

Q3 2005 Earnings Call

Company Participants

- Bernardo Szpigel, CFO, IR Officer
- Gustavo Poppe, Manager, IR

Other Participants

- Eduardo Alzmariano, Analyst
- Marcos Asumpia, Analyst
- Rogerio Ziviani, Director, International Business

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Suzano's Third Quarter 2005 earnings results conference call. Today, we have simultaneous webcasts with slide presentation on the Internet that can be accessed at the site, www.mz-IR.com/Suzano. 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 question-and-answer section. At that time, further instructions will be given. (Operator Instructions)

Today's speakers will be Mr. Bernardo Szpigel, CFO and Investor Relations Officer; Mr. Rogerio Ziviani, Director of International Business; and Mr. Ernesto Pousada, 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>}

Hello, 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 the floor to Mr. Szpigel, who will start today's conference call. Thank you.

Bernardo Szpigel {BIO 2080745 <GO>}

Good morning. Good afternoon for those who are in the morning. And we are in the afternoon. In this presentation, we will be covering the performance in the Third Quarter of '05, with the highlights on slide three of our presentation.

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We are happy to announce that our Board has given the go-ahead for the conclusion of the negotiations and start of the construction of the new pulp line in Mucuri. Ernesto Pousada will be available for further information on the project.

During the quarter, we had stable pulp prices at the level of \$600 per ton CIF Europe; Rogerio will also talk about that. For our cash in terms of total sales volumes including exports, we had a quarter with 5.6% higher than the quarter of the previous year related to higher exports.

There is a mistake in the fourth bullet there. There is a total paper sales volume, not only domestic market but for all markets, was 9.6% higher this quarter compared to the previous year -- more related to higher exports than to the domestic market which in fact was less -- we had less volume this year compared with the previous year.

On the production side, we had a very good quarter with record production in terms of total products of 355,000 tons -- comprising 145,000 tons of pulp and 210,000 tons of paper. This was a very good performance level.

And on cash costs, on our pulp cash costs in Mucuri, we are on a positive trend right now. We had our production cash costs at Mucuri increased in the beginning of the first half of this year related to the learning curve that we were having in the optimization project in that plant. But the costs are now coming back to what would be more normal levels. And this is also related to the very good performance in terms of production volumes at that plant.

So now, I will pass on to Rogerio for his comments on markets.

Rogerio Ziviani {BIO 2080739 <GO>}

Good morning. And evening to the ones who are in the afternoon there. As we mentioned, Bernardo mentioned, we had a very stable Third Quarter. Prices in Europe were in the average of \$600 -- CIF basis, the list price. We in North America was about \$635. And we had a little decrease in Asia during the month of August, with a little increase back in the month of September and even higher now for the month of October.

The average net prices including our mix was \$543 during this quarter in the export market. We had a small increase in the world inventories up to 36 days, even though we had some programmed stoppage in some of the mills in the end of the quarter due to the supply scenario but mostly because also of the summertime, where they take some of the maintenance shutdown as well.

One positive scenario was the spread in Asia, especially in Asia, that continued to be positive; that created demand for both fibers, not only softwood but also for the eucalyptus.

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The Fourth Quarter in Asia we see that the demand is higher than in the Third Quarter. And we might -- we are very enthusiastic with that. And we might see some development maybe for the month of November or even December -- some increasing in that area as well due to the high demand that we're seeing today.

In terms of -- we will see also next week -- in two weeks time, we have the London Pulp Week, where we will start to negotiate the contracts for next year. And this should be held in London in the first week of November. And we shall be concluding all the negotiations for all the contracts of next year in terms of pulp for all over the world. This is a big event. And during this event, we also have a very good thermometer of what is going to be the next year position in terms of demand, especially in the papers side.

Talking about paper, we saw during this quarter a lower price in Europe due to various factors, not only the themes coming back with their production but also due to the demand which was a little bit lower than expected. But also on the positive side, we saw an increase in the domestic demand of paper, which is a positive effect for the Company. And we went back to the levels where we usually sell our paper grades on the average of 60%. So we managed to come closer to that in the Third Quarter, which was a positive scenario too.

We also have the Fourth Quarter in the domestic market that seasonally speaking is higher than the other quarters. And this also should not be different from the demand that we are seeing picking up today.

So leveling all up, I think the scenario was much better than all the forecasts by all the analyzers from the market, the specialized people. And we also were surprised with this Third Quarter on a positive side. So I will be available for further questions when we finish the presentation.

Bernardo Szpigel {BIO 2080745 <GO>}

Okay. Moving on with comments on our financial results, I will be referring to slide 6, 7 and 8. As a general introductory comment, I would like to mention all the effect of the exchange rates' variations that we had during the quarter; they have been very important in our financial results. First, the negative one, the average exchange rate in this quarter was at the level of 2.34, 2.35 reais, which represented a decrease relative to the Second Quarter of 5.5% and an even stronger decrease relating to the same quarter in the previous year of 21%. This of course reflects our EBIT because it reflects our revenues, EBIT and EBITDA. And EBITDA margin.

Also during the quarter, we had a further appreciation during the quarter, considering the variation of the exchange rate at the beginning of the quarter and at the end of the quarter. There was an appreciation of -- if you take these two exchange rates -- of 5.5%, which is positive for our income because it impacts positively our balance sheet with the exposure into the exchange rate.

In this quarter, this appreciation of this rate of 5.5% was less than the appreciation that occurred in the previous quarter, which was 11.8% and also less than the same appreciation that occurred in the Third Quarter of '04, which was 8%.

In general, our income was the result of what Rogerio just mentioned. We had generally good price levels in all markets. We also had very good production and sales volume. What was negative on the negative side, we had the exchange rates for EBIT, which was positive for net income. And the domestic volume, which was -- the domestic market has shown its seasonal improvement in the Third Quarter. But still, we are running at levels which are below the levels of the previous years.

As a result of all that, our net income was 153 million reais, which is less than the previous quarter of this year and the same quarter of previous year. You will see on page seven and 8 the components of the variations of the net income -- first on slide 7, comparing Third Quarters this year and the previous year. You see that domestic and export prices represented a variation of 78 million reais, which is -- most of it is related to the exchange rate -- the appreciation of the exchange rate of 21% that they referred to.

Domestic volume sales represented equivalent to 6 million reais less, which was compensated by exports. Because of the weakness of the domestic market, we have been exporting more, which compensates some of the loss in the domestic market in terms of volumes. In terms of cost of sales, cost of sales increased by 68 million reais, reflecting additional volumes overall but also sales -- the cost of sales because then we have transportation costs which are normally higher.

Moving to the right-hand side where we see the -- we analyze other components of the net income. We see that exchange rate variations represented a variation of 56 million reais -- the effect that I mentioned previously that the appreciation occurred in this quarter was less than the appreciation on a percentage basis occurred in the Third Quarter of last year. There is always the other side of this, which was reduced expenses in terms of income tax and social contribution at the rate of 40 million reais.

Basically, the same picture is seen when we compare the Third Quarter of this year with the Second Quarter of the same year -- basically, the same variations that we have just seen.

Finally, we will be looking at our consolidated debt on page 9. There was little change in this quarter when we compare opening and closing of this quarter. Right now, we have net debt of \$925 million; these figures are in dollars, not including deposits. And in terms of the short-term/long-term distribution and the schedule of amortization, we are having a very comfortable position both in our non-trade finance debt and in our trade finance debt.

So with this, I conclude my remarks at this point. And I'll pass on for your questions. Thank you, very much.

Questions And Answers

Operator

(Operator Instructions) Marcos Asumpia [ph], Merrill Lynch.

Q - Marcos Asumpia

My first question goes to Ziviani. Ziviani, you just mentioned on the previous call that you are not expecting any strength recovery in the European paper market, in the European paper prices. I would like to know, how do you see evolving the price differential between uncoated paper and pulp prices going forward?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

Yes. Remember, you are right; that is what I mentioned. And I also would like to stress that maybe there are going to be some movements by the month of December -- as I mentioned to you in the previous call -- was due to the fact that maybe the pulp prices may increase after London. And that would have a reflection on the paper side. If that doesn't occur, I don't see any improvements on the price for the paper as it is today due to the demand. Also, that is still very normal, not creating any new demand to improve that price.

So the positive scenario on the paper side for the time being, it can only increase if the pulp prices increase as well.

Q - Marcos Asumpia

So the differential will remain unchanged?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

I believe for the time being, we remain unchanged, yes. The spread you continue to have from that 250 to the 150, they may continue that for the next two months.

Q - Marcos Asumpia

Okay, could you just clarify what are prices in Asia right now?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

Prices of Asia?

Q - Marcos Asumpia

(multiple speakers) In Asia, pulp prices in Asia.

Q - Rogerio Ziviani {BIO 2080739 <GO>}

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In pulp prices today, last month was 5.40. And this month, we are trying to work on the 5.50.

Q - Marcos Asumpia

Okay. Great. And my last question goes to Bernardo. I would like to know what are the main reasons behind the increase in G&A expenses quarter on quarter.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Hello, Marcos. Essentially, the restructuring costs of Ripasa because we are incurring -- related to what we have some studies and analysis that we have conducted for Ripasa.

Q - Marcos Asumpia

Okay. So we can expect this to be non-recurring item in--?

A - Bernardo Szpigel {BIO 2080745 <GO>}

This is non-recurring. Generally what we have in G&A expenses, we continue to have a positive development with reduction. But from time to time, we have this. But this on a non-recurring basis, we continue to have a positive trend.

Operator

(Operator Instructions) Eduardo Alzmariano [ph], UBS.

Q - Eduardo Alzmariano

I was wondering what the cost outlook is looking for in the Fourth Quarter of this year and what your take is in '06 versus the Third Quarter and also what your outlook is for domestic pricing?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

The outlook as we are working for this quarter continues to see -- to be the same one except for Asia -- Asia, where we have a positive effect of maybe \$10 during this month and next month. And December and November/December.

For the domestic market, we had a little increase during the Third Quarter for the cut side in the domestic market. And for the time being, we are not foreseeing any price improvement for the month of November -- remains to be seen what is going to happen with the demand. And if the demand continues to go in the same pattern, maybe we can see something developing for December on a bigger price.

Q - Eduardo Alzmariano

And in '06, do you see anything there?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

Where? Sorry?

Q - Eduardo Alzmariano

In 2006, are you expecting anything as well with the paper--?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

2006, if we look into all the analysts that are publishing their forecast for next year, they are forecasting prices -- average prices below than the actual prices of this year. It is higher than the forecast for 2005 but is less than what we have practiced during this year.

So we have not concluded our budget for next year yet. So we shall do that during the next month. And we don't have any further numbers to give to you right now.

Q - Eduardo Alzmariano

And with regards to costs?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

Regard to what?

Q - Eduardo Alzmariano

Costs.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well, in terms of -- in reais for cash costs, we had 511 reais in the Third Quarter '05 for pulp. And this is still, we had a quarter with -- the maintenance -- we stopped for maintenance, general maintenance, this quarter which normally increases our costs because we have -- let's see. When we restart, we have some of our fuel costs or some of our chemicals consumption goes up during this maintenance stop. And we won't have this next quarter. So we generally expect that cost will continue to go down in reais terms.

Of course, in terms of dollar terms, it will depend on the exchange rate that we will have. This figure of 511 reais includes depletion in our case, which is the cost of standing wood if we would like, at the rate of 33 reais per ton.

Q - Eduardo Alzmariano

Okay. And the outlook, for example, as well that you are expecting?

Q - Rogerio Ziviani {BIO 2080739 <GO>}

The outlook for next year?

Q - Eduardo Alzmariano

Yes.

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Q - Rogerio Ziviani {BIO 2080739 <GO>}

Well, once we reach -- we don't expect -- we are not working right now with the idea that we have completed our learning curve in this -- on the cost side. On the production side, we think that we're doing very well. We are producing at above the rate of capacity of 545,000 tons per year. We will probably be working at the rate of 645. We will be working at the levels of 670 to 680,000 tons per year.

On the cost side, we don't know exactly what will be -- how low we can hold (technical difficulty) what kind of improvement we can reach. But we don't think we have finalized all of the learning curve, especially on chemicals concerns. So we may have some improvement on that side also.

Operator

(Operator Instructions) There appear to be no further questions at this time. I'd like to turn the floor back over to the speakers for any closing remarks.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well, I would like to thank you all for your participation in this conference. This is a quarter from an operational point of view -- was a good quarter if you consider some of the difficulties that we had especially with the exchange rate and with the weak domestic market. But even within this context, the performance was quite good.

And we have for us, which were excellent news, is that our Board has approved that we go ahead with our expansion at Mucuri. This will be a significant increase in our production capacity based on a very competitive site in Bahia. And now, we are gearing up to start construction this quarter.

Thank you, very much and until next time. Thank you.

Operator

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

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