

Q2 2005 Earnings Call

Company Participants

- Bernardo Szpigel, CFO and EO for IR
- Gustavo Poppe, IR Manager

Other Participants

- Ed Mosagad, Analyst
- Marcelo Aguiar, Analyst
- Maria Lia, Analyst
- Unidentified Speaker

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time we would like welcome everyone to Suzano Papel e Celulose, Second Quarter 2005 Earnings Results Conference Call. Today we have a simultaneous webcast with slide presentation on the internet, that can be accessed at the site www.suzano.com.br.

Gustavo Poppe {BIO 15816981 <GO>}

Good afternoon, everyone. Certain statements during this conference call 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-forth in the forward-looking statements. I will now pass this floor to Mr. Szpigel, who will start today's conference call. Thank you.

Bernardo Szpigel {BIO 2080745 <GO>}

Good morning, everyone. This -- we will be using the presentation which is available on our site, starting with slide number three, highlight for the quarter. I think the important one is pulp prices in Europe were rather good stayed at \$600 per ton in Europe, during the quarter, after reaching this level in the April.

In the domestic markets, we had a recovery compared with what we had in the First Quarter with paper sales volumes at the levels slightly below the close to the levels of the Second Quarter of last year. So, we still see the domestic market is not a very large -- an improvement relative to the First Quarter and the first half of last year. We had an appreciation of the Reais which for us results in a very positive impact on our exposure of currency -- and in our balance sheet and net income of 268 million Reais in this quarter

which was a very good result. On the negative side, we have got a news on the optimization project, despite the fact we are already leading very good volumes in the new project with our operating costs, our cash cost are still higher than the normal levels. We are still not to reach the steady state in that effect in the Mucuri plant. Despite the fact that volumes are quite low as expected, in fact slightly above of what we expected.

Now, I will pass on to Rog rio to talk about the market highlights and I'll come back later on to talk about the leading effects in our income statements.

Rog rio Ziviani: Good morning, starting with pulp, during the Second Quarter 2005, we had an average price of \$542, net average on the export market, which was a very good price compared to the previous quarter. As Bernardo mentioned it during the Second Quarter, the pulp prices in Europe were in the LIBOR of \$600 during the full quarter and due to the fact also that the temporary shutdown in some of the mills in Finland also helped this scenario and on top of that of what happened with the mill, one mill in Chile as well.

Even though we had our various more increasing inventories from 34 to 35 days, which is basically due to do to the logistics most of the time. And also some increasing total production like Hainan and some other mills that started in Asia. We also had EU depreciation during this quarter and a positive spread in Europe between the (each of the characters) in Asia and (each of the characters) NBSK. These spread today as we will see in the following page is not as in the same level as it was during the quarter, it's reaching the same level today. Even a little bit of the currency can help also right now because we heard this morning that there was an appreciation of the (Reais) on China that will also help the exports out of Brazil to Asia, mainly to China, where during the first half of this year, there was a decrease of 40%. Even though with this decrease we had a very good stable prices in the rest of the world, showing that demands in general is very high and even with some new news coming like Hainan at a full capacity.

On the paper side, there was a good demand level in the main export markets, specially North America due to the fact that prices on the pulp level, on the both side was in upstream. So that also helped with the demand on the paper side and also the U.S. economy was much better. And Europe also helped with some of the exports because as I mentioned before the temporary shutdown in Finland, also effect some of the paper mill, deep paper machines that they have in that area.

There was an increase in the domestic demand on the paper side to 58% on the sales volume in the Second Quarter of this year which is -- we had also a positive effect that Bernardo was going to mention later on, on our balance sheet. And also there was a Reais appreciation against the dollar which also helped the domestic market prices and also with the increasing volumes in the domestic price we had a very positive scenario in that respect as well. On the following slide, we have the pulp prices, CIF Europe as we can see on the green bottom line is the year 2004, the blue line is the year 2005. And the red line is the NBSK, the other two's are the eucalyptus as we practice. As we can see there is the spread with minimum if it's not in the net prices below but the price of the eucalyptus. I will be later on available for questions and answers. I will go back now to Bernardo.

FINAL

Since we are moving now to our financial results, that we have on slide 6, the table with all the figures and all moves stretched to slide seven and slide seven will compare Second Quarter '05 with Second Quarter '04. On the left hand side changes in EBITs. We had an EBIT in 2004 of 205 million Reais and to the Second Quarter '05 we often under the 176 million Reais. The main changes as all we can see there, first prices, mostly export prices rather than domestic prices because of the appreciation of the Reais when you compare the average exchange rates in both quarters there was a significant appreciation of Reais from '04 to '05 in fact they resulted in the loss of 38 million Reais.

Domestic volume as I mentioned is about the same levels of last year, same quarter slightly below so we had a 10 million Reais less export volume compensated for the low domestic volume by adding 26 million Reais. Costs of sales have reduced which were something that reflects our improvement in operational efficiency as well as SG&A by 2 million Reais when you compare the two quarters.

Looking now at net income on the right hand side of the table, we have 88 million Reais of net income, in Q2 '04 compared with 258 million Reais in Q2, 2005, an increase of 170 million Reais, 193% above -- maybe it is already mentioned 29 million Reais would change negative one, on financial expenses 31 million Reais reflecting the new levels of that of the Company.

Foreign Exchange variation representing a 127 million Reais, positive when you look at the exchange rates at the end of Second Quarter of '04, we had an exchange rate of 3 Reais and 11 cents. And we had at the end of this quarter last day of June of 2 Reais 35 cents, to the dollar. So it's significant appreciation. Then we compensate most certainly as offsetting -- to that we have an increase in income tax and social contribution. And all this are 22 million Reais. So that gives the net income of 258 million Reais which was a very nice income for the quarter.

Looking at comparing the first and the Second Quarter of this year on EBIT, we had an increase of 17 million Reais, 12%. Here domestic and both domestic and export prices again with the exchange rate contribution and also domestic prices slightly below at the rate of some 1% to 2% domestic prices. Domestic volume improved in this quarter relative to the previous one representing 45 million Reais as well as export volumes. We mentioned that because of the weak domestic markets we diverted some of our sales to the export markets and this was at the beginning to and end to of the first and second half of this year. Cost of sales increased by 22 million Reais. We had larger sales volumes, SG&A increase of 1 million Reais about the same levels. So EBIT was 176 million.

We are looking at net income. We have a net income the First Quarter of 91 million Reais, moving to 258 million Reais, an increase of 168 million Reais, 184% contributing 70%, net financial expenses (13-11) million Reais and again exchange rate variations 205 million Reais compensated by increased income tax and social contribution of 36 reaching a influx. Then we head on to slide nine, our consolidated debt position which shows where we show in this chart the position of March '05 without deposits, then June '05 again without deposits. And we also have a column there for June '05 with our proportion of deposits of 23.03% of the charges on a consolidated basis. So today without consolidating Ripasa we have -- we are operating at levels of \$900 million of net debt

FINAL

which reflects the new level of debt after the payment for the acquisition of Ripasa that was effective on March. We moved from something like \$600 million to \$900 million and here also there's also an effect of the appreciation of the Reais with the figures of dollar depreciation of the Reais, of all the debt in Reais. Specially the MDS and debentures, a portion of our debentures of -- in Reais. We have a stronger Reais, we will get more focus. Our next batch in Reais increased from -- sorry decreased from 2.3 billion to 2.1 billion Reais. Overall, we had, I think a very good quarter considering the trader suffered market conditions, specially relating to a slender Reais and also the weak domestic market but the overall performance, -- the operational performance of the company is quite good and the fact that we are lets say, increasing production volumes and also having success in controlling and reducing our costs is of course very important in every respect.

Our EBITDA margin in this quarter in fact improved a little bit compared with the previous quarter which was 36.45% to 36.8% which was a nice result considering the circumstances. In our next debt to EBITDA considering the last quarter and with the acquisition of Ripasa is 2.3 times. Also in this, let me just point out that during this conference call we are not going to discuss the Ripasa deal which we just announced the restructuring that is going to be implemented but after this conference call we will have two events in which, this will be discussed. There's going to be a webcast, there is going to be a conference call on Friday at 11.00 AM Brazilian time, 10.00 AM New York time. And the access can be made through www.suzano.com.br. So thank you very much and we'll be open for your questions.

Questions And Answers

Operator

Thank you. The floor is now open for questions. If you do have a question, please press '*' '1' on your telephone keypad at this time. If your question has been answered, you may remove yourself from the queue by pressing the '#' key. Once again, press '*' '1' for any questions at this time. Once again if you do have a question, please press '*' '1' on your telephone key pad at this time. Our first question is coming from Marcelo Aguiar with Merrill Lynch in Brazil. Please go ahead.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Foreign Language). Two questions, first regarding your very good performance on the domestic papers business in the Second Quarter, why -- what do you attribute the strong performance that we saw, the average of the industry?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well Marcelo, we think that we changed a little bit our product mix to the market. We were more affected in this market than before. And we think that the market also was demanding. Some of the products that we produced on a different quality and that also had a different positioning also in our own distribution which helped us to implement some new commercial policies that we applied. We had a weaker First Quarter due to so many other things that we mentioned in our previous discussions. But this quarter, I think we are implementing a new policy, commercial policy in a different way or to approach

the market in a product mix as well. So I think it's a combination of various factors which helped to do, to change this, our position in this market.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

But the second question (with) for you again. Just regarding the IP's, restructure that was announced during this week, I just would like to check your view. If you do expect to see some capacity closure by ATM (rate) pulp mills, or integrated, or market pulp in North America? And your view on the pulp industry overall, I mean, mainly the high cost produces after this IP decision?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well Marcelo, I think IP has made what GP did before and I think some of the others also did which is focused very much their position in two main segments of products, which I agree there was a late decision and if I may say, because I think they should have done that before. On the pulp side I think that they will have to do some closures due to the fact that you know as soon as the North America finds the Kyoto Protocol, most of the operations that they have in North America can, does not comply with the new regulations on the environmental side and for them to evade on that respect I don't think they would have a payback on that. That's why they are looking very much into some new lines in other parts of the world including Brazil. But they are mentioning today which is one question that it should address them. But my view is that some of the mills in North America will continue to closure not only in United States but also in Canada in the near future, due to the high costs and also to the environmental mill regulations that they cannot comply with.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, the last question it is primarily -- I don't know if you mentioned something about it in the beginning of the call because I am just joined Regarding Ripasa, if you can speak a little bit about the deal that was announced last time I guess " and you will if you can provide at least some figures regarding positive effect in EBITDA in Q4, like next year you can just (Reais greenery items)?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Marcelo. Good morning, I just mentioned deal that we are not going to pull there the Ripasa transaction in this conference call. We have organized things in a way that will do that tomorrow in two events, one is here in Sao Paulo at the (inaudible). And this is scheduled for 8 o'clock, 8 AM, then we will have a full explanation of all the transaction together with (VCP). And we'll have also a conference call scheduled at 11 O'clock Brazilian time and at 10 O'clock New York time. And you can access through webcast by www.suzano.com.br. So if I may, I would like to ask you to increase your -- I will be able and more than happy to answer you questions in these events.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, I apologize for that. Thank you, very much.

FINAL

Bloomberg Transcript

A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes, sure.

Operator

Thank you, once again if you do have a question please press '*' '1' on your telephone keypad at this time, that is '*' '1' for any questions. Our next question is coming from Ed Mosagad [ph] with UBS. Please go ahead.

Q - Ed Mosagad

Okay, thank you and good morning. My question is related to costs -- that you mentioned in your press release that you had some maintenance strip downs, plus sending back of the -- ramp up your production from the new lines. I would like to know if you can give some guidance for the second half of the year in terms of why are you expecting cost considering as to the learning curve for the new lines as well as the impact of the stronger Reais on your cost side?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Ed good morning. Well what we -- on the cost that we have today we are having the first the impact of the exchange rates, as you know, today just, this impact is something like if you consider the exchange rates that we -- the variation we see in the exchange rates that we had on the average Second Quarter '05 of \$2 -- 2 Reais 48 cents compared to 2.66 that represented variation of somewhat of this. Okay, considering the exchange rate of -- would be something like -- if we have a cost of \$178 per ton on an a adjusted basis in the First Quarter of '05, that would just for the exchange rate would \$191 per ton, just the exchange rate effects of barely the two quarters.

We are having a cost of \$220 in this quarter. So, it's above this \$190 and of course, we have to remember that in our case, we have the cost of (concession) spending, which is included there. So, when it is compared with the \$220, that is -- it's responsible for something like \$10 to \$15. So, the cost of both your normal there is something today like 10%, this is something like \$20 return on this basis. We expect that this would be reduced over the next month. We don't have a detailed, let's say, the timetable for that. But the every -- as the -- this is part of the normal learning curve, the general capacity, we are already reducing at slightly above the rate of capacity that we expect it to have for these organization. But each end of cost especially growth in construction of chemical we are not there yet this would be reached in the coming months.

Q - Ed Mosagad

It's all I can assume that it's like that your cost could eventually tend down if there is no forward impact of the currency Third Quarter and Fourth Quarter because of the improvements.

A - Bernardo Szpigel {BIO 2080745 <GO>}

That's, yes that's correct.

Q - Ed Mosagad

Okay. And then one question related to the domestic markets on paper pulps also constituting the current impact. What are your real views of revolution of domestic pulps for here up to the end of the year?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well I don't know it's usually the second half of the year worldwide is the better part of the year where we have a bigger demand but as we see today, we see a stable market in the domestic market and if you compare the \$5000 that we are having today in the domestic market compared to worldwide, they are very good prices. So it all depends on the currency exchange as well but we see that some of our end users are also exploring our products to North America and to Europe like in books and notebooks and things like that. So this may help and the allocation problem also from the government, be implemented is also in demand. So I would say to you that our position today is a stable to a little high demand.

Q - Ed Mosagad

Okay.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Increase in demand in the Second Quarter of this year.

Q - Ed Mosagad

Okay what I want to say is stable you are talking about Second Quarter?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes.

Q - Ed Mosagad

Okay.

Q - Unidentified Speaker

Quite sure.

Q - Ed Mosagad

And you want to see demand like you are referring to volumes but you're also implying that prices may stay flat in Reais?

Q - Unidentified Speaker

It all depends on the currency as well and the demand. There is a trend in the Second Quarter, usually the demand is higher and the prices are a little bit high. It all depends on

FINAL

Bloomberg Transcript

the currency to see what's going to happen and the exports of the product and to see what happens.

Q - Ed Mosagad

All else being stable of flat what is the currency level that you think will put some downward pressure on prices?

Q - Unidentified Speaker

Well let me add more, I guess one thing that this is in moderate. We normally talk about this -- it's a fact, prices in the domestic market relative when you make a comparison with international prices in the international market. So. And you see that because of the appreciation of the Reais, today there is no room for price increases in the domestic market and they tend to follow, of course not exactly. But given some time the international prices and the exchange rate. So, if we had, we are not counting on that but a farther appreciation of the Reais then again we would have more pressure to domestic prices. If you calculate prices today in Brazil with the current exchange rates we get price levels which are comparable with ones in the international market. So it's really very much affected by the general level of exchange rates.

Q - Ed Mosagad

Okay, understood. Thank you.

Operator

Thank you. Once again if you do have questions, please press '*' '1' on your telephone keypad at this time. Once again, that is '*' '1' for any questions. There appear to be no further questions at this time. I'm sorry, we do have a question coming from (Maria Lia) with UniBanco. Please go ahead.

Q - Maria Lia {BIO 5941867 <GO>}

Good morning. My questions regarding what do you see as the prospects for pulp prices in international markets and also for paper prices, printing and writing paper?

Q - Unidentified Speaker

Well, Maria Lia pulp the prices, I may say that they are as we saw during the last quarter stable even though the demand in Asia was 40% less, we see some legal pressure now in Asia. But for the month of July which is usually a very weak month and August as well, we see orders coming in with the repeated prices which is very encouraging and we must say that 80% of our total sales for the month of July is already in house with no changes in prices. So this is a positive effect even though all the mills are coming back in Finland, also we have the increased capacity coming in from (Juarezcell) and some of the others. So this is a good sign for the quarter that usually is a weaker quarter due to the summer time in the Northern hemisphere. So, that is encouraging as on the pulp prices to stay where it is and maybe to continue to have a summer in the level where we are today that would encourage a price increase in the last quarter of the year but it's still too early to

FINAL

Bloomberg Transcript

decide that. On the paper prices we see some signs -- we saw some signs for a positioning in Europe is due to the fact that the (areas) where we were adding were in strike. But unfortunately, this increase was not -- was not implemented in full. So we have to wait now until September to see up to December, if it is going to be possible to implement the rest of the price that we were foreseeing for the Third Quarter.

Q - Maria Lia {BIO 5941867 <GO>}

Okay, thank you.

Operator

Thank you. Once again if you do have a question please press '*' '1' on your telephone keypad. There appear to be no further questions at this time. I'll turn the floor back over to you for any further closing remarks.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well, I would like to thank you all for your presence in this conference. The summarizing what we left, just to clear that the polarization lower throughout to performances was quiet good from seeing these circumstances. We had, of course, very good health prices in the international markets. But we have negative impacts from our EBITDA and operational performance coming from exchange rates. We had then a stronger layout. And a weakly domestic market. Despite first, we had our very nice performance in terms of sales volumes, which, of course is up very much in the air in general, also on our gross costs of goods sold and SG&A, very good performance. Of course, from an income point of view, the appreciation of Reais we had a very nice positive impact on our income for the quarter. Very sizable work and we are very happy with the overall performance. And once again I would like you all to participate in tomorrow's (inaudible) event to talk about the restructuring together with VCP at 8 O'clock São Paulo time and after 11 O'clock São Paulo time and 10 O'clock U.S. time conference call. Thank you, once again and we will meet tomorrow.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the

views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript