e Bromélia | BROMELIACEAE | Endangered (EN) |

Official List of endangered flora of Brazil - IBAMA - Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis (Brazilian Environment and Natural Resources Institute) (Regulation No. 37N, April 3, 1.992) - Santa Catarina State

*Also in the 2004 IUCN Red List

The species mentioned refer to the entire State of Santa Catarina.



IRANI continuously collects native seeds in its conservation area, which then grow to become seedlings at the Company's greenhouse. They are then planted in degraded areas and used to enrich regeneration plots. They are also distributed in the Community, mainly

during events like those to celebrate the Environment Week and Tree Day.

Among other varied species, the main ones are the *araucária*, the *canela-sassafrás*, the *canjerana*, the *canela-preta*, the *imbuia* and the *xaxim*.

Emission, Effluents and Waste

IRANI periodically monitors its highest emission points at the Paper Unit through the Stationary Source Emission Control System which measures the gas concentrations of every catalogued and identified emission site on a regular basis. For this purpose, the Company will have to do a Carbon Emission Catalog of every unit. Based on the amount of forest owned, the Company is estimated to reach a neutral general carbon balance (Forest capture minus emissions).

Sustainability Report 2006

The environmental aspects and impact evaluations of the Company's activities have not identified any substance or emission likely to affect the ozone layer.

The biomass co-generation power has replaced the use of seven boilers which used to run on fossil fuel and allowed the reduction in particle material and gas emissions such as: N₂, CO₂ and CO, SO₂ and SO₃.

Reduction in Atmospheric Emissions (via Stationary Sources Chimney Stacks)

| Type | 2004 | 2005 | Reduction Percentage |
|--|----------|----------|----------------------|
| MP (mg/Nm ³) | 1,748.2 | 865.75 | 50% |
| SO ₂ (mg/Nm ³) | 1,526.78 | 1,002.60 | 34% |
| SO ₃ (mg/Nm ³) | 115.44 | 76.05 | 34% |
| N ₂ (percentual) | 1,035.5 | 792.2 | 23% |
| CO ₂ (percentual) | 67.7 | 47.7 | 29.5% |
| CO (percentual) | 2.3 | 1 | 56.5% |
| NOx (mg NO ₂ /Nm ³) | - | 116.08 | - |

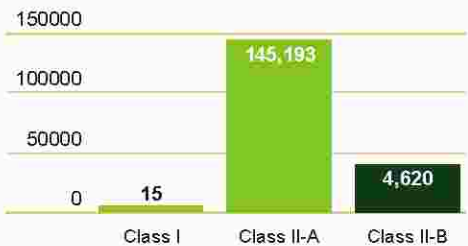
Liquid effluents resulting from the process are chemically, physically and biologically treated at the Effluents Treatment Plant -ETP- to guarantee the quality of the water disposed of in the receiver river. Different parameters are used to monitor the process: pH, suspended and decanted solid material, Biochemical Oxygen DemandBODChemical Oxygen Demand-COD-temperature, sulfide, cyanide, iron, phosphorus, nitrogen and phenols.

Effluent Volume in 2006

| Destination | Treatment Method | Vol. (m ³ /hour) | Vol. (m ³ /year) |
|----------------------------|---|-----------------------------|-----------------------------|
| Effluent Treatment Station | Preliminary primary and secondary Treatments. | 764 | 6,696 |

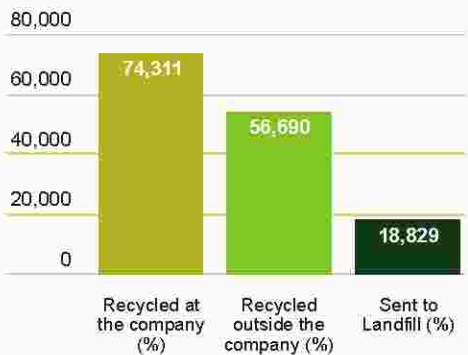
The company treats and monitors all the waste resulting from the manufacture of paper and pulp.

Total Waste per type in 2006 (tons)



Note: 1. According to the NBR 10.004/2004 standard: Class I Waste: hazardous waste (medical and laboratory waste and alcohol); Class II/A Waste: non inert waste (physicochemical and biological sludge from ETS, paper, cardboard, sweeping waste, organic waste and household waste); Class II/B Waste: inert waste (glass, metals, plastics and debris).

Total waste by disposal method 2006 - tons



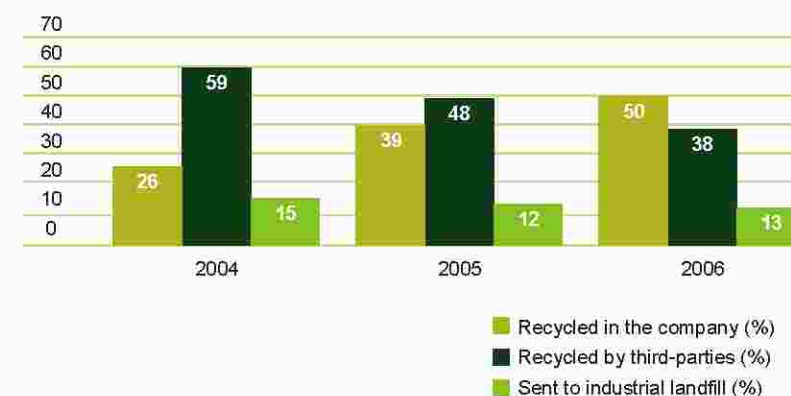
The Company is now increasing the percentage of waste it recycles and reducing the percentage of waste it sends to landfills. This has a positive impact on the amount of natural raw material used and minimizes any environmental problems derived from the inappropriate final destination of waste.

Management and Performance Indicators

Sustainability Report 2006 



Percentage of Waste by Disposal Method



The effluent treatment plant expansion to minimize the operational impact as much as possible resulted in a more efficient procedure to remove organic waste from the effluents before sending them to the Mato River, a tributary of the Chapecó River which belongs to the Uruguay River system in the State of Santa Catarina.

In 2006, no chemical product or substance spill was registered likely to harm the quality of the soil and underground and/or superficial water on the Company's production sites.

IRANI makes sure that the carbon emissions generated in the manufacture of paper, packaging and furniture, are neutralized directly. Besides using its properly managed forests, it also uses a large amount of recycled material. The products store carbon for a longer period of time like in the case of furniture. Its paper and packaging products are recyclable and biodegradable and thereby lessen the environmental impacts.

