

## Q3 2007 Earnings Call

### Company Participants

- Antonio Maciel Neto, CEO
- Rogerio Ziviani, Head of Pulp and Paper Business Unit
- Unidentified Speaker, Unknown

### Other Participants

- Juan Tavaréz, Analyst
- Marcelo Luna, Analyst

### Presentation

#### Unidentified Speaker

(technical difficulty). There will be a replay facility for this call on the website.

We inform you that all participants will only be able to listen to the conference during the Company's presentation. After the Company's remarks are over, there will be a question-and-answer session. At that time, further instructions will be given.

(Operator Instructions).

Today's speakers will be Mr. Antonio Maciel Neto, CEO; Mr. Bernardo Szpigel, CFO and Investor Relations Officer; Mr. Rogerio Ziviani, Head of Pulp and Paper Business Unit; Mr. Andre Dorf, Head of Paper Business Unit; and Mr. Ernesto Pousada, Mucuri Project Officer.

We would also like to inform you that statements during this conference may constitute forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those set forward in the forward-looking statements.

I will now pass the floor over to Mr. Antonio Maciel Neto, who will start today's conference call. Thank you.

#### Antonio Maciel Neto {BIO 16703850 <GO>}

Okay. Thank you very much for the participation, everybody's participation here today. We will start presenting some slides. I have about ten slides to give you an update about the situation of the Third Quarter results. As soon as we finish, we will move to the

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questions-and-answers session. So I have here the senior management team of Suzano that will be more happy to answer your questions.

So we start here with the first slide. I would like to highlight some of the key points, the key issues, key -- most relevant facts that we have during this Third Quarter. First one is the Line 2 at the Mucuri Plant, the start-up. We had this 35 days improvement considering the timing schedule before for the project. So the Line 2 is on time and on budget.

Pulp price, very good news as well. We are at \$750US in Europe now. So we had one price increase in August and another one at the beginning of October. Pulp producers at very low levels of inventory, only 29 days at the end of September. Was very good timing, a very good situation for the start-up of our new plant, new line at Mucuri site.

Papers price increased as well, both in the domestic market and the export market. Here we are highlighting the export price of the increase of \$40US per ton. We talk about this later.

The CADE, that's the national legal agency, the anti-trust agency, approved the -- our Conpacel Paper and Pulp consortium. This is the consortia that we have with VCP to manage the Americana plant. This is the result of the acquisition of Ripasa. And today now we have the final approval for the operations as a consortium at this point.

We have sold as well the final two plants of Ripasa. As you can recall, we have bought the Embu plant. That's a paperboard plant. We bought the 50% from -- the remaining 50% from VCP. And now together, we were able to sell these two plants, Limeira and Cubatao. And our part of these assets, the value was \$32US.5 million.

Other good news for the quarter was our all-time records related to the market cap of the Company. We reached \$5US billion for the first time. And that's very good news for us. Also, in the EBITDA, the final result of the quarter was \$266R million, margin at 32.7%. And so that in spite the very strong real, we were able to maintain our EBITDA margin above 32%, it's almost 33%.

And the final highlight that we had prepared in this slide here is related with the net income. We reached \$168R million in the Third Quarter. It's about 72% higher than in the Third Quarter of '06. Here we have the effect, the opposite effect of the valuation of real. This impact on our balance sheet as the real is strengthening, we have this better result with regard to net income. We have also some operations improvement. However, the largest part of this incremental result came from the exchange rate variation.

The next slide is just a picture of our Line 2 in Mucuri. Ernesto Pousada has showed in different calls pictures of the construction and erection period. And now you have the plant completed. So it's very impressive plant. You can have here -- it is really just a snapshot, just an idea about the -- how big and how complex is this new plant.

The boiler, the recovery boiler that you have see, you can see at the very right side of the picture, you can see this very big recovery boiler. It's equal to a 38-story building. It's very big recovery boiler. You can see all the others, big parts and the subsystems of the plant in this picture.

Next picture, you see this by night. This is the favorite picture of Bernardo Szpigel because he says that we are working during the day and at night as well, to generate the cash to accomplish our commitments here.

