

Q1 2007 Earnings Call

Company Participants

- Andre Dorf, Head
- Antonio Maciel, CEO
- Bernardo Szpigel, CFO, IRO
- Ernesto Pousada, PO
- Rogerio Ziviani, Head
- Unidentified Speaker, Unknown

Other Participants

- Debbie Bobovnikova, Analyst
- Gabriel Marzotto, Analyst
- Unidentified Participant, Analyst
- Victoria Santaella, Analyst

Presentation

Operator

There will be replay facility for this call on the website.

(Operator Instructions)

Today's speakers will be Mr. Bernardo Szpigel, CFO and Investor Relations Officer, Mr. Rogerio Ziviani, Head of Pulp Business Unit, Mr. Andre Dorf, Head of Paper Business Unit. And Mr. Ernesto Pousada, Expansion Project Officer. We also would like to inform 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 forth in the forward-looking statements. I will now pass the floor to Mr. Bernardo Szpigel who will start today's conference call. Thank you.

Bernardo Szpigel {BIO 2080745 <GO>}

Good morning, everybody. Thank you for the participation in Suzano's First Quarter '07 results. One correction Mr. Maciel, our CEO is conducting the call. And I'll start by asking him to give the highlights for the quarter.

Antonio Maciel {BIO 20934594 <GO>}

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Good morning, everyone. Thank you very much for the participation today, this morning. I will go through the highlights and after Bernardo and other officers here we will complete the first phase of the presentation.

This first one that we'd like to tell you is about the acquisition of 50% offer in Embu unit. The remaining 50% offer in Embu unit. As you know it's the paperboard plant that we bought from Ripasa then now we've at the end of March we completed the acquisition of the remaining 50%. So today the Embu plant is fully integrated to our operations and we have already started capturing the synergies in this market -- very important for us. At Mucuri project everything is going very well. Most of the civil works have been completed and actions continued as planned so we have good news from Mucuri. Again, another quarter with very good progress. We are moving forward and Mr. Ernesto Pousada will tell you some more details about this subject.

But the good news of the quarter was the new tax incentives granted by the Federal government to our Mucuri project. In fact this is a consequence of actions that the Brazilian government has taken to reduce the cost of investments here and we have received in the First Quarter this incentive. Bernardo, Mr. Bernardo is going to talk to explain better about this incentives which we generate very good cash improvements for us in 2007 on.

We have some good news from the prices, the uncoated papers as well 3.1% higher than the last quarter in the domestic market. And the trend, this is a good trend we are recovering partially the price that has decreased last year. We have a pressure of energy prices and some raw materials and everybody knows that that pulp prices are higher than last year also. So we have a good trend in the recovery of uncoated papers and Mr. Andre Dorf will talk about that shortly.

The follow-on equity offering that happened the end of January, the beginning of February was a very conduct, had very good results. The free float increased to 42.3% so is another step forward in our actions to become more and more a good and an important player in the capital markets here in Brazil.

Sales and administrative expenses experienced about 20% reduction compared with Fourth Quarter of 2006. We have more details to show. Mr. Bernardo is going to talk about but this is trends we will maintain as part of our efforts to reduce our costs to be competitive even with the exchange rate that's 2.0 compared to reals and the dollar.

And we had a record production volume, 458,000 tons in the quarter which is very good news as well. I'll pass the front to Bernardo. Bernardo is going to talk about the incentive first and then just after Ernesto Pousada about Mucuri project.

Bernardo Szpigel {BIO 2080745 <GO>}

Turning now to the next slides, the new tax incentive to Mucuri as a result of a new law that passed in Brazil in '05. We were granted accelerated depreciation for our Mucuri activities. The specific incentive that we're talking here is that the total depreciation in the

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year of the acquisition of the goods. This in fact is equivalent to a deferral of payment of income tax over the useful life of the assets which in the case of Mucuri is 35 years so it's a very important financial effect in terms of the present value of tax payments in Mucuri.

This is effective from January 1, 2006, as the law established but only recently it was formally all of the following legal acts were put in place and we received the granting of this on March 29, 2007. So in this quarter and the effects they reflect tax -- what 2006. So in this quarter we have not only the effect on the quarter itself. But also the reversal of some figures that we had in 2006.