Furthermore, the biomass now used for the production of power energy is no longer left in landfills, so the production of methane and CO₂ at the origin of greenhouse gases is now prevented.



Products and Services

Increased Production and Reduced Environmental Impacts.

The new Black Liquor Evaporation Plant allowed a 30% increase in the pulp production, and thereby the installed capacity from 150 to 200 tons per day.

Celulose Irani claims it receives no sanctions or fines derived due to the non-compliance with environmental laws or regulations in 2006.

| Product | Recuperation Percentage | IRANI Turnover Percentage |
|--------------------|-------------------------|---------------------------|
| Paper | 100% | 41.41% |
| Packaging | 100% | 45.31% |
| Furniture | Under analysis | 9.14% |
| Wood | Under analysis | 0.89% |
| Tar and Turpentine | Under analysis | 3.25% |

The products manufactured by IRANI are reutilized and the small percentage released in the environment is biodegradable, which reduces the environmental impact significantly.

Management and Performance Indicators

Substantial investments were made in Environmental Management in 2006

2006 Environmental Investments

| Action/Project | Environmental Benefit | Unit | Investments (in Reais) |
|--|--|--------------------------------|------------------------|
| Effluent Treatment System of the Co-generation Boiler. | It allows the water treated at the effluents system to return to the boiler and the gas washer closing the water cycle. | Paper | 147,508 |
| Sludge dehydration system of the Co-generation boiler effluent treatment station. | It enables to remove the ashes with a higher dry content, thereby enabling their reutilization as fertilizers in Pine plantations. | Paper | 101,951 |
| Construction of ash and calcium carbonate docks. | Appropriate site for the download of process by-products. | Paper | 50,307 |
| Installation of a hammer mill. | The biomass waste fully re-utilized for the generation of power energy. | Paper | 199,678 |
| Second stage of the effluent treatment plant expansion. | Reduced pollution load and increased efficiency in the removal of the effluent Oxygen Biochemical Demand- OBD. | Paper | 4,242,423 |
| Replacement of the effluent treatment system piping. | To avoid any possible leaks and contaminations. | Paper | 17,205 |
| Black Liquor furnace; interconnection of the oven and the new steam piping system; cooling tower. | Increased soda recovery, besides contributing to reducing the liquid, solid and gas emissions. | Paper | 3,133,789 |
| Recovery of the permanent preservation area of Ribeirão da Anta in Vargem Bonita - Santa Catarina State. | Re composition and restructuring of the brook's margins, ecological corridors formation and recovery of the remaining strips of native vegetation. | Paper | 39,915 |
| Construction of a new landfill for the final disposal of class II-non inert industrial waste. | Proper waste disposal. | Paper | 60,272 |
| Construction of containment areas in overflow risk zones. | To prevent any possible soil or water resource pollution. | Paper | 200,000 |
| Construction of septic tanks. | To prevent any environmental pollution. | Paper | 82,000 |
| Change in the paint line used at the polishing sector. | Reduced emissions of air polluting waste and improved dust filtration. The water used is treated and re-used in the cabins themselves. | Furniture | 315,303 |
| Effluent treatment station expansion. | Expansion of treatment capacity. | Packaging Santa Catarina State | 10,802 |
| Water Treatment Plant. | Reduced amount of water purchased from the water company. | Packaging Santa Catarina State | 44,935 |
| Total | | | 8,646,088 |



Education and Environmental Awareness

Different educational activities were organized to celebrate the Environmental Week, the Tree Day and the River Day which involved employees, as well as members of community and schools surrounding the area around the manufacturing plant located in Vargem Bonita- State of Santa Catarina.

IRANI has a group of employees responsible for providing general information on environmental preservation and selective waste collection to raise awareness among their colleagues about the importance of environmentally correct actions.

Environmental Education Actions and Projects

| Action/Project | Event | Activity | Site | Target Public |
|-----------------------------------|------------------|--|--|---------------------------------|
| Donation of native seedlings | Environment Week | Seedlings Distribution | Vargem Bonita Units - Santa Catarina State | Employees |
| | Tree Day | Seedlings Distribution | Vargem Bonita Units - Santa Catarina State | Employees |
| Environmental Education Campaigns | Environment Week | Native species plantation at the Permanent Preservation Area - PPA | Vargem Bonita Units - Santa Catarina State | Employees |
| | | Ecological Walk | Caminho das Imbuías Walk - Vargem Bonita - Santa Catarina State | Schools and Community |
| | | Native species planted by children | Caminho das Imbuías Walk - Vargem Bonita - Santa Catarina State | Schools and Community |
| | | Identification of native plants | Caminho das Imbuías Walk - Vargem Bonita - Santa Catarina State | Schools and Community |
| | | Waste Collection Day | Vargem Bonita - Santa Catarina State | Employees, School and Community |
| | | Drawing and writing contest | Galeazzo Paganelli School Vargem Bonita - Santa Catarina State | Students |
| | Tree Day | Native species planted at the PPA | Units of Vargem Bonita - Santa Catarina State | Employees |
| | | Ecological Walk | Caminho das Imbuías Walk - Vargem Bonita - Santa Catarina State | Schools and Community |
| | | Native species planted by children | Caminho das Imbuías Walk - Vargem Bonita - Santa Catarina State | Schools and Community |
| | | Identification of native plants | Caminho das Imbuías Walk - Vargem Bonita - Santa Catarina State | Schools and Community |
| | River Day | Cleaning of the Riacho da Anta brook | Permanent Preservation Area - PPA of the Riacho da Anta Brook Vargem Bonita - Santa Catarina State | Employees, School and Community |

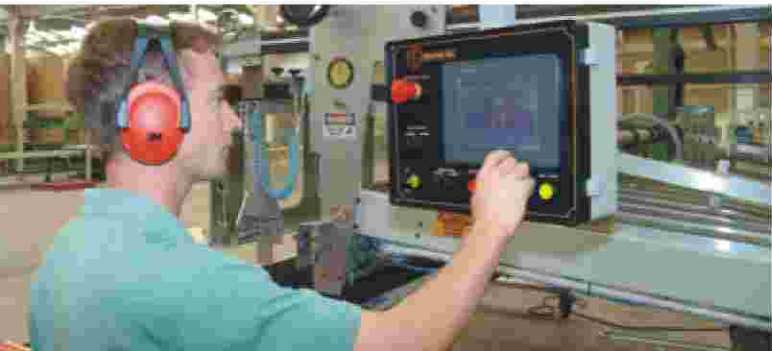
Management and Performance Indicators



Social Performance Indicators

The future of companies that seek sustainability is in the hands of committed people that assume the co-responsibility for the company's success through the supply of excellent services to its clients.

