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Research Update:

VCP 'BBB' Rating Placed On Negative Watch, Aracruz Celulose 'BB' On Positive Watch, After Merger Agreement Announced

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Rationale

On Jan. 22, 2009, Standard & Poor's Ratings Services placed its 'BBB' corporate credit rating on VCP - Votorantim Celulose e Papel S.A. on CreditWatch with negative implications. At the same time, we placed our 'BB' corporate credit rating on Aracruz Celulose S.A. on CreditWatch with positive implications.

The CreditWatch listings follow VCP's announcement that it has reached an agreement to acquire 28.03% of the voting shares of Aracruz held by Arapar S.A. (unrated) for Brazilian reais (R\$) 2.71 billion (about \$1.18 billion). Because the third controlling shareholder of Aracruz, Arainvest Participações S.A. (unrated), has tag-along rights, the offer includes an equivalent offer for Arainvest's voting shares. If this offer is accepted, it would give VCP control of 84% of Aracruz's voting shares.

The acquisition plan anticipates R\$4.25 billion in capitalization for VCP, which is to include fresh money from Votorantim Industrial (unrated), BNDES Participações S.A. (unrated), and potentially from existing minority shareholders.

After the conclusion of the acquisition, and assuming that Arainvest will not exercise its preferential rights on Aracruz's shares, VCP and Aracruz would become a single economic entity, listed on the Brazilian Stock Exchange and controlled by VCP and BNDES through a shareholders' agreement.

The consolidation of VCP and Aracruz would strengthen their leadership in market pulp, with a total capacity of 5.8 million tons per year. We expect the larger scale of the new entity to generate synergies and cost savings in administrative expenses, production, capital investments, and logistics, improving the company's cost position and business profile. However, the significant increase in leverage resulting from the share acquisition (about \$2.5 billion if Arainvest accepts the offer) and from the losses Aracruz has reported in its derivative position (\$2.13 billion) would raise financial risk at the new company.

If Arainvest exercises its tag-along rights, we expect total debt to EBITDA to be 6x to 7x at inception of the new company, which would trigger the downgrade of VCP to the 'BB' category. However, because potentially different scenarios would result in lower debt at the combined entity (for instance, if Arainvest decides to remain as a minority shareholder) or even the cancellation of the offer (if Arainvest decides to buy out VCP and Arapar), this could soften the depth of the downgrade of VCP. We expect to equalize the ratings of VCP and Aracruz if the deal is concluded; therefore, some upside potential exists for the ratings on Aracruz.

Resolution of the CreditWatch listing will depend on the conclusion of

the offer and our assessment of the new entity's credit risk. We will monitor the resulting ownership and corporate structure, debt leverage and amortization profile, revised capital spending program, amount of new money VCP is to receive in its planned capitalization, and synergies that this merger might capture.

Ratings List

Ratings Placed On CreditWatch

	To	From
VCP - Votorantim Celulose e Papel S.A. Corporate Credit Rating	BBB/Watch Neg/--	BBB/Stable/--
Aracruz Celulose S.A. Corporate Credit Rating		
Global Scale	BB/Watch Pos/--	BB/Stable/--
National Scale	brAA/Watch Pos/--	brAA/Stable/--

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