

Q4 2005 Earnings Call

Company Participants

- Andre Dorf, Head of Paper Business Unit
- Bernardo Szpigel, CFO
- Ernesto Pousada, Mucuri Expansion Project Officer
- Gustavo Poppe, Investor Relations Manager
- Rogerio Ziviani, Head of Pulp Business Unit

Other Participants

- Daniella Goobiarana, Analyst
- Marcos Assumpta, Analyst
- Paolo Serra, Analyst
- Sherviani Adule, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to the Suzano Papel e Celulose Fourth Quarter 2005 earnings results conference call. Today we have a simultaneous webcast, a slide presentation on the internet that can be accessed at the site www.suzano.com.br. There will be a replay facility for this call on the website. We inform you that all participants will be able to listen to the conference during the company's presentation. After the company's remarks are over there will be a Q&A section. At this time further instructions will be given. (Operator Instructions) Today's speakers will be Mr. Bernardo Szpigel, CFO and investor relations officer; Mr. Rog rio Ziviani, head of the pulp business unit; Andr  Dorf, head of the paper business unit and Mr. Ernesto Pousada, Mucuri expansion project officer.

Now we would like to pass the floor over to Mr. Gustavo Poppe, investor relations manager, for his opening remarks. Please Mr. Gustavo you may proceed.

Gustavo Poppe {BIO 15816981 <GO>}

Good morning, everyone. Further statements during this conference call may constitute forward-looking statements. They are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ materially from those that follow in the forward-looking statements. I will now pass the floor to Mr. Szpigel who will start today's conference call. Thank you.

Bernardo Szpigel {BIO 2080745 <GO>}

Good morning. The highlights of 2005, the first one is production and sales volumes. At record levels 1,370,000 tons of production and 1,350,000 tons of sales which reflected our increased capacity in Mucuri in pulp making, in fact which exceeded the project specifications. We are having very good volumes above what we had initially planned of 60,000 tons, additionally we are running at close to 80,000 tons above, from 60 to 80,000.

We also had the start of the construction, of the implementation of the Mucuri project, not the start up, the start up is scheduled for October '07, which is already underway and Ernesto Pousada will be talking about that a little bit later.

In Ripasa, we acquired the control of Ripasa in March, since then we have been working on a number of fronts to implement the restructuring of the operations there. On the corporate restructure this is still pending in the courts with a discussion on some legal matters.

In terms of the operating margins we had a very strong impact of the appreciation of the real during the year which impacted very much our exports; the export prices were depressed because of that. And also when we look at the Fourth Quarter '05 in terms of net income, because we had a small devaluation during the quarter from -- it was not that small, from 222 reais to the dollar to 234 reais to the dollar, impacted our income, our net income in the quarter.

Price levels for pulp were good, at good levels through most of the year. Papers, paper prices decreased during the year so it was not the same good impact that they had in 2004. André Dorf and Jose Rogério Ziviani will be talking about these immediately thereafter.

And also the company re-organized itself in two business units starting up as of January this year. On slide three we have a chart showing what -- our new structure which has some very specific objectives; we have now re-organized ourselves into three business units, one for forest products, the other one pulp and the third one in paper. The other areas are service providers, one is industrial production, another one is logistics and third a one on finance and planning. I now pass on to Ernesto to talk about the project Mucuri.

Ernesto Pousada {BIO 15951890 <GO>}

Okay. Good morning I just wanted to give you a quick update on the status on the Mucuri project. Actually as you know in October last year our Board gave us the green light to proceed with the final negotiations with the suppliers as well as to initiate and to start construction on the site. And by the end of October we were able to negotiate with the main equipment suppliers and through that we can say that we were able to mitigate some of the real valuation that we had been seeing in the last few months. So with that our total investment remained as we announced it before at \$1.3 billion. We have -- during the last quarter of last year we have already started some of the disbursements that

were about \$65 million including industrial and the forest. Our schedule as we started and finalized the negotiations at the end of October scheduled to start up for October 2007, the beginning of October. And the other good news is all the forest formation, the planted area is already at about 89% of our needs for this project. So you can see on slide four as well a few pictures as well of the construction already ongoing.

Now I will pass on to Rog rio Ziviani who will talk a little bit about the pulp market.

Rog rio Ziviani {BIO 2080739 <GO>}

Good morning. The year 2005 was a year where we had more stable prices, average prices during the year as in comparison of 2004. The average net price that the company practiced was \$516 against \$465 back in 2004. We also had a drop in one day on the global pulp inventories around the world closing to about 32 days of production in the month of December.