IRANI's main objective is to create the conditions to make it happen. This year, the Company ranked 4th in the fields of Human Resource Management and Innovation in the Paper and Pulp sector according to the ranking of *Isto É Dinheiro* Magazine.

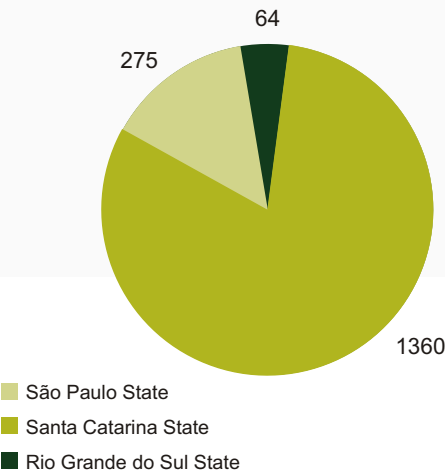


Labor Practices and Decent Work

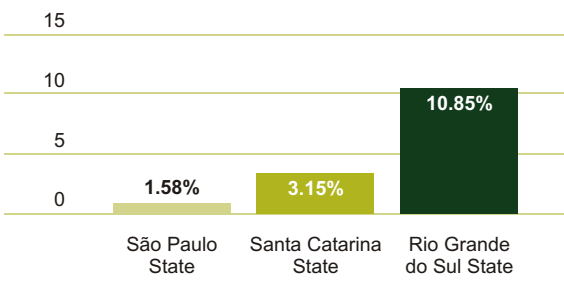
Celulose Irani complies with the acknowledged national and international bodies and standards in labor-related matters, such as: Labor Law Consolidation (*Leis do Trabalho* - CLT), International Labor Organization ILO and the Universal Declaration of Human Rights.

All the information regarding salaries, social benefits, vacations, collective agreements, employee's rights and obligations (Internal Regulation) are communicated when signing the contract of employment. The Company follows the guidelines instituted by the Regional Labor Delegacy and the Labor Ministries of the states of Rio Grande do Sul, Santa Catarina and São Paulo, and all its units are audited by these bodies.

Number of Direct Employees



Turnover



IRANI offers full benefits to its employees.

| Benefit | Description | Value (thousand Reais) | | |
|---------------------|--|------------------------|-------|-------|
| | | 2004 | 2005 | 2006 |
| Food | Every Industrial Unit of the Company has a canteen. The employees in the Administration Offices receive meal tickets. IRANI also provides its collaborators with a basket of staple food or food tickets on a monthly basis. | 2,582 | 2,635 | 2,741 |
| Transport | Free transport is provided to the employees who live far away from the manufacturing units. | 1,416 | 1,733 | 1,915 |
| Life Insurance | IRANI provides its employees and relatives with a Group Life Insurance. | 101 | 133 | 100 |
| Profit Share System | The program was implemented in 2002 and reflects the participative management practiced at IRANI. It acknowledges the employees' performance and strengthens the commitment to the Company's results. | 675 | 957 | 1,242 |
| Health Care Plan | All IRANI units have an agreement with the Unimed Health Care Plan for their employees and direct dependents. | 1,287 | 1,617 | 1,647 |
| Total | | 6,061 | 7,075 | 7,645 |

Relationship with Employees and Governance

Communication with Employees - Celulose Irani keeps its employees informed about any major change made in the Company and its operations through the Intranet, e-mails, posters, the internal bulletin board and the project leaders themselves.

The information provided is intended to minimize the impact of any major change.

Occupational Health and Safety

The culture of excellence in health and safety is reinforced on a daily basis and spread by awareness programs and actions with the entire personnel. Campaigns were intensified this year through the Security Dialog Program for the prevention of accidents and the promotion of health, during which employees received information about Sexually Transmitted Diseases-STD, Arterial Hypertension (high blood pressure), Diabetes, Breast, Gynecologic and Prostate Cancer, and First Aids, among others.

The Worker's Hearing Quality Program was reinforced through training sessions, lectures and inspections during the Hearing Protection Day. Besides the formal health and security committees, the Internal Commission for the Prevention of Accidents ICPA and the Emergency Brigade also play their part.

In 2006, IRANI broke historical records when registering significant accident and sick leave-free periods

| Unit | Number of days free of accidents and sick leave |
|----------------------------------|---|
| Wood | 1,169 |
| Packaging - Santa Catarina State | 543 |
| Paper | 427 |
| Resins | 387 |

Management and Performance Indicators

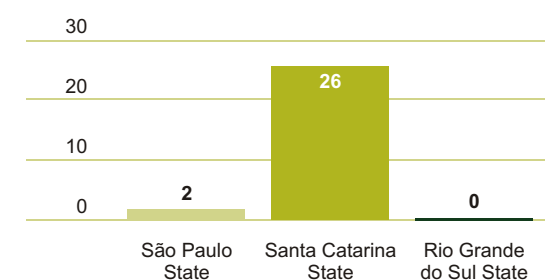
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Percentage of employees represented in Formal Health and Security Committees and Commissions.

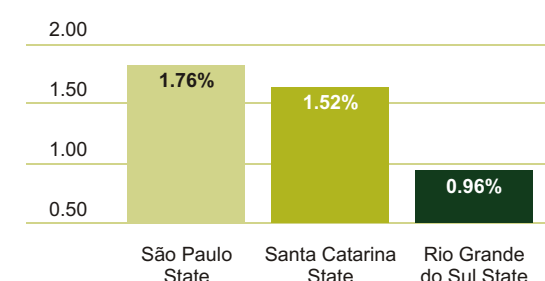
| Committee/Commission | Number of employees who participate | Percentage of employees represented |
|--|-------------------------------------|-------------------------------------|
| Internal Commission for the Prevention of Accidents - ICPA | 66 | 100% |
| Noise Control Committee | 15 | 60% |
| Emergency Brigade | 74 | 60% |
| Security Dialogs | 11 | 60% |

Besides these initiatives, IRANI has restructured its manufacturing units to improve the circulation of its personnel, the transport of its goods and the storage of its products, as well as its security alarms.

Number of Occupational Accidents with Sick Leave



Absenteeism



Celulose Irani follows nationally and internationally acknowledged standards that comply with health and security local legislation. This is why these issues have not been included in the Collective Agreements.

