

Q1 2006 Earnings Call

Company Participants

- Andre Dorf, Head of Paper Business Unit
- Bernardo Szpigel, CFO
- Ernesto Pousada, Expansion Project Officer
- Rogerio Ziviani, Head of Pulp Business Unit

Other Participants

- Daniela Guanabara, Analyst
- Jennifer Gorell, Analyst
- Marcelo Aguiar, Analyst
- Paolo Di Sora, Analyst
- Unidentified Corporate Representative

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to the Suzano Pulp and Paper First Quarter 2006 earning results conference call. Today we have a simultaneous webcast with slide presentation on the internet that can be accessed at the website www.suzano.com.br. There will be a replay facility for this call on the website.

I 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 question and answer section. At that time further instructions will be given. Should any participant need assistance during this conference, please press *0 for an operator.

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

We would also like to inform that certain 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 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>}

Hello everybody. Thank you for participating in our conference call on Suzano's First Quarter '06 consolidated results. Recent developments that we like to point out. A more optimistic scenario for pulp prices in the quarter and for the year. A strong re-bound in the domestic market compared with previous quarters. A reduction in costs and expenses as a result of all of the efforts that we are carrying on. Growth in net income and in operating margins compared with previous quarters.

Our Mucuri Project and new pulp mill in Bahia is on schedule and improvements in our corporate governance model. We are creating an audit committee -- to establish an audit committee and the larger scope of some of the existing committees to be approved in our general shareholders' meeting to take place tomorrow.

And also a new CEO was announced a few days ago. So these are the developments -- the recent developments. I will now pass over to Rogerio Ziviani -- sorry to Ernesto Pousada to talk about the details of the Mucuri Project.

Ernesto Pousada {BIO 15951890 <GO>}

Okay, hello everyone. I wanted to briefly give you the status of the Mucuri Project on three areas. First, investment. We have invested in the First Quarter of 2006 a total of BRL267m, which is pretty much on our target to be on the year of around \$790 million for investment disbursement in 2006.

So this is aligned to our previous expectations in terms of investments. We have already committed roughly 75% of our total budget and we've achieved some reductions on our investments, which is allowing us to keep up, despite the devaluated Real, or the dollar being devaluated versus Real. We can still keep the Project on the initial budget.

Regarding scheduling, the construction on the site is very much advanced. I think that, the front, where we have the better news is, despite the fact we already have more than 2,500 people on the site, the construction is advancing very well and we were being able to keep up with all the demands on the site to reach our target of October 1, 2007 as our start up.

On the side of the forest formation, we're close to 90% and on our schedule to finalize all of our forest needs for the expansion project. So, in general terms, the Project is moving very, very well with lots of accomplishments in the First Quarter. Construction, as you can see on the picture, is moving quite well and we do see an increase on all the fronts during the Second Quarter.

So now, I'll pass on to Rogerio Ziviani to give us a quick update on the Pulp side.

Rogerio Ziviani {BIO 2080739 <GO>}

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The average net price for this quarter was \$524, which was up \$20 on a quarter-to-quarterly basis, or 4% up. Also we had a very stable global inventory during the quarter and in March we had close to 31 days of production, which is one day less than we had in the previous quarter as well.

New factors that influenced the market during this quarter was the permanent closure and shutdowns of some operations in North America, specifically in North America, where we had since 2001 up to today roughly 4.5 million tons (inaudible) yesterday from (hand back). And up to the day before yesterday we had one outlook from Roger White on his previous outlook market book from April of about 4.3 million tons. Adding these 200,000 tons now from yesterday, we have a 4.5 million ton capacity already announced on permanent shutdowns.

This is also some of the analysts of the market to revise their forecasts for this year and the next year. As we can see in the next stage, NLK, which is one of the forecasters of the pulp market, he, as we can see, for a forecast in 2004 on the green line, which was indicating a bottom price of \$450, reaching 2007. And in 2006 he was forecasting something like \$500 or \$500 or \$475 on an average price and, compared to what we had in the First Quarter, we can see that we are much above it.

Then he revised last year this forecast for the red line. And now he just released a new forecast which is the blue line, which is much above his previous forecast.