We, together with our competitors, we had a higher sales volume in Asia during the last quarter of 2005; most that happened because of some operation problems with the local producer of hardwood pulp that made us to have a better positioning again in that market, even though altogether during the year we lost about 6% of our total sales compared to 2005. The spread in Asia between hardwood and softwood still remains positive on the hardwood side which is \$20, it is the reverse of what is showing there on slide number 5, it is eucalyptus remain positive against the softwood. And by the end of the year, together with January, where we saw some positive scenario in demand and also driven by some higher demand in the paper side in some areas that Andr  will address later on will encouraged us to announce some price increases effective today, which means that in Asia we are going to \$560 dollars, in Europe \$620 and in North America about \$655 per ton. This should be easily implemented as we can see today because of the inventories are also under control in our hands and in the hands of the buyers. And also in the ports around the world so we concluded already some business at this new price level, especially in Europe and Asia.

On the next slide we can see the (inaudible) price; CIF Europe is doing the year of 2005 and 2004 and the comparison between eucalyptus and also MBFK where we can see that the prices were very much stable during the whole year. I will be available later on for questions and I'll pass on to Andr  Dorf now to talk about the paper market.

Andre Dorf {BIO 15460232 <GO>}

Morning everyone. Regarding the paper business we had a slight decrease in our average price last year, mainly due -- in real terms, mainly due to the local currency appreciation. In other words we translated our exports which accounted for around 43% of our paper sales into reais last year. Despite the increase that we had in last quarter '05 in comparison to the Third Quarter, we expect a slight decrease for the whole year in terms of domestic demand for paper.

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We have estimated and indicated a decrease between 3 and 5% for the whole year. On the other hand we have a positive outlook for this year; we should expect an increase in the government paper acquisitions, in terms of uncoated paper. We also should expect an increase in notebook export from the domestic producers and also the presidential election (inaudible) should increase the demand for the promotional segment. We are positive also in respect to the international prices and our focus will be on North America and Latin America. Also this new corporate structure will give us more accountability and better and faster decision process. These are the highlights for the paper business unit. Thank you.

Bernardo Szpigel {BIO 2080745 <GO>}

Now moving onto the consolidated results. First of all I have to make a point here that the figures that are shown in slide 9, there is a problem the figures for the Fourth Quarter '05 so please don't refer to them. We will have to substitute this. Just as a general comment the figures won't show what I am going to be describing to you, I'm going to point out some of the figures. In fact what we had in the Fourth Quarter of '05 was an EBITDA of 190 million reais, instead of what is showing in the table that you have there in the presentation we had monetary and exchange variations.

Okay this number of 190 million reais was very much affected on the negative side by two main factors. one was EBITDA, because we had a lower average FX rate through the quarter, the average was 2.25 reais against 3.34 reais in the Third Quarter. So that depressed our margin and the other element was. And you can see, in terms of net income during the quarter we had a depreciation of the real that was a different quarter this quarter compared with previous quarters of the year in which in all of them we had an appreciation of the real. In this one we had a depreciation. So we started the quarter with 2.22 reais and it moved up to 2.34 reais. That impacted negatively our net income, the impact on the monetary variations and exchange variations. The impact, the amount was 94 million reais negative in that account compared with a positive of 72 million reais in 4Q '05, sorry in the Third Quarter of '05.

The other impact on the margin was non-recurring items at the rate of 22.8 million reais in the quarter. Of that, of that amount, some 7 million reais accounting for fixed costs and inventory adjustments, the cost of inventory adjustments. And another 15.7 million reais in sales, sales and administrative expenses.

These 22.8 million reais represent 3.3percentage points in our margin which would have been instead of 28.1% which was the actual figure doesn't come again, repeating doesn't correspond with the table that you have in the presentation; I apologize for that. It would have been instead of 28.1. It would have been 31.4%. Which is, of course, not as good as what we have had for the whole of the year which was 32.2% reflecting the exchange rate. But, since these are non-recurring items, the quarter, it should make these assessments is not as weak as we could see.

For the year as a whole, we had a falling in, now moving to slide 10, we had higher sales and production volume which we already referred to. We had reductions in SG&A for the

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year as a whole. And, because of lower profits from level of 600 million reais to 500 million reais, we, our income tax and social contribution expense was reduced.

The negative aspects, already you know we have been talking about those. We had lower FX rates affecting our export prices and margins. And, the other major important element here, was the domestic demand which was weak. We had, in fact, a reduction in the markets estimated at the rate of 3 to 5%. And, because of the difference in margins that we have between the domestic sales and exports, that also affected so we had to export more and sell less in the domestic market. That also affected our margins.