Okay, next page you see some highlights related with the pulp business. For sure you have additional questions after that. And Rogerio Ziviani will have a chance to participate in the call. Here, my highlights are related to the net price of pulp. We achieved \$613US per ton, compared with \$594US in the Second Quarter of '07. And most impressive difference comes from the comparison with the Third Quarter '06, where the prices were at \$587US per ton.

As I have mentioned before, we have seen a very strong demand and -- one side. And on the other hand, we have seen restrictions relating to the wood supply in North America, in North Europe as well, strikes and other transportation-related problems. So it's a big combination for, the one side, the demand is very strong, growing. And on the other side, some restrictions to the supply.

Production of pulp during the Third Quarter was 169,000 tons. We had, as you know, we have announced it before, the shutdown for maintenance at the Mucuri plant and at the Americana plant. And also the start-up of Line 2 was part of the process of producing a little bit less than what we had produced last quarter. So 169,000 tons produced this quarter.

Cash cost at -- of \$535R per ton. Here you can see compared with last quarter a \$69R per ton increase. And we have two main reasons for this increase. One is the utilization of higher percentage of wood coming from the farmers, our partners. We call here in Portuguese, fomentados. So we have the big increase in the utilization of wood coming from these farmers. And this caused the \$24R per ton increase in our costs. We are going to talk later about this. If you want, we have more information about that.

This is not -- we will increase the participation of the local farmers and operate the whole plant at Mucuri. But not at the level that we have experienced today. It is about 50% that will continue in coming quarters. Without this additional cost, our cash cost would have been \$442R per ton, in line with the Second Quarter '07.

We had also the maintenance shutdown. That's the highest part. We have the shutdown and the local farmers coming, the local utilization of wood from the local farmers. These are the main reasons of the increase of our cash costs to \$535R per ton.

As we move forward to the next slide, we have at the left side of the slide, you have the net sales in millions of reais, in pulp sales in (inaudible). Although I have mentioned, that we have this -- here we have the sales, Third Quarter at the very bottom. (inaudible) you

have the Third Quarter, about 156,000 tons of pulp sold during the quarter compared with 176,000 tons in the Second Quarter and 158,000 of the Third Quarter '06. So you will see 156,000 tons of sales and production of 169,000 because the production happened, the production came in about [ph] in the very last weeks of the quarter.

And on the other hand last quarter, in the Second Quarter, we had very strong sales as well. And we achieved our lowest level possible of inventory. So we have a combination, the combination of (inaudible); the combination of three quarters is going to give us the right average of our pulp sales.

The destination of our exports is maintained and almost the same as we had before. We had the small increase to Europe. But achieving 67%. Asia, that's in line of 22%, 23%. North America, a little bit higher to 9%. Latin America, a little bit lower than the historical, the percentage is at 2% this quarter.

Next slide, we will talk a little bit about the paper business unit. As I mentioned before, we had a higher average price in this quarter, 1.3% compared with the Second Quarter of '07. Domestic market, we experienced a \$11R per ton of increase; and the export market, as I mentioned before, is about \$38US to be more precise, per ton, of price increase.

In both case, we had a combination of revenue management regarding to destinations of our products, a better mix. So as you can see in the next bullets, that during this quarter we had 63% of the total volume sold in the domestic market. In fact, this a little bit higher than our plans. The right mix for us is 60/40, 60% in local markets and 40% to exports. In coming quarters, you are going to see almost this (inaudible), quarterly better prices also.

The volumes are another good news. In the domestic market, we experienced 7.3% increase compared with the Second Quarter of '07. So it was a very good combination of the -- some price increase and a good increase in the volumes that we had experienced in the Second Quarter of '07.

Moving a little bit more talking about the paper business in units. Here in this slide, you have paper sales and also the volumes sold. So the net sales achieved \$636R million at the quarter compared with \$615R million in the Second Quarter of '07. About the volumes, thousands of tons, we had in the Third Quarter of '07, 288,000 tons of paper sold compared with 282,000 tons sold in the Second Quarter of '07.