Looking to the prices on the table next to it we can see that prices are going up in a positive trend and, in April, we are tracking \$655 in North America, \$620 in Europe and we managed to implement \$30 in Asia compared to the last month which is \$590. As of yesterday and today we are announcing a new price increase for May 1, which is \$20 plus in North America and in Europe for the time being, which makes \$675 in North America and \$640 in Europe.

In Asia, it remains to be seen at the end of this week, how it's going to be the implementation also of the other (inaudible). How they are behaving and how the market continue to behave. And then we will decide if we are going to make any adjustments or not in Asia for April or July.

Those are the highlights for the quarter and I'll be available for questions later on. And now I'll pass you back -- I'll pass you to Andre Dorf, who is going to talk about the paper market.

Andre Dorf {BIO 15460232 <GO>}

Good morning, everyone. We had a good quarter in terms of paper. The domestic market grew over 10% compared to the same period of last year. And we increased our sales by 22.8% compared to the First Quarter of '05.

According to what was predicted in our last conference call, we were able to sell 50% of our volumes domestically. And the remaining 40% was exported. Also, the difference

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between our paper prices and market pulp prices increased to \$145 compared \$132 of last quarter and we have a very good view on the northern hemisphere markets, especially North America, where we see a lot of closures and a lot of capacity going out of the market.

Some forecasts show that we had something above 1 million tons going out of the market between '05 and '07, which leads for a better pricing scenario.

Okay, I'll pass back to Bernardo now.

Bernardo Szpigel {BIO 2080745 <GO>}

Well, the exchange rate scenario in Brazil was, once again, an evolution that we saw in most of the previous quarters except for the Fourth Quarter of last year, in which we saw an appreciation of the Real against the dollar from the beginning of the quarter to the end of the quarter. In that specific quarter we started at BRL2.34 per dollar and we ended up at BRL2.17 with an average exchange rate of BRL2.19.

The effect of those -- of this evolution was, on the one hand, a positive one of a monetary variation of the impact of the depreciation on our balance sheet exposure in dollars. And, on the other hand, a negative impact on the margins -- revenues and margins, because of the stronger average Real during the quarter compared with the previous quarters.

The highlights of the quarter, from a financial point of view, we had a total volume of 327,000 tons of sales, up 12% from the same quarter last year, with an increase both in the paper sales volumes of 23% that Andre already referred to and also pulp export volumes of 108,000 tons; 12% above the previous year.

Net sales, about the same level; BRL584m. This is -- we had higher volumes and lower average prices, unit prices, partly because of the appreciation of the currency as we indicated. And also some small reduction in domestic prices.

Good results also on pulp cash costs at BRL434 per ton; a very good performance. Our production in -- at Mucuri after the organization of the plant implemented in December '04 has now reached a steady operation both in terms of volumes and in terms of costs. In fact, in terms of volumes we have exceeded the nominal capacity expected at the implementation of the Project.

EBITDA of BRL195 million was 8% below '05, reflecting to a large extent the appreciation of the currency. In dollars we have the opposite effect. \$89 million for the quarter compared with \$79 million in '05, an increase of 5%.

Margins, on a quarter-on-quarter basis, was down by 3percentage points. But it was considerably better than the Fourth Quarter of '05, 5percentage points above the previous quarter.

Net income of BRL152 million reflects, basically, the evolution of the currency that we mentioned before.

Finally, on slide nine, we take a look at our debt profile, breaking into two separate components. One is related to current operations, \$633m, a net debt to EBITDA of 1.65 times. Then, the acquisition of Ripasa, the impact in terms of our debt was \$341m. And finally the CapEx of the Mucuri Project at \$175m.

So I will now be ready for any questions that you may have. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Thank you, our first question is coming from Daniela Guanabara from Pactual. Please go ahead.

Q - Daniela Guanabara

Hi. Good morning. I have a question for Andre. You've mentioned the positive outlook for paper exports to the U.S. market. How do you see the level of competition from China, which is quickly increasing its paper production capacity?

A - Andre Dorf {BIO 15460232 <GO>}

Actually, that's a good question. We've seen a change in the merchants' operation in the U.S. specifically. We are searching for other offshore suppliers except for China. They've had some delivery problems or setbacks in the recent past and they are paying much more attention for Latin America from now on. So I think we should have an increase of the Brazilian exports to North America for now (on).

Q - Daniela Guanabara

But, do you believe in the longer term, China could be a better competitor and a higher competitor?

A - Andre Dorf {BIO 15460232 <GO>}

I think China is gaining some volumes, especially on the coated paper. But in the uncoated and notebooks, notepads for instance. The North Americans -- and (cut size), the North Americans are looking -- are paying much more attention to the Brazilian producers rather than China.

Q - Daniela Guanabara

Okay, thank you.

Operator

Thank you. Our next question is coming from (Jennifer Gorell) with Citigroup. Please go ahead.

Q - Jennifer Gorell

Hi, I had a couple of questions. First of all, can you just confirm what your current price for pulp is in Asia? Is it still the 5.90?

A - Rogerio Ziviani {BIO 2080739 <GO>}

Yes, for the month of April 5.90. And we have not yet decided what it's going to be in May. We have made announcements so far for Europe and North America plus 21. And one of the reasons why is because we just announced \$30 for the month of April in Asia only. So now we are looking at what is going to happen in the demand and the other fibers as well, how they are going to be related for the next month. So we will show that to the market by the end of this week.

Operator

Madam, does that conclude your question?

Q - Jennifer Gorell

Sorry, I had one more question.

Q - Unidentified Corporate Representative

Go ahead Jennifer.

Q - Jennifer Gorell

You talked about the growth that you saw in the domestic market. Can you give us an idea of what your market shares are in the coated and uncoated papers in the domestic market?

A - Rogerio Ziviani {BIO 2080739 <GO>}

Yes. We want participation in uncoated, basically, increasing our share in the notepad producers and exporters and also in a more diversified channel for our cut size products. So we (build) our share according to (Brazil) compared to the First Quarter of '05 from 24 to 28% in uncoated and 19 to 22% in cut size. In paper board and also related to the closure of (inaudible). According to (Brazelta) also we increased from 25% -- actually, we increased our sales but lost market share from 25 to 20% -- sorry 25 to 26%. And, on coated paper, we broke even; 18%.

Just repeating uncoated from 24 to 26%, cut size 19 to 23%, coated even 18% and paper board 25 to 26%.

Operator

Madam, does that conclude your question?

Q - Jennifer Gorell

Yes it does.

Operator

Thank you. (Operator Instructions) Thank you. Our next question is coming from Marcelo Aguiar with Merrill Lynch. Please go ahead.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi gentlemen. good morning. A question (inaudible) maybe you can elaborate a little bit on the spread domestic market paper price plan to the financial market. Maybe (leaving) the coated and the cut size which tends to keep a little bit above this spread.

A - Rogerio Ziviani {BIO 2080739 <GO>}

Yes, actually, this spread is decreasing, basically, because international prices aren't going up and it reflects a distortion or the actual appreciation of our local currency. So we do have a difference that is a spot difference between the domestic and international prices. And it depends on the foreign exchange rate. If we take into account our local inflation, our prices haven't grown above inflation, the local inflation.

And it's worth to mention that, local/regional prices' behavior are much more related to regional or domestic consumption demand and macroeconomics behavior as well. So it's a tough job to compare international or inter-regional prices straight forward.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. Okay. And on the back of this quite strong domestic market performance in the uncoated business and, I would say, in the paper board business in the First Quarter, what is your view -â€” Suzano is seeing for 2006 growth year-on-year on the full year?

A - Rogerio Ziviani {BIO 2080739 <GO>}

We are not disclosing our volume forecast. We expect to keep this percentage in our domestic sales, 60%/40%, domestic versus export and we can consider the same total amount of paper sold compared to last year. So we are not disclosing, grade by grade, what our market shares are going to be or volumes are going to be.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay. And one last question for Bernardo Szpigel. Regarding your funding Bernardo for the Project, if you can run through what you already got, average rate, what you need to get for the Project?

A - Bernardo Szpigel {BIO 2080745 <GO>}

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The funding for the Mucuri Project, basically, the most important one is BNDES which represents 50% of the volume to be invested in the Project. And, for that, we have TJLP plus 2.5percentage points for the portion in Reais and for the portion -- basket of currencies, which is mainly dollars, is a spread over the cost of BNDES of 2percentage points. We also got funding from Banco Du Nordeste, Brazil. Right now I'd say a rate of 11.9% in Reais. And the last portion, which is still being finalized, will come from the export credit agencies -- or, in fact, it's backed by export credit agencies insurance. This has not been finalized. But it's something like \$250m. We are close to concluding and we expect that to be something below 2percentage points above libor.

I think it's important to mention that the tenure, the majority of these is very long-term. BNDES up to 11 years, Banco Du Nordeste up to 12 years and ECA is also up to 12 years and (inaudible) is up to two years.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Okay, thank you very much.

A - Bernardo Szpigel {BIO 2080745 <GO>}

You're welcome.

Operator

Thank you. Our next question comes from Paolo Di Sora with Itau. Please go ahead.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Hi. Good morning. I have two questions actually. One is regarding your cost cutting program. How far you are in your budget in terms of cost cutting? How much cost reduction should we expect from Suzano going forward? And if you could give us a color from where is it the cost reduction has been more significant? Which cost items are you able to reduce at this point?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well, the cost cutting is, in fact, aiming at all possible fronts that we can figure out and this has to do with our similar situation that we are having in Brazil in terms of a strong currency that may be with us for an indefinite period. The one main focus has been on fixed costs and SG&A. We had a good result in the quarter. We still have things to do. We are, of course, focusing very much on these possibilities. We are not disclosing at this point in time any specific figures. But we still think that there is some more room to go.

The same is done on our variable costs and with very good results in chemicals consumption and several of our logistics components of our costs; inbound and outbound. This, of course, has always been a -- the focus of our management. But because of the more difficult conditions that we are facing, we are putting a lot more effort in obtaining all of the productivity gains that is necessary to face. That includes also

the participation of all of our suppliers and also we have productivity from their operations.

So we still have some things to achieve and we are trying to -- we'll be working hard on these in the following quarters.

Q - Paolo Di Sora {BIO 3285292 <GO>}

My second question is regarding your leverage. You mentioned that you were at three times net debt to EBITDA at this point and how much leverage the Company expects to reach going forward? Is there a maximum level where the Company wants to be?

A - Bernardo Szpigel {BIO 2080745 <GO>}

We -- in terms of EBITDA over -- sorry of net debt over EBITDA it, of course, depends on the exchange rate here in what levels our EBITDA will be reaching. So, as this is a denominatory aspect it will depend on the amount of the average exchange rate that we'll be facing.

Roughly we figure that, at the peak. And the peak for us will be in October '07, when we finish, let's say, we're spending all of the -- most of the CapEx for the project and we still haven't started to the production and the cash flow and EBITDA contribution of the project, we'll be at current -- if we have the current exchange rate it will be around four times, at a level of four times EBITDA.

You will remember, it is the case that after we start up the project, this comes down very fast because of the high EBITDA margin that we get, typically in Brazil, with pulp exports and the evolution of the (debt) itself, will start to see reduction after (inaudible).

Q - Paolo Di Sora {BIO 3285292 <GO>}

My next question is regarding paper prices in Brazil. In the Fourth Quarter you mentioned that you guys were expecting to increase paper price in the local market. Could you tell us your view regarding paper price at this point?

A - Rogerio Ziviani {BIO 2080739 <GO>}

We are not releasing our forecast for our pricing outlook for the next month but, in general, as we said in the last conference call, we can expect an increase on our average price of something around 5% year-over-year, average '06 compared to '05.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Okay, thank you.

Operator

Thank you. (Operator Instructions) Thank you, if there are no further questions I now turn the floor back to Mr. Bernardo Szpigel. Please go ahead.

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A - Bernardo Szpigel {BIO 2080745 <GO>}

Well, once again, I would like to thank everybody for their participation in the conference and interest in our results. This has been a very interesting quarter for us, a very important number of things occurred and we are specifically happy with our operational performance, which shows the strength of the Company and the good progress in our Mucuri Project which represents the growth and the future of the Company as you all know.

Once again, thank you very much. We'll see you in the next quarter or before, whenever you like. Thank you, very much.

Operator

Thank you. This concludes today's Suzano Pulp and Paper conference call. You may now disconnect.

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