There is one additional element here which is production costs. One element which affected somewhat our costs was that during the learning curve period in our Mucuri plant for the pulp plant, this was a year in which we had -- we went through the learning curve because we had implemented some new equipment starting December '04, the new production. We had, throughout the year, on an average, costs which were higher or consumption levels which were higher than the normal. Reaching a peak in the Second Quarter of '05 and then start -- resuming the decrease. And towards the Fourth Quarter they were already at the normal levels. So, from now on, things will be good also in terms of costs at Mucuri.

Now moving to slide 11. Just a quick look at our consolidated debts. We see an increase from the third, from the end of the Third Quarter to the end of the year. And this is reflecting mostly the CapEx or the investment that we are making at Mucuri for the expansion project or Project Mucuri that Ernesto talked about. So, from this, we conclude our -- these remarks and we will be ready for your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question is coming from Daniella (Goobiarana) of (Pactal).

Q - Daniella Goobiarana

Hi. Good morning. I have a few questions and the first one is about the pulp market. RogÃ©rio mentioned intense buying activity from Asia at the end of '05 and the problem faced by APP. The question is do you have any expectations on the forward carrying of APP to the pulp market in Asia?

A - Rogerio Ziviani {BIO 2080739 <GO>}

Good morning, Daniella. The problem that you already mention is with the (inaudible) mill that occurred during the last quarter of last year. And it is still under problem as we talk today, from the last news that we have. I think they go on until the mid of February. That is the last news that we heard. They are trying to keep it very quiet information to the market about that. And that also was the reason why we were encouraged to move with this price increase.

We don't know much about it because they don't give too much information since the company's policy is not to talk too much about this in the market. So I don't have any idea on when they are coming back. But I don't think, I answer, I got all your information and all your question because the line was a little bit broken so could you repeat it again please?

Q - Daniella Goobiarana

No. That's okay. I just like to know if you have the current capacity (utilization) of APP today.

A - Rogerio Ziviani {BIO 2080739 <GO>}

Current capacity (inaudible). I think the, that mill, that specific mill (inaudible) which is the one 1 million tons that came on (stream) at the beginning of last year. That is the one with the problem and that is the -- shutting down. So is about 90,000 tons per month that is out of the market as far as we are concerned.

Q - Daniella Goobiarana

Okay. That is great. The second question is also about pulp. Rogiã©ro, how do you see the balance between supply and demand for '06. Do you expect any downward pressure on prices from the second half on as the Chilean capacity starts up?

A - Rogerio Ziviani {BIO 2080739 <GO>}

Well, if we look into what our, let's say, analyst from the market is publishing, (NLK) and also (inaudible) right. They are all forecasting a down price because of the -- in the last quarter of the year because of the new capacity coming on stream from these two mills that you have mentioned.

Also we have to see how is going to continue the demand on the paper side has continued to be positive as we see from what Andrã© just spoke. And also the closing capacity that are coming in North America. As we saw recently, a lot of analysis coming and pumping up all the time and we hope this will continuing during this year because of the fact that the energy costs in North America. And now all over the world as a matter of fact, is becoming very high. And, in particular, in North America also the lumber is becoming an issue. And also labour. So, we see more and more of those capacities coming out of the scheme and that can be one of the reasons why we continue to think that the market in the first half will continue to be positive.

In the second half we see some signs of weakness in terms of the capacity coming, the new capacity coming. But nobody is considering those capacities that are coming out. So, neither (inaudible) or NLK is putting on their forecast to make the assumption of the price increase, the capacities that are coming out of this scheme. Just the new capacities who are coming in. So that can generate the (inaudible) fact. At the end of the year, it is a question mark. So, maybe we saw, during the last quarter of last year, we saw 1 million ton capacity coming on stream from (Veracel) and we didn't see that much change in to price in (inaudible). So, maybe that can happen again at the end of next year if they continue to have shutdowns in the mills in North America.

Q - Daniella Goobiarana

Okay great, thanks Rogério. I have just a last question regarding CapEx, could you give us an update guidance for CapEx for '06 and out of the total amount how much should be the pulp expansion project?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Daniella, this is Bernardo. For '06 we are now revising our CapEx for the project based on the ongoing negotiations on the schedule of the payments for the different parts. We had, at the time we were publishing our figures we had a figure of about \$690 million for '06 and we had \$225 million for '05. In fact for 2005 we spent something like \$65 million. So the balance of \$160 million that was scheduled for '05 is going to be spread between '06 and '07. Our estimate at this point is \$100 million in '06 and another \$60 million additional of what we had originally in '07.

On top of that -- so that means that for '07 we are working with a figure of close to \$800 million for the project, \$790 million. And on top of that we had another \$100 million for other purposes including the maintenance CapEx and the Capim Branco project.

Q - Daniella Goobiarana

Just to clarify it, for '06 you have \$690 million including the project or an additional 100 million for maintenance?

A - Bernardo Szpigel {BIO 2080745 <GO>}

For the project it's going to be close to \$800 million, it will be \$790 million for the project, plus \$100 million for other maintenance and Capim Branco.

Q - Daniella Goobiarana

This is '06?

A - Bernardo Szpigel {BIO 2080745 <GO>}

'06.

Q - Daniella Goobiarana

Okay thank you (inaudible).

Operator

Thank you. (Operator Instructions) Your next question comes from (Paolo Serra of Itel Bank).

Q - Paolo Serra {BIO 6741988 <GO>}

Hi. Good morning. I have a question regarding your paper price in the local market. If you take your Fourth Quarter numbers you will see the spread between your export price and

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your local price as high as 37% for uncoated paper and as high as 60% for carton paper so could you give us a guidance of where you would think local prices for paper should go in the coming quarters considering that the strong real should continue?

A - Andre Dorf {BIO 15460232 <GO>}

Yes we should expect to have a slight increase in the average price in this year in comparison to '05. So I would use something between 3 to 6% on average for our paper prices, year over year.

Q - Paolo Serra {BIO 6741988 <GO>}

Which means that the spread will grow as high as 40%.

A - Andre Dorf {BIO 15460232 <GO>}

We expect also to have some increase in our international prices. Some North American producers already announced something around 7% in terms of price recovery starting February, this month. So I think the spread will tighten mainly because the international prices will increase as well.

Q - Paolo Serra {BIO 6741988 <GO>}

Okay. And my second question is exactly regarding the spread between eucalyptus price and paper price, you have this on your presentation that the historical spread of \$280 dropped close to \$130. When do you expect this to get back to the historical level if it's going to ever happen again?

A - Bernardo Szpigel {BIO 2080745 <GO>}

This is Bernardo. The historical average, if you take a ten year (inaudible), it has been running between \$230 to \$250. On an average this has been very stable throughout all of this period because it has to do with the cost of transforming pulp into paper including the cost of capital of the paper machine. So this is the fundamentals of this as we understand it, it is on this side. These spreads narrows or widens depending on the relative position of the supply demand markets for paper and for pulp. Since this has shown such a very good stability, the average, I think we normally would expect that this will go back from the very low levels. Especially in this Fourth Quarter of \$136 per ton to about \$200. But this is on average, you can never know exactly which specific quarter or period of time this will happen.

Q - Paolo Serra {BIO 6741988 <GO>}

Thank you, very much.

Operator

Thank you. (Operator Instructions) Your next question is coming from (Marcos Assumpta) of Merrill Lynch.

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Q - Marcos Assumpta

Good morning, gentlemen. Bernardo, actually I would like you to give us an update on the (inaudible) acquisition status if you could. Mainly what are the next steps that you are planning and if you believe that the resolution of this conflict could come in in the first half of '06.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Marcos good morning. Well the answers are first, as you know we are having legal battles in court, we should bring some lawyers here to talk about what's going on in detail. Both sides are very confident in what's going on. Of course we are very confident on our position from a legal point of view and also from the value that we proposed, we remain in a confident position but so does the other side. There is not a specific -- it's very difficult to put a specific date on when this thing will be concluded. We are of course very much interested in solving this as soon as possible as we understand also the other side. Yes, we could see it in the first half of the year. Let's hope we can reach that. But there is a degree of uncertainty there that it is not possible to say much more than that.

Q - Marcos Assumpta

Okay and my second question is regarding cost cutting. You have said your competitors here in Brazil announcing some plans to cut costs mainly to adapt themselves to the new currency reality. Are you planning to do something (similar) in Suzano and what are the actions you are taking in order to become more competitive?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well this is a very good question. Of course, now we are preparing ourselves to face these new levels of currency for an indefinite period and we have to resume profitability and so cost cutting and restructuring and efficiency is also very high in our agenda in several different fronts. We are looking both at the variable costs and fixed costs and FG&A revising all of the accounts and taking all of the necessary measures to adjust to these levels. We don't have all of the solutions already identified in other implementation but we have some already being implemented and some more will be determined. Definitely we have to be able to face a strong real for an indefinite period. We still remain, in terms of the international markets, in a very competitive position. Rog rio mentioned the problems that some of our competitors are having in terms of their costs. Everybody has been affected in terms of appreciation of their currencies relative to the dollar which of course is affecting everybody. And this has also had an impact on let's say prices, prices have increased to some extent also because of the (floor) imposed by producers around the world. But we're not going to remain just sitting there and counting on that. We have a very competitive position, we are the lowest cost producers, the Brazilians are and we are. And we are determined to remain so. So we'll see some cost reduction as we move along.

Q - Marcos Assumpta

Okay, thank you.

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Operator

(Operator Instructions) Your next question is a follow up coming from Paolo Serra of Itel Bank).

Q - Paolo Serra {BIO 6741988 <GO>}

Hi, my follow up question is regarding your regional breakdown in terms of pulp sales for the First Quarter of '06 and a guidance for the breakdown when the new expansion plan will be on stream by 2008?

A - Rogerio Ziviani {BIO 2080739 <GO>}

For the First Quarter 2006 we are forecasting to have an increase in percentage of our sales into Europe and also into some parts of -- in North America, diminishing our sales into Asia comparison to what we did in the last quarter 2005. For the expansion we have our plans to grow in the same (inaudible) as we had today, a little bit more into North America because of what I said before. We see some closures into some operations there and most probably we will have a higher demand in terms of market pulp or foreign market pulp.

So our goal is to have something like 40% into Europe where they have a better demand for eucalyptus pulp for many papers that are produced with that pulp in terms of for printing and writing. Uncoated, woodfree, coated woodfree and also into tissue and specialty grades. And in North America today is basically using into tissue and more and more we see a growth into uncoated woodfree, which is the positive side, once used by also some softwood in substitution of some softwood and also from the closure of the existing (inaudible).

And in Asia it's been growing, Asia used to be a net buyer of softwood and over the last eight years all the new equipment that was (placed) into China was (inaudible) to be used into eucalyptus and hardwood so the growth that is coming in new capacities in Asia is coming into hardwood as well. So as a (inaudible) number for us I would say they would have 40% into Europe, about 30% into Asia and 25% into North America and the rest would come to other parts of the world.

Q - Paolo Serra {BIO 6741988 <GO>}

Thank you. And another follow up. Could you give us a guidance on your budget for growth in domestic field of paper in 2006?

A - Rogerio Ziviani {BIO 2080739 <GO>}

In terms of volume we can expect the figure in line with what we did last year, something around 830,000 tons of paper broken down around 60% in the domestic market and the remaining 40% in exports.

Q - Paolo Serra {BIO 6741988 <GO>}

Okay, thank you.

Operator

Thank you. At this time there appears -- sorry there is one more question coming from (Sherviani Adule of Lowsite Research).

Q - Sherviani Adule

Good morning. Would you please disclose sales for (inaudible) for Ripasa in the last quarter?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Just a second we'll try to get it for you, just a second. We'll have to find the figures, maybe we should send it to you later on?

Q - Sherviani Adule

Yes that's fine.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Okay?

Q - Sherviani Adule

Okay, thank you.

Operator

Thank you. At this time there appear to be no further questions. I would like to turn the floor back to management for any closing remarks.

A - Gustavo Poppe {BIO 15816981 <GO>}

Just an announcement for everyone. We're going to be updating the file on the webcast with the corrected table with the Fourth Quarter results on slide nine immediately after we end the conference call. So if you'd like to access the correct table you can do so about 30 or 40 minutes after the conference call has ended. Thank you.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well as closing remarks, I would like to thank everybody for their presence and interest in our presentation. The year was, we can summarize in terms of very good results in terms of production levels and the good pulp prices. And we were affected by exchange rates in Brazil and also by the weak domestic market. By this we have been reaching new levels of production and then the cost levels which we think are quite reasonable. We should see some improvement from here onwards but of course depending very much to some extent on the new exchange rate levels.

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As we mentioned we are now working to adjust ourselves to these levels on an indefinite period of time, not making any consideration of a possible devaluation. But this of course will just strengthen our competitive position in the market which we think will be very important in our Group as we move from here to 2007 with implementation of the Mucuri project. The company will increase in size and capacity by then. So it's a very interesting and active (inaudible) so we'll be meeting again in the next quarters, just talking about what will be going on. Thank you, very much again in my name and in all of our team on this site. Thank you, again.

Operator

Thank you. This does conclude today's teleconference. You may now disconnect your lines and have a wonderful day.

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