Destinations of our exports, paper exports, Latin America above 40%, 41% to be more precise. That is the target in what we have achieved during the last quarters as well. 25% to Europe, 16% to Asia. And North America 18%. So this characterized that we have this paper business is a good business for us. And it's a more local, it's more regional let's say, business, compared with pulp that is more global business for us.

On the next slide, we are going to have just now two more slides related to results. The first one is the comparison Third Quarter of '07 with the Third Quarter of '06. And the next slide you are going to see the year-to-date figures.

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So in this slide that you see now, page nine, you have the sales volume that we have mentioned before, the 444 versus 450, very much aligned; it is the same volumes. Pulp volume in the export markets of 123 versus 122, aligned also. But in the lower levels as a consequence of the shutdowns and the lower levels of inventories at the start of the quarter.

Net revenue of \$816R million versus \$855R million, reflecting here some of the effects that we mentioned before, mainly about the volumes of pulp.

Net income of the quarter, we had \$168R million versus \$98R million last year at the same period. That's about a 72% increase. This is more than -- it's very much explained by the exchange rate, as we have mentioned before.

Cash costs at \$535R. We have talked about that. EBITDA, \$267R million. So that's still -- in dollars is \$139US million, in dollars very much aligned with last year. Here then we see the impact of the exchange rate that we have at the very bottom of this page that we had average exchange rate during the quarter of 1.92 versus 2.17 last year. That's the 11.7% valuation of the real, which was a big impact on the EBITDA. But on the other hand, a very big impact as well in the net income, with the opposite effect on both.

Margin, the EBITDA margin at 32.7% versus 35% last year. So it's a margin above 32% despite the valuation, very strong valuation of the real.

Net debt, good news as well. We are doing -- we have started the production at the Line 2 in Mucuri. So we are completing the project. And we have the ratio of net debt and EBITDA at 3.9. That's below 4.0, very good, against 3.45 that we had had last year during the same period. The difference is more than explained by the investments in CapEx related to the Line 2 at Mucuri.

Next and final slide, we have the results of year-to-date. So sales volumes we are at 4.3% better than last year. We have achieved 1.3 million tons of product sold. Pulp volume to the export market, we are 7.3% better. And we have achieved already 400,000 tons.

Net revenue \$2R.4 billion, 6.4% better than last year. Net income 26% better at \$447R million, big impact of the exchange rate and the improved operations. EBITDA in reales at \$821R million, 5.4% better than last year, before the big growth that we are expecting from the launch of the Line 2 at Mucuri.

In dollars, our EBITDA has achieved \$411US million, which is 15% improvement compared with last year. That's a good number. EBITDA margin at 33.5% year-to-date versus 33.9% last year.

Exchange rate average during this first nine months of '07, at 2 average. And at the same period last year, we had 2.18 -- 8.2% variation to the exchange rate due to the strengthening of the real versus the dollar. And that EBITDA is the same of the quarter. We are at 3.9, below 4, versus 3.45 last year.

So this is the -- our starting point for this call. We think these are the key and most important factors that we should show during this conference call. And from now on we will be glad to answer your questions.

## Questions And Answers

### Operator

(Operator Instructions).

Our first question is coming from Marcelo Luna of Deutsche Bank.

### Q - Marcelo Luna {BIO 15380566 <GO>}

Good morning, Maciel. Good morning, Bernardo. Good morning, everybody.

I just had a very quick follow-up question from the morning call. Maciel, it would be interesting if you could comment on, in terms of cost inflation in CapEx in particular, in equipment, pulp mill equipment and also the land price side, what you're seeing -- I mean, how fast prices seem to be increasing year-to-date and how fast you expect prices to increase in 2008.

### A - Antonio Maciel Neto {BIO 16703850 <GO>}

Okay. Good morning, everybody. Marcelo, this -- I have mentioned during the earlier call in Portuguese that the equipment to the new plant that we are considering will have -- the cost will be higher. This is coming from the information that we are getting from the supplier and also the information that we have received and we have seen in the papers from our competitors, who are now investing in equipment.

The costs are -- the higher costs are coming from steel, copper, aluminum, all the key commodities that are the very key to a new plant of pulp or paper, today we have higher price than we had three or four years ago. So this is the point.

We are -- the land price is also the higher price that we have had before. More competition for land. But still very attractive perspective for producing pulp and paper in Brazil.

I can't anticipate the costs, exactly the cost. This is a general figure because we haven't went to the details of the numbers. But if you compare our numbers and I think some of our competitors who are investing now, we are going to see the key difference of the cost per ton produced.

### Q - Marcelo Luna {BIO 15380566 <GO>}

So it's actually hard to estimate in average how fast they're growing, for instance, maybe 10%, 20% this year? It's hard to put a number to that?

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**A - Antonio Maciel Neto** {BIO 16703850 <GO>}

Yes. It's hard. We see that the -- I think we all are in a very different level of price -- commodity prices because this experience of China and most of the other companies in Asia and some of the Latin America countries as well, growing very fast. And the whole economy worldwide is growing to 3%, 4% a year. This is now five, six years in a row. This is a new phenomenon, very hard to consider.

We have talked to several people. And everybody thought that the steel price, they were now saying that this is the peak, that's impossible to grow more than that. As we see (inaudible) putting their forecast 25% increase in their products for next year as a forecast. We are going to see a lot of price hike come from the steel. So very hard to consider the equipment price next year.

However, we also have a better price, book price, when we start to do the Mucuri plant, a much better price we can compare. So that's a new situation.

**Q - Marcelo Luna** {BIO 15380566 <GO>}

All right. Thank you very much.

**Operator**

Thank you. Our next question is coming from Juan Tavaréz of Citi.

**Q - Juan Tavaréz** {BIO 15083199 <GO>}

Hi. Good morning, gentlemen. Just two very quick questions. First, on the excess capacity for Mucuri. How much of this is already under sales contracts. And do you expect to sell some of this capacity in the spot market next year?

**A - Antonio Maciel Neto** {BIO 16703850 <GO>}

Let me just pass the floor here to Rogerio. But just to give you a highlight. We have, as you have seen in the press release, that we have produced 31,000 tons up to 23rd of October. That's 31,000 tons of pulp produced at the Line 2.

And just to give you a quick number, we have produced yesterday -- yesterday was the best day since the start-up of the plant. And we produced at Line 2, 2,700 tons of pulp. This is annualized, if we annualize yesterday's production to a full year, this is about 960,000 tons.

So yesterday we had a very good day. I'm not saying that we have already achieved the whole production, or very close to that. We have a lot of instability. Very normal in a complex plant like this at this stage of the start-up. We have this six month start-up negotiated with the suppliers. This is the industry standard. And we are just beginning the start-up. So -- but yesterday we had this very good amount.

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I will ask Rogerio to talk a little bit about the contracts and the sales of the new production that is coming out, as we speak, from the Line 2.

### **A - Rogerio Ziviani** {BIO 2080739 <GO>}

Okay. Good morning, Juan Tavaréz and everybody. As Maciel mentioned, the numbers from the Line 2, we already invoiced in the month of September about 1,000 tons to the international market and also about 600,000 in the domestic market. We have on its way to the international market now about 11,000 tons. And we have already invoiced up to today about 3,300 tons in the domestic market.

So it's coming into the system from the production of this 30,000 tons, as we speak, all becoming -- moving the pipeline of the logistics, which makes all the sense because we have to transfer this to our ports outside around the world. Then we are going to invoice the final customers.

So this is on its way. Most of the tonnage produced during the month of September, as we also mentioned, was in the last few days of the month, second half of the month. That's why we are building up this logistics and the inventories as well.

In terms of long-term contracts, we have already achieved between [ph] contracts and what we call regular customers that we have over the years buying from us. But they don't like to sign contracts. But they are very reliable. We have already 73%, which is about only 10% on this regular one. And 63% already into long-term firm contracts already signed in-house with us.

We are negotiating, as we speak, about 300,000 tons of contracts. On top of that, we are negotiating about 500,000. And we are going to select only 300,000 because we don't want to commit 100% of our volume in long-term contracts because we have to have some 10% spot tonnage and also to give us flexibility in terms of the logistics for better markets and to help some customers when they need.

So overall, we are well covered and are waiting just for the logistics now to start to put up all this tonnage on the pipeline and also to invoice the customers.

### **Q - Juan Tavaréz** {BIO 15083199 <GO>}

Okay. Great. And secondly, on the wood cost that went up this quarter. Do you -- can you give us a sense of what price you're paying currently and how that versus the prior year for wood from third parties?

### **A - Antonio Maciel Neto** {BIO 16703850 <GO>}

For third parties, we are now currently paying \$58R [ph] per cubic meter, which is about the levels that we are maintaining compared with our own, the cost of our own wood at \$42R per cubic meter. And this is -- in this quarter, we had an impact of \$24R per ton of pulp compared with the Second Quarter '07. And it reflects the portion of 34% of wood from third parties against 13% in Second Quarter '07.

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This is higher than what will be the -- the proportion is higher than what we would be facing. Next year for the year, the breakdown is 23% of participation of wood from third parties. So the result of that is that our cost, cash costs went up by \$24R in this quarter against the Second Quarter. But they will come down by \$12R per ton in the coming quarters.

**Q - Juan Tavaréz** {BIO 15083199 <GO>}

Great, thank you.

**A - Antonio Maciel Neto** {BIO 16703850 <GO>}

Sure.

## Operator

(Operator Instructions).

There appear to be no further questions. This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Antonio Maciel Neto for any closing remarks.

**A - Antonio Maciel Neto** {BIO 16703850 <GO>}

Okay. Thank you very much for the participation. We will be available for if you have additional questions. We have our investor relations team here with us. They will be very happy to answer your questions. Bernardo and myself will be available as well during the day.

We see -- as we have mentioned before, we have this new reality of the real strengthening. Probably this will continue. We are prepared for that. We have seen also the oil prices going at very high levels, more than \$90US yesterday. So this will have impact in our cost mainly in the logistics side and also some impact in the cash generation.

However, we have seen very good prices of pulp mainly. And we have experienced some improvement in the paper prices as well. So we have -- our prospect is that we are going to have a -- the same price that we have today or better.

You guys know that the producers of the large fiber or the softwood, long fiber in the softwood, they have announced about another price increase for November 1st. So we are very positive about the trend of the prices. So we have a good offset for the costs that we have mentioned before.

From our side, we have invested a lot in productivity. Our internal operations improvement programs are moving forward, especially the Six Sigma project. And as well, we have a good differentiator from the market, the start-up of Line 2.

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We are maintaining our guidance that we had mentioned before, which was to produce 120,000 tons of pulp in the Line 2 in '07. So this was the perspective that we had before since the beginning of the project. And we are maintaining this forecast of 120,000 or more. But at least 120,000 tons of production Line 2.

Then the First Quarter or the beginning of the Second Quarter of '08, we hope that we will have the plant much more stable, completely integrated to the site. And so then we are going to really to get the benefit from this biggest investment, very, very big investment, that very large investment that we had completed now.

Also, we have some good news coming from the negotiations of the contracts with our suppliers. Especially with the freight suppliers, the carriers, that with the addition of 1 million tons of pulp we are able to negotiate better freight prices and also some better prices to the key products and chemical products and some other costs that we have. So we see some good offsets for the exchange rate and for the oil prices. And we have a good forecast for coming year.

In the Fourth Quarter, we still -- we have some instability in Line 2. This is very much normal. And we hope that starting next year, we are going to be more stable and ready to move for the new cycle of growth that we are planning with (inaudible) growth establishing a new greenfield site in Brazil. This is -- will come in coming months. And we are now working very hard on that.

These are the key additional information we would like to deliver to you. And thank you very much for the participation in Suzano Papal conference call this morning. Thanks.

## Operator

Thank you. This does conclude today's presentation. You may disconnect your lines at this time and have a wonderful day.

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