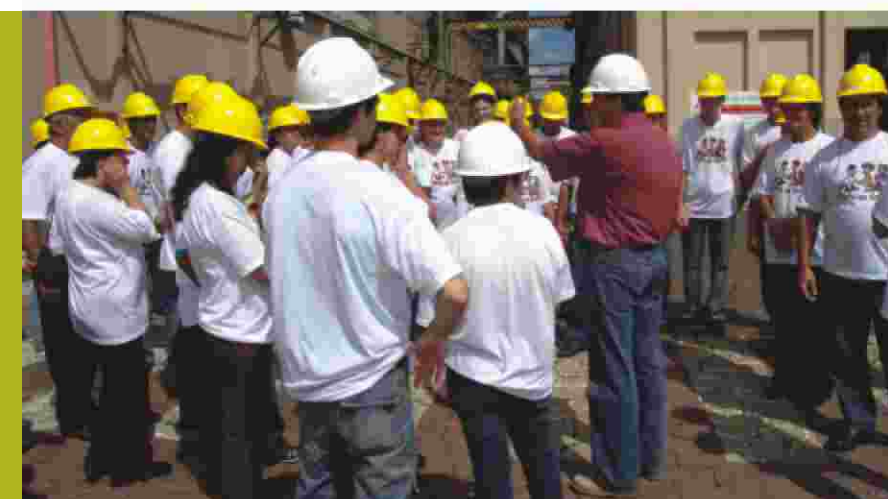
Quality of Life

Exercise in the Company - The Company takes an interest in the employees' health and well being, and so it has implemented the program called "Exercise in the Company" in partnership with the Social Service for the Industry - SESI at the manufacturing units located in Vargem Bonita and at the administrative and financial offices located in Joaçaba, State of Santa Catarina.

The project stimulates employees to be more committed, have a stronger team spirit and be more motivated at work. The Company plans to expand this practice to every unit in 2007.

The "Family in the Company" program - In the units located in Vargem Bonita - Santa Catarina State, IRANI organizes guided visits for the employees' relatives, during which they get to see the staff's daily routine.

During the visit, the employees take the opportunity to show their relatives the paper and packaging production process before sharing lunch at the end of the visit. IRANI provides transportation from every place where the staff members reside and each participant is given a T-shirt of the program as a present. The Program started in 2005, and had 300 participants in 2006.



Training and Education

In 2006, IRANI invested R\$ 844 thousand in training sessions, continuing education and improvement courses for the in-house staff, and also contributed in graduate and postgraduate, technical and English Courses to promote its employees' further education and their professional and personal growth.

Focusing on the Client's Point of Focus

Two Sales Conventions were organized to enhance commercial understanding. The events, which counted with the participation of well-known speakers, gave rise to some fresh thinking and allowed for the sales force's professional improvement.

The Celulose Irani S.A. Workers' Association - AFI - Made up by the Company workers, AFI is responsible for the administration of the Recreation Centers "Campina da Alegria" and "Campina Redonda" located in Vargem Bonita- State of Santa Catarina. It also promotes sporting and cultural events.

Cultural Irani - Since 2004, the Company organizes the Cultural IRANI art contest. The aim is to promote the staff members and their dependents' creativity by using Kraft paper to make their artwork.

In 2006, the theme of the contest was "Celulose Irani S.A., 65 years producing and preserving responsibly". Six contestants won the competition, three in the Adults category and three in the Children's category. Each of them were rewarded with an MP3 player.

Management and Performance Indicators

Sustainability Report 2006 

Number of employees receiving the Education Incentive

| Unit | Master's Degree | MBA Post-graduate studies | Graduate Studies | Technician | Languages | Total |
|----------------------|-----------------|---------------------------|------------------|------------|-----------|------------|
| Corporate | 1 | 17 | 27 | 1 | 12 | 58 |
| Paper | 0 | 7 | 36 | 19 | 4 | 66 |
| Packaging | | | | | | |
| Santa Catarina State | 0 | 1 | 18 | 0 | 0 | 19 |
| Packaging | | | | | | |
| São Paulo State | 0 | 5 | 27 | 1 | 3 | 36 |
| Resins | 0 | 1 | 1 | 0 | 0 | 2 |
| Furniture | 0 | 3 | 5 | 0 | 1 | 9 |
| Trading | 0 | 0 | 2 | 0 | 1 | 3 |
| Total | 1 | 34 | 116 | 21 | 21 | 193 |

* IRANI subsidizes from 50% to 70% of the courses.

Average of Training Hours per Job Category

| Category | Total Number of Hours | Number of Employees | Average Number of Training Hours per Employee |
|---------------------------------|-----------------------|---------------------|---|
| Directors | 374 | 7 | 53.43 |
| Managers | 1,508 | 30 | 50.27 |
| Supervisors | 3,184 | 138 | 23.07 |
| Clerical Workes | 1,657 | 195 | 8.50 |
| Technicians and Factory Workers | 7,012 | 1,329 | 5.28 |
| Total | 13,735 | 1,699 | 8.08 |

Career, Salary and Performance

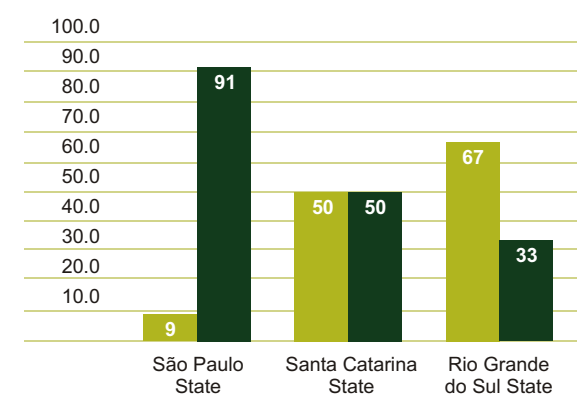
IRANI is organizing its Career and Salary Plan. It seeks a balance between internal and market salaries, and the analysis of each position considering the skills and competence required.

The salary base of the IRANI Units with the higher number of employees is 34.51% higher than the minimum salary. The proportion is R\$ 2.14/hour against R\$ 1.59/hour.

The 360° Performance Assessment Program was started in 2006 to develop its project leaders. Development Plans, based on the process' results, will now be tailored for the individuals' personal and professional growth.

13% of IRANI's employees took part in the Program, considering all project leaders and opinion makers. The focus, in 2007, will be centered on the management of these plans; and in 2008, a new assessment process will be made. Whenever there is a vacancy in the Company, priority is given to the in-house staff; this reflects in a large number of promotions and professional growth. When it is not possible to fulfill the vacancy through the internal selection, people living around the manufacturing units come first. This contributes to the development of the regions where IRANI is based.

Percentage of Project Leaders from Local Communities



■ Other areas ■ Area

Diversity and Equal Opportunities

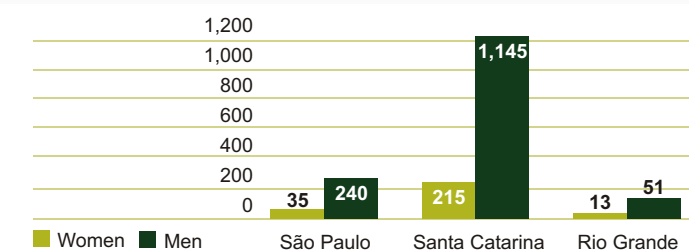
In 2006, IRANI started focusing more on inclusion and diversity by releasing its vacancies on a regular basis in institutions dedicated to impaired people, besides the channels traditionally used. A special CV bank was created for that purpose, where impaired people can register to participate in the selection processes of the Company.



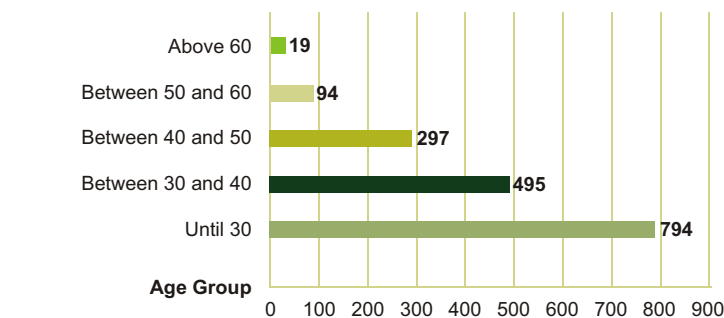
Whenever there is a vacancy, the bank is consulted and people with any kind of impairment are prioritized provided that their competence and skills match those required. IRANI classifies as a mainly male company given the characteristics of its production processes. The candidates for vacancies are assessed on their skills and competence regardless of their gender, social class, race, or skin color.

Diversity Indicators

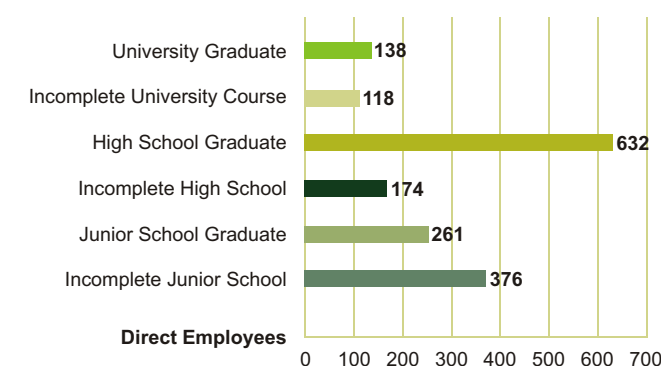
Women / men Ratio



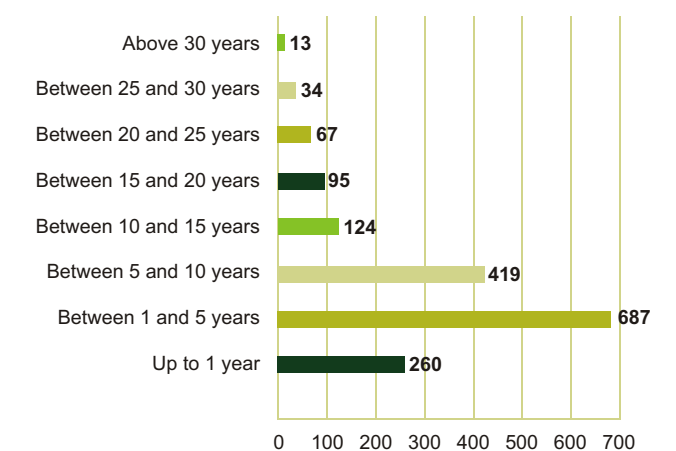
Age



Education



Time served in the Company



Salary Base Ratio between Men and Women

| | Men | Women |
|-------------|------|-------|
| Leaders | 1.00 | 1.31 |
| Clerks | 1.00 | 0.82 |
| Technicians | 1.00 | 0.74 |
| Operators | 1.00 | 0.64 |

Management and Performance Indicators

Human Rights

IRANI's Social Responsibility Policy includes issues related to the human rights of its personnel and service providers' staff such as nondiscrimination, the freedom to be affiliated and enter into a collective negotiation agreement, the abolition of child labor, prevention of forced and slave work, besides security and health practices.

Investment Practices and Purchasing Process

IRANI intends to build transparent and reliable partnerships with its providers to ensure both parties improving their performance and results.

The selection processes of suppliers are based on the quality of their products and services, as well as the costs implied, their social environmental attitude and compliance with the labor legislation and work security and health standards, to give priority to the local providers located in the area surrounding the Company.

The service contracts exceeding R\$ 50 thousand Reais are considered as major contracts. In the units located in Vargem Bonita - Santa Catarina State - where most major contracts are signed, issues related to Human Rights are included based on the Brazilian national legislation stated by the New Civil Code, occupational safety and accident prevention measures, food and hygiene, as well as issues related to health and others.

Proportion of expenses with local suppliers

| City | Amount paid (in thousand reais) |
|--|---------------------------------|
| Vargem Bonita - Santa Catarina State | 17,925 |
| São Bento do Sul - Santa Catarina State | 15,527 |
| Irani - Santa Catarina State | 11,899 |
| Rio Negrinho - Santa Catarina State | 7,295 |
| Ponte Serrada - Santa Catarina State | 7,113 |
| Joacaba - Santa Catarina State | 5,646 |
| Santana de Parnaíba - São Paulo State | 4,487 |
| Concórdia - Santa Catarina State | 2,976 |
| Catanduvas - Santa Catarina State | 1,836 |
| Balneário Pinhal - Rio Grande do Sul State | 222 |
| Total | 74,926 |

IRANI checks that contract clauses are followed through the field inspections it conducts using check lists and through the monthly meetings it holds with its service providers. These procedures are regulated by the ISO 9001:2000 standard. In 2006, no case of refusal or human rights requirements adjustments was registered in the evaluations.

No Discrimination

The Social Responsibility Policy that Celulose Irani follows ensures equal opportunities and makes sure that no discrimination is made against any kind of skin color, race, gender, nationality, religion, political stand, or any other situation.

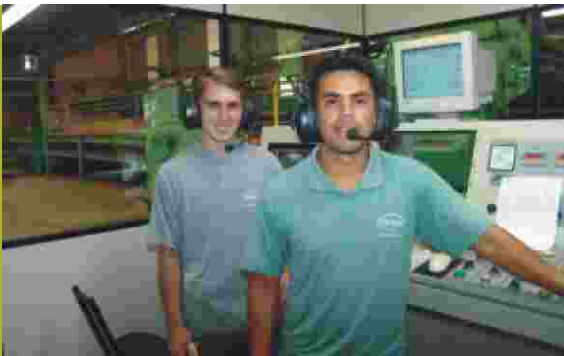
In 2006, no case of discrimination was registered in the Company.

Freedom of Affiliation and Collective Negotiation

Celulose Irani does not interfere in the employees' right to participate or be affiliated to unions and to collectively negotiate at every hierarchical level.

As of the measures to support this right, Union Assemblies are allowed to take place in the Company's premises, union fees can be discounted from the payroll, and employees associated to unions and/or their relatives are not discriminated when participating in the programs, projects, opportunities and/or benefits offered by IRANI.

Sustainability Report 2006



| Number of Union Members | Number of Union Members working at IRANI | Number of employees authorized to have Union activities | Number of employees authorized to have Union activities paid by IRANI | Number of IRANI leaders that are also part of the Union Board of Directors and Management Team | Percentage of employees included in Collective Negotiation Agreements |
|-------------------------|--|---|---|--|---|
| All the Units | | | | | |
| 90 | 25 | 3 | 2 | 2 | 100% |

Child and Forced Labor or Any Similar Abuse

Celulose Irani fully complies with the Labor Law Consolidation-LLC, especially when it comes to child labor, forced labor or any type of slavery-related work. Its Social Responsibility Policy has special clauses in this respect and monitors every manufacturing unit to check whether the minimum contract age requirement of 18 is obeyed for workers, except in the case of apprenticeships. It also makes sure this requirement is included in the contracts signed.

It also makes use that every outsourced worker is paid according to the legislation and receives benefits similar to direct employees.

Young and Under Apprentice Program - In 2006, IRANI completed the first cycle of the program with a group of teenagers at the Paper Factory in Vargem Bonita - Santa Catarina State. Six teenagers worked in seven areas of the Company and were monitored over a period of two years in order to identify their skills and preferences.

For 2007, the number of teenagers participating will be raised to nine. The Packaging Unit located in São Paulo State also has an apprentice.

The program is based on the 10,097 Apprenticeship Act, passed on December 19, 2000.

Society

Celulose Irani is concerned about the well being of the population in the communities located in the surroundings of its sites, and intends to contribute to reduce the social discrepancies of Brazil. Among the actions implemented in this respect, the Company sponsors and promotes educational, cultural and sporting projects focusing mainly on the development and environmental protection of children, adolescents' .

Community

Surrounding Communities - After the foundation in 1941 of the Paper Unit located in Vargem Bonita - Santa Catarina State, the distance from large cities, the shortage of roads and the consequent transport difficulties gave origin to Vila Campina da Alegria.

As time went by, the Company found alternatives to turn the settlement into a good place to live. Today, employees can choose whether to live in the *Vila* [Village] or not, while IRANI promotes the self-sustainability of the community by encouraging its 976 inhabitants to be involved in this process.

Social Investment in Vila Campina da Alegria - Since 2004, Celulose Irani has developed a systematized project of Social Investment thanks to the consultancy provided by SESI's Corporate Responsibility.

The *Beija-Flor* (hummingbird) Group was created to develop the project with community members. They are responsible for identifying needs and decide on the best alternatives for the community's development.

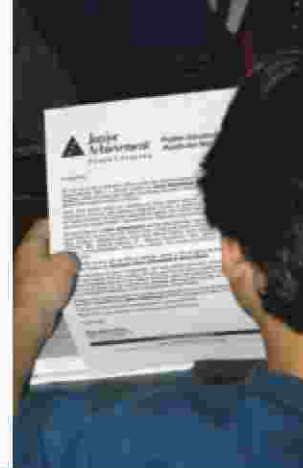
The *Jornal Conversa Aberta* (Open Talk Newspaper) was created as part of the program. It is a formal communication channel between the Company and the Vila [Village]. It is published every other month and has articles relevant to the community with an open space for the community members' suggestions.

Management and Performance Indicators

Sustainability Report 2006 



Junior Achievement - This year, IRANI signed an agreement with Junior Achievement, an institution dedicated to the practical education of Economics and Business which promotes volunteer professional work in schools of the area. IRANI sponsors the initiative and encourages the employees' participation through the Company Volunteers Policy.



In 2006, nine employees volunteered in the Junior Achievement Program, giving classes to 374 children and teenagers. In total, 69 hours of volunteer work was carried out.

Revitalization of Vila Campina da Alegria - In 2006, the Celulose Irani workers' Association-AFI started a project to build new houses in the village. Its purpose is to improve the quality of the dwelling places and reduce the community's maintenance costs, standardize the type of dwelling and even up the rental price. The new houses built by the AFI are located in the village itself, with environmentally correct material and can be transferred without producing any debris.

Professional Training- Celulose Irani, AFI and the Beija-Flor Community Group promoted the Brazil Cuisine Program in Vila Campina da Alegria in a joint venture with SESI - Santa Catarina State. The purpose of this initiative was to train village dwellers to prepare highly nutritional and low-cost dishes and promote a culture of healthy lifestyle, well being, income generation and sustainability. 102 people took the course which was held on the Brazil Cuisine Truck.

Youth Self-Improvement Program - This program was also sponsored by IRANI in 2006, and is based on a methodology that encourages the development of young people in their role as protagonists. It has been developed by SESI together with the Ayrton Senna Institute.

The Youth Self-improvement Program was implemented at the Roberto Trompowski Education Center-ECRT, in Joaçaba - Santa Catarina State. It started with 35 students and ended up with 54 students, an increase of 26%.

Solidarity Campaigns

Toys' Toll - The Toys Toll is an RBS TV Broadcaster Program that has the purpose of donating toys to children in need. IRANI sponsored the program for the second year in a row. In 2005, 20,206 toys were collected and in 2006, the goal was exceeded with 45,755 collected toys including the sponsors involved.



Campaing "Bread to Cure" - This was an initiative of the Bakers Union of the region Sorocaba - São Paulo State, together with the converter company Papely and the IRANI to provide support to the Sara Rolim Caracante Hospital in Sorocaba.

Partnership with Association of Impaired Children's Parents and Friends - APAE (Associação de Pais e Amigos dos Excepcionais) - Joaçaba - Santa Catarina State - In September 2006, a dinner was organized to collect funds for Association of Impaired Children's Parents and Friends - APAE (Associação de Pais e Amigos dos Excepcionais) de Joaçaba - Santa Catarina State. The 1st Pork Barbecue Festival, held at the Promotions Center of Joaçaba - Santa Catarina State - CPJ for 600 people was sponsored by several organizations.

IRANI was one of them and nine volunteers contributed to the organization of the Festival.

IRANI donated the paper which Papely then used for the bags it donated to pack the bread. And the money collected from the earnings of the bread sold over the period of one month was allocated to the Hospital to fund its children's cancer activities and services.

Christmas Social Souvenir - For the second year in a row IRANI has given a Social Souvenir as a Christmas present to its clients, employees and suppliers. The Christmas cards were elaborated in partnership with social institutions.

This year the Company counted on the support of the Association of Impaired Children's Parents and Friends - APAE (Associação de Pais e Amigos dos Excepcionais) from the cities of Irani and Joaçaba - Santa Catarina State - and on the Speaking Hands Support Center, an institution dedicated to impaired-hearing people located in São Bento do Sul - Santa Catarina State. The reception of the Social Souvenir as a present also reinforces its values of inclusion.

The event enabled to resume the construction of a health center for people of the State Social Health Service-SUS.

Management and Performance Indicators

Community Space - Community Space is a TV program that broadcasts social initiatives and actions of institutions and companies located in the Central-West Region of the State of Santa Catarina. The purpose of the activities promoted in the program is to improve the quality of life of the population.

Celulose Irani sponsors the program, which is on the air every Tuesday and Thursday during the commercial break of the program Jornal do Almoço (Lunch Journal), and it is several times announced during the RBS TV program.

Ponctual Donations - Besides the social projects and programs, IRANI does different donations to various institutions, schools, communities and cooperative groups located in the cities where the Company's business units are based.

Anticorruption Practice

IRANI follows its Internal Regulation for its anticorruption policy and procedures, which are transmitted to the employees on their admission and are reformed whenever is necessary. It includes aspects of internal concern related to the relationship with project leaders, partners, personal duties and advantages, conflict of interests, among other issues.

Until the present moment, no corruption-related risks were reported at the IRANI units. The sector's supervisors and managers together with the unit's Board are in charge of taking the corresponding measures should any irregularity be detected.

Public Policy

Celulose Irani's leaders participate in institutions, unions and business forums which allow them to decide on activities and proposals that benefit the society as a whole, besides influencing them for effective public policies in the States of São Paulo, Santa Catarina and Rio Grande do Sul.

Social Projects Summary

| Project Name | Location | Public | Investment (in Brazilian Reais) | Partners |
|---|--|--|------------------------------------|---|
| Youth Self-Improvement | Joaçaba - Santa Catarina State | Students of the CERT- School | 13,440 | SESI - Santa Catarina State, CERT, Ayrton Senna Institute, Vivo. |
| Junior Achievement | Joaçaba Herval d'Oeste, Campina da Alegria (Vargem Bonita - Santa Catarina State) | Students of public and private schools | 3,000 | RBS TV, Limger, Grupo Zanardo. |
| Social Investment Project | Vila Campina da Alegria (Industrial Park Neighboring Community) Vargem Bonita - Santa Catarina State | Local Community | 10,200 | AFI, inhabitants, SESI - Santa Catarina State. |
| Toys' Toll Campaign | Joaçaba - Santa Catarina State - and region | Children | 10,402 | RBS TV, Limger, Volunteer employees |
| Cozinha Brasil Clever Eating | Vila Campina da Alegria (Industrial Park Neighboring Community) Vargem Bonita - Santa Catarina State | Local Community (102 people) | 408 | SESI - Santa Catarina State Beija-Flor Community Group IRANI Workers' Association - AFI |
| Social Souvenir | Rio Grande do Sul State, Santa Catarina State e São Paulo State | Employees and Partner Institutions | 4,000 | Association of Impaired Children's Parents and Friends - APAE (Associação de Pais e Amigos dos Excepcionais) from Joaçaba - Santa Catarina State and Irani - Santa Catarina State and Speaking Hands Institute from São Bento do Sul - Santa Catarina State |
| Donations and Sponsorship | Santa Catarina State | Institutions | 7,234 | Different institutions |
| Revitalization of Vila Campina da Alegria | Vila Campina da Alegria (Industrial Park Neighboring Community) Vargem Bonita - Santa Catarina State | Campina da Alegria Dwellers | 65,000 | AFI |
| Community Space | Joaçaba - Santa Catarina State | Society | 48,991 | RBS TV |
| Young and Underage Apprenticeship Program | Paper Unit - Santa Catarina State | Employees' Teenage Children | 11,306 | Senai/Luzerna - Santa Catarina State |
| Open Talk Journal | Vila Campina da Alegria (Industrial Park Neighboring Community) Vargem Bonita - Santa Catarina State | Community | 600 | SESI - Santa Catarina State |
| Total | | | 174,581 | |



Management and Performance Indicators

Participation in Social and Class Institutions

| Institution | Participant | Position in the Institution | Position in IRANI |
|--|-----------------------------|--|---|
| Association of Impaired Children's Parents and Friends - APAE (Associação de Pais e Amigos dos Excepcionais) de Joaçaba - Santa Catarina State | Odivan Cargnin | Vice - President | Administrative and Financial Director and Relation with Investors |
| | Aristides Luiz Fuga | Financial Director | Administrative Manager |
| Western Santa Catarina Industrial Commercial Association - ACIOC | Odivan Cargnin | Administrative Director | Administrative and Financial Director and Relation with Investors |
| Santa Catarina Forestry Companies Association | Nicolay Cerkunvis | Technical Council Member at the Paper Unit | Manager of Forestry Supply |
| West Santa Catarian Forest Engineers Association | Dartagnan Reichert Gorniski | General Secretary | Forest Development Technician |
| Junior Chamber of Joaçaba - Santa Catarina State | Dartagnan Reichert Gorniski | Member | Forest Development Technician |
| Irani's Volunteer Fire Brigade - Santa Catarina State | Joel Moraes dos Santos | Volunteer Fire fighter | Reforestation Assistant |
| Community Fire Brigade of Catanduvas - Santa Catarina State | Valmir Antônio Prado | Volunteer Fire fighter | Wood Cut Supervisor |
| Administration Council of Pólo Rio Grande do Sul State - Development Agency of Rio Grande do Sul State | Péricles de Freitas Druck | Founder and member of the Administration Council | President |
| Federasul Deliberative Council - Federation of Empresarial Associations of Rio Grande do Sul State | Péricles de Freitas Druck | Member of the Deliberative Council | President |
| Consulting Council of Gaúcha Reforestation Association - AGEFLOR | Péricles Pereira Druck | Member | CEO |
| Fundação Bienal de Artes Visuais do Mercosul Rio Grande do Sul State | Péricles de Freitas Druck | Member of the Administrative Council | President |
| Liberal Institute - IL | Péricles Pereira Druck | Member | CEO |
| Institute of Empresarial Studies - IEE | Péricles Pereira Druck | Member | CEO |
| Junior Achievement - Rio Grande do Sul State | Péricles de Freitas Druck | President of the Consulting Council | President |
| Junior Achievement - Santa Catarina State | Odivan Cargnin | Member of the Consulting Council | Administrative and Financial Director and Relation with Investors |
| Honduras Republic in Porto Alegre - Rio Grande do Sul State | Péricles de Freitas Druck | Honorary Consul | President |
| Paper and Pulp Union of Santa Catarina State- SINPESC | Odivan Cargnin | Substitute Director | Administrative and Financial Director and Relation with Investors |
| Young President's Organization Capitulo Porto Alegre | Péricles Pereira Druck | Member | CEO |
| Vargem Bonita Children and Adolescents' Rights Municipal Council - Santa Catarina State | Cláudio Biavati | Member | Eletrician |
| Parents and Teachers Association APP E.E.B Galeazzo Paganelli | Deoclecio Garbin | Treasurer | Instrumentation Supervisor |
| Parents and Teachers Association APP E.E.B Galeazzo Paganelli | Valmir Colaço | Vice-President | Instrumentation Supervisor |

Besides providing direct support to the surrounding communities and investing in social projects, IRANI uses incentive laws to allocate part of its taxes.

| Type of Incentive | Value Allocated (thousand Reais) |
|--|----------------------------------|
| Rouanet Law | 29 |
| Infants and Adolescents' Fund - FIA | 5 |
| State System of Culture, Tourism and Sports Incentive - SEITEC | 1,141 |

Celulose Irani has not undergone any kind of judicial action for unfair competition, the practice of trusts and monopolies, or received any other type of fine or non-monetary sanction as a result of the non-compliance with the laws and regulations.

The amount of R\$ 120 thousand was allocated for political party contributions.

Management and Performance Indicators

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Responsibility for the Product

Driven by excellence, the Company develops differentiated products to meet specific needs, and invests in innovative relationship tools, which become a competitive advantage on the market and add value to the IRANI brand.

The health and safety impact on clients is analyzed at every stage of the IRANI products' life cycle, that is to say, from the development of the concept to its allocation after use.



Initiatives to meet the Clients' Satisfaction - The Satisfaction Survey conducted every six months with the paper and packaging clients intends to grasp the clients' perception of the products and services supplied by IRANI. At the end of 2006, the mark IRANI obtained in terms of satisfaction was 8.5 in paper, 8.7 in boxes and 8.3 in corrugated cardboard sheets. To enhance its practices and go beyond its clients' expectations, technical preventive visits are made according to a yearly schedule, as well as a product development process to get new business.

No case of non-compliance has been registered over the years concerning regulations and voluntary codes as to the impact of IRANI products and services on the clients' health and security, and the information supplied on labels, marketing communications, advertising, promotions, and sponsorships.



In 2006, IRANI neither received fines for the non-compliance with laws and regulations as to the provision of products and services, nor did it register any claims as to the violation of privacy or loss of client data. IRANI also provides the IRANI Online service, a virtual application of the Company's site to serve its clients all the better.

IRANI products are controlled by ISO 9001:2000 procedures to guarantee that necessary information for the clients, as long as their requirements are adequately controlled and met. They also have Adolf Lutz Institute certification, which allows IRANI papers to be in direct contact with food.

The papers in direct contact with food are produced under the Sanitary Surveillance National Agency Legislation - ANVISA

It allows the user to enter information any time and allows the monitoring of the commercial process of the orders placed, from the minute they are input in the system to the production billing.

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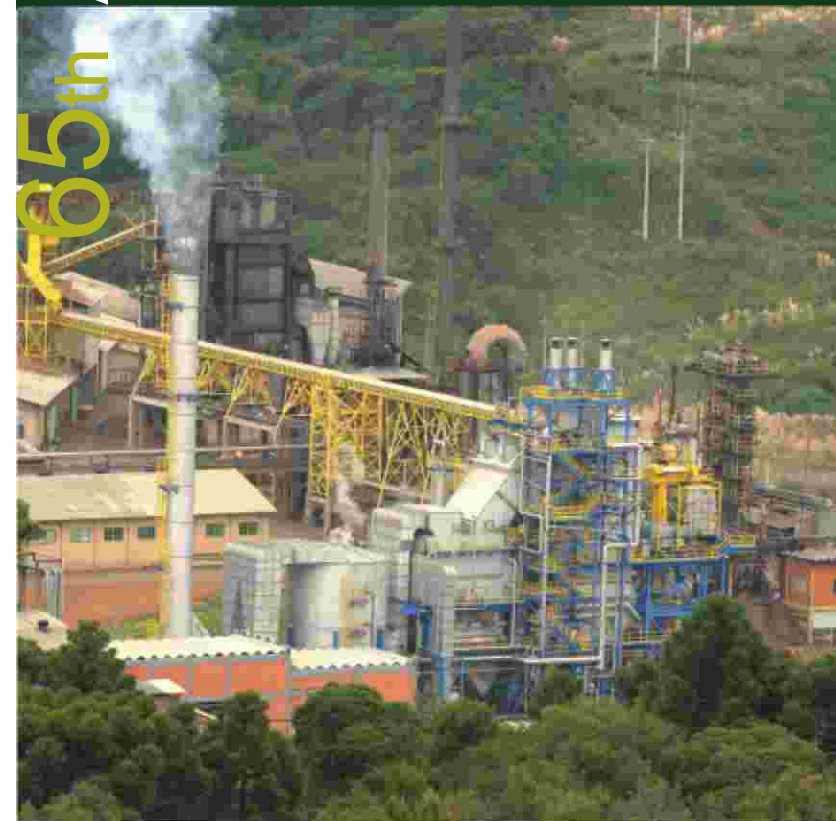
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