Mainly in terms of cash flow effects what we have, which we can summarize, we will have no income tax to be paid for 2006 and the First Quarter of '07. More specifically the \$77R million that we had already paid in 2006 referring to the income of 2006 is going to come back to our cash flow this year and we'll have no income tax to be paid in this quarter. And given the rates in which we are investing in the Mucuri project for this year as well no income tax will be collected by the government.

The effective tax, some comments on the effective tax which is important for the evaluation that is calculated, first of all the present value of the deferral is not reflected in the financial statement. This is a present-value effect which is not reflected in the accounting figures.

In 2006 and the First Quarter of '07 the resulting taxable profit in fact is zero because of the amount of the depreciation related to the acquisition in 2006 and the First Quarter of 2007. Because of that we are not able to use the 75, the other existing tax incentive, which was 75% actually in taxable profits. We cannot use it for 2006. And the First Quarter of 2007.

The reversal of that utilization in 2006 is now showing in our First Quarter '07. So the effective tax rate for the First Quarter is impacted negatively by the reversal of the 75%. This in fact is just an accounting record. It does not reflect the value of the incentive that we have obtained.

Our effective tax rate if you look is now on a more regular base which show on an accounting base something like 30% up from the 25% that we had been showing. But on a present value calculation is in fact below 20% if you do the impact of the deferral of income tax. I'll now pass onto Ernesto to continue the Mucuri project success.

Ernesto Pousada {BIO 15951890 <GO>}

Okay good morning to everybody. So from the Mucuri project we are moving quite well towards our target of our start up in October, assembly and erection of the main equipment are well underway. This last Monday on April 30th, we just had the first main area, what is water treatment, one of the main areas where we had an EPC concluded. So this area is already operational. It's an important milestone to the project.

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As we move onto a commissioning, preparing for start up. So lots of tests and running with equipment is starting and we can see that project is moving quite well towards a start up in October.

On the investment side we have disbursed so far approximately \$900US million which represents 69% of the total CapEx for the project. Despite the fact we've been having a real appreciation we've been able to control this and we still estimate the total investment to remain to \$1.3 billion as showed on Page number 4.

Moving onto Page number 5 we can see some reports of the project. So you can see on the first one on the top left, causticizing and lime kiln, then the wood yard, Turbo Generator, all CDO [ph] works are almost done at this point in time and assembly and erection is quite well, like I said, underway. You can see on the cost side and the lime kiln, down on the left you can see the bleaching area which is also you see all the tanks and everything else as well as on the last one on the cooking side on the lower right photo you can see that right now we have over 6,000 workers on the site and we move quite well towards our scheduled start up.

I'll pass on now to Rogerio Ziviani for the Pulp update.

Rogerio Ziviani {BIO 2080739 <GO>}

Good morning, going to slide number 6, the First Quarter average price of pulp this price was the same as the ones announced in November last year, \$715US, \$680 in Europe and \$650 in Asia. Our average pulp export was in the First Quarter of this year \$588US, very much in line with the last quarter of last year. But thanks to the demand the demand was quite well all over the world except a little bit in Asia where we have a seasonal adjustment of this new year's during the month of January and also because of some tax regulations on the VAT that they had implemented in January but as of April 26th or 28th they dropped it down which was a very good reflection -- it reflected in the market in terms of pulp demand as we could see in the last few days.

So that made the pulp prices also to be stable even though we had some new capacity coming in especially from Chile. The global shipment of the eucalyptus during this quarter compared to the same period of last year went up about 5.9%, almost 6% showing that the new capacities coming up from Chile and some other de-bottlenecking putting the eucalyptus today as a leading pulp of the world in terms of market pulp.

That also increased the spread between the price of softwood and hardwood which today is around \$100US and our forecast and the forecast from the main analysts from the market is that these prices will continue to be widening and also is a good chance for the eucalyptus as we go on higher substitution as we can talk later on.

Going to slide number 7 as we can see during the First Quarter the pulp sales volumes were around 174,000 tons very much in line with the production which was exactly 174,000 tons as well of market pulp which was higher than the First Quarter of last year.

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Against that there was about 133,000 tons and during the last quarter of last year we had 145,000 tons.

Looking to the distribution in terms of percentage we continue to have Europe as our main market with about 56% to 60% as we maintain that and Asia with 29% and North America with 11%. And Latin America with 4%. Why Europe is so concentrated? Because we have the FSC and the FSC certification is well required in that area is spreading also to other markets like Asia and North America as well.

Our cash cost was \$219US/ton in the First Quarter less than the previous quarters as you may recall but it's still a little bit higher as Bernardo can tell you later on about it. But we continue to work on the training now of this despite of the dollar exchange rate and everything.

In terms of export market continue to be responsible for 80% of our total sales. During this quarter is important to mention that we launch the new brand of our pulp which is the Suzano Pulp all over the world and we are now heading to Montreal during this weekend where we're also going to display and announce all this to market in a convention that is going to be held there.

I move on now to Andre Dorf who is going to talk about the Paper Unit.

Andre Dorf {BIO 15460232 <GO>}

Good morning, everyone. On the Paper side we have seen some price increases in the main regions, mainly Europe and in the US. And we've just announced another price increase of \$66US/ton in the cut size in the US and another \$40/ton in Europe to be implemented in May this week.

We've been able to reach or we reached in the First Quarter almost \$900US/ton in the export markets and \$2R,400 in the domestic market in prices. 50% of our volume was sold in the domestic market. And it's worth to mention that we had lower volumes in the domestic market. I mean the domestic market had lower volumes compared to the Fourth Quarter of last year because of the seasonality and also compared to the First Quarter '06 as well.

Another highlight is the volume increase that we had in our exports. We exported 27% more compared to the last quarter. And this is mainly due to a shipment delay that we recovered in the First Quarter that we missed in the last quarter of last year. And also due to the lower volumes in the domestic market we were able to divert them to the export markets.

Also it's worth to mention the Embu acquisition as Maciel said we paid \$20 million for the remaining 50%. It's a very good asset just revamped in the beginning of last year. We added 48,000 tons of paperboard to our current capacity. Moving to Page nine in the chart of the left-hand side we can see the growth in exports that I just mentioned. And our volumes in the domestic market remain pretty much the same compared to the same

period of last year, although it's worth it to mention also that we improved a lot our commercial approach and we just launched in March a commercial policy towards our distributors so we are organizing our sales and commercial approach in the domestic markets. So we will be able to capture some value in the forthcoming months.

On the right-hand side there's the breakdown of our exports. We are still focusing on Latin America, Europe and North America, all the three regions. We had an increase in volume in the three regions. And we expect to focus more in North America from now on.

I'll pass back to Bernardo Szpigel.

Bernardo Szpigel {BIO 2080745 <GO>}

We do slide 10, comparing now First Quarter '07 with Fourth Quarter '06 on some key indicators here. Mostly it was a positive quarter when we compare the two quarters. The only negative point, if you like, is paper sales volume into the domestic market and this is more the seasonal effect since the Fourth Quarter of the year is a weaker quarter in the domestic market compared with the Fourth Quarter, the seasonal effects of the school year reflecting here.

All of the other indicators are positive. I would like to point out net income is up 17.7% despite the fact that in the First Quarter of '07 this is reflecting a reversal of an income tax incentive of \$35R million that we had in the Fourth Quarter -- for the year of 2006 and this is reversed in this year. If we did not have that the profit would go up to \$140R million so an even greater increase.

Pulp cash cost is another negative -- is a positive aspect here improving from \$499R to \$462R so an improvement here. But not yet reaching the levels which we think are more normal. Still in this quarter of '07 we had a quarter that was impacted by stoppage by our dryer in Mucuri which still had some impact in terms of higher cash costs.

For EBITDA both in reals and dollars it's a positive development, an increase of 5.3% in reals and 4.7% in dollars. The difference here is the further appreciation of the real on average terms in the quarter, this quarter. The margin went up by 1.2percentage points, which is good despite the fact that we had a stronger real this quarter.

And net debt will be down remains somewhere around between 3.7 times net debt to EBITDA despite the fact that we are exactly in the process of investing in Mucuri so this is a good development. If you look now to slide 11 I can compare First Quarter '07 with the same quarter of the previous year, of 2006. It is important to remember that here the comparison is somewhat -- it cannot be fully made because in that structure or last year we were consolidating 23% of Ripasa and we started consolidating 50% of Ripasa as of May last year. But anyway what we see here is a very good development.

In terms of paper volumes in the domestic market you can see here that it's practically the same volume, 149,000 this quarter against 151,000 a year ago which is the seasonal effect

that we already referred to and the improvements in EBITDA margins in reals and dollars and even the improvement of 0.9percentage points despite the appreciation of the real.

On the next slide just looking at the share liquidity on slide 12 liquidity is starting the second half of last year improved significantly. We are now this quarter running at close to \$7US million per day in terms of volume and 250 trades per day which is significant improvement from where we were a year ago. So with this we conclude our slide presentation and move onto question and answers.

Questions And Answers

Operator

(Operator Instructions)

Our first question is coming from Marcelo Arilai [ph] with Merrill Lynch. Please go ahead.

Q - Unidentified Participant

Good morning, everyone. Actually it's Marcos Sasson [ph] on behalf of Marcelo. The first question goes to Rogerio Ziviani. Rogerio, I'd like to know if you're hearing anything about the Canadian producers restarting some operations in the Northern Hemisphere?

A - Rogerio Ziviani {BIO 2080739 <GO>}

Good morning, Marcos. Actually I'm in North America right now, at Suzano America speaking with you. We have not heard anything regarding restarting. As a matter of fact we can see some problems in the supply of ships and supply of wood. So on the contrary we don't expect to see anything. Maybe after Montreal we can hear something new and then we can come back to you.

Q - Unidentified Participant

Okay. Great. The Second Quarter to you again is regarding your maintain competitor supply of new entrants this year but will be bought here or this year or next year. What are you hearing when you talk to your clients, Rogerio, regarding the entrance of this new capacity? Do you believe that they will enter the market in the Fourth Quarter as everybody is expecting or they could delay a little bit their new supply of wood?

A - Rogerio Ziviani {BIO 2080739 <GO>}

Well Marcos, maybe Ernesto Pousada could give us an update on what he's hearing from the suppliers or the products' supplier of the machinery and everything. But as we heard last time there were forecasts, two forecasts to start during the Fourth Quarter. From the market point of view I would say that we can see they're making some movements in Europe especially to try to place their start-up tonnage. But besides that we have not seen that much of them into the market.

I think a great portion of their production should be used by their own mills or associated.

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay, Ernesto Pousada, here just to confirm what Rogerio said what I heard the latest news on their start up is September/October so should be about the same time as ours.

Q - Unidentified Participant

Okay and Rogerio the last one for you, you just mentioned in North America producers are having some problems in terms of supply of fiber. We are also hearing that in Russia the pulp producers are also implementing export taxes and that in Indonesia there are some new paper machines that are taking out some wood from the market. So do you confirm all these three pieces of information and believe that if this continues in the Second Quarter this could lead to an even tighter supply/demand market for hardwood and even if to an increase in prices in the Second Quarter or you believe that prices should remain stable?

A - Rogerio Ziviani {BIO 2080739 <GO>}

Well Marcos, we confirm all the three points that you have mentioned. Regarding prices forecast I think as I mentioned in the Portuguese version of this call we saw that the experts, into the analyst experts, they put up a price forecast during the end of last year for this year. And they revised it last month for about \$15 to \$20 plus on the average of the year. It's very difficult for us to make any assumptions but we are more confident First Quarter would be a quarter with more tonnage coming into the market from the Chileans and we didn't suffer any pressure in prices except a little bit in Asia as an adjustment of the season being a little bit lower.

But on top of that we are more confident today than we were at the end of last year that I can tell you right now.

Q - Unidentified Participant

Okay thank you very much. Another question too on the last piece regarding the sales mix of paper during First Quarter we saw the mix a little bit worse than from the Fourth Quarter and I'd like to know what are you expecting for the sales mix in Second Quarter since I believe the most excellent, the main reason for the worse mix was this was a weak seasonality. So do you expect the mix in the domestic market coming back to 66%, which was the level observed in the Fourth Quarter of '06?

A - Andre Dorf {BIO 15460232 <GO>}

Yes. You are right the mix has to do with seasonality. Historically, our First Quarter of every year represent something between 21% to 22% of our annual sales. And we expect to recover that in the Second Quarter. But mainly in the third and Fourth Quarters. It happened every year in the past but we expect our target is to maintain this 60/40 ratio throughout the year.

Q - Unidentified Participant

Okay thank you. And my last question goes to Bernardo. Bernardo, I think the impact of the acceleration of the depreciation is quite clear for the years of 2006 and 2007. But I

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would like for you, if you could, explain further what's going to happen in 2008 where you don't have much of the acquisitions of the equipment anymore and probably you will start to use your benefit from Edene [ph] already in '08 and you probably will be using the combined benefits both from Edene and from the accelerated depreciation?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes, Marcos, your assessment is quite correct. The new tax incentive has a special impact in the years of 2006 and 2007. We are investing in the Mucuri project. So all of the investment here that can be depreciated is being depreciated in these two years. Moving forward from 2008 what you have is the depreciation of what is invested in Mucuri for all of the other reasons like maintenance, CapEx and so forth.

So we will have then taxable profits starting again in 2008 and of course reflecting the new volumes that we're going to be selling from there. And we'll resume the utilization of the existing or the first, let's say, tax incentive, which was a 75% reduction on income tax proportionate to the sales of Mucuri. So the combined is, of course, is the maximization of the benefit using both tax incentives when they apply them when they are best for the company.

Q - Unidentified Participant

And Bernardo, do you already have like a best estimate for the net present value of this benefit of the deferred [ph] income tax?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes, of course this would depend on a number of factors that you use and for projections that you have for the future income tax that you have there. Our assessment so far is that from a financial point of view let's say in present value terms we will have effective tax rate, this is not the accounting effective tax but the financials will have no income tax in this year in 2006 and 2007. So will have just social contribution. So if you like the effective tax rate in those years is 9% as the social contribution.

But if you project this into the future our calculations and you can do it just by deferring income tax from this year to 35 years you get to something between 15% to 20% effective tax rates including social contribution.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Thank you, our next question is coming from Debbie Bobovnikova with JP Morgan. Please go ahead.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Yes hi. Good morning. My first question is on the costs. We saw that average cash costs increase about 4% quarter over quarter and that's on a per ton basis. I know that your pulp costs decreased so I'm wondering how did the freight costs and paper costs do quarter over quarter if there were any pressures there? Thanks.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Good morning, Debbie, I think you were referring to Fourth Quarter '06 with First Quarter '07, is that correct?

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Yes, yes.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Okay so what we saw is a decrease in cash cost, pulp cash cost from \$492R/ton to \$462R/ton and when you look at the cost of goods sold there is an increase in, of course, the volume there because it's so more. And there are two other effects. Year 1 is reflecting of the cost increase. One is reflecting to the cost of transportation of our exported goods which are part of our unconsolidated business part of our cost of goods sold. And the other portion is just concentrating this quarter is a change in criterion for fiscal fees.

Up until Fourth Quarter of '06 we were using it on a cash basis so we were taking the credit in the same quarter of all of our acquisitions and now we have moved to the utilization or conception of these materials and imports. This is an \$8R million impact quarter over quarter and this is just on this First Quarter '07. After that we move onto the normal cost of goods sold. So we have in the comparison we have a more positive view for the Fourth Quarter of '06 and a more negative view for First Quarter of '07. But this is just in these two quarters. From now on the effect, this transitory effect comes down. And our cost of goods sold come back to levels that we used to have -- in fact with some improvement compared with what we had.

A - Antonio Maciel {BIO 20934594 <GO>}

Just a quick comment in regards -- in respect to the transportation costs that Bernardo just mentioned, it simply reflect our greater portion of exports in our sales mix. It's not that there are transportation costs are increasing.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay great. Thank you. And what about your SG&A that decreased a lot both on an absolute value and also in terms of percentage of your sales? Is that kind of the new level we should expect going forward?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes when you compare this significant improvement of something like \$20R million, when you compare two of them, about something like \$11R million is already the new levels of reduction both including what happened in SG&A and commercial. Some of the other

improvements, some of the other change is reflecting what the SG&A that we had in the Fourth Quarter of '06 which was higher than average.

So of the total \$24R million improvement some \$11R million are permanent.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

So what can we expect for next quarter? Do we expect a slight increase or this is the new level?

A - Bernardo Szpigel {BIO 2080745 <GO>}

From the new level, also this when you look at SG&A for this quarter, for example, because of the reduction in sales in the domestic market our sales expenses went down a little bit so this will come back to normal levels. This represented something like a \$6R million reduction and this will come back for the next -- on a seasonal basis. So what you can see for the year as a whole is a reduction of something like \$11R million times four for the year on year.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Great, perfect. Then a question on the Paper side. I know you said that this quarter was weak due to seasonality but it also seemed to be weak year over year. Just wanted to understand kind of what are the competition pressures you're seeing in the domestic paper market right now and how you expect the market to perform over the year both in terms of volumes and pricing?

A - Andre Dorf {BIO 15460232 <GO>}

Yes, right Debbie. We've seen a weaker, beginning on the year compared to last year and this has to do with some prices increase that we implemented throughout the quarter. We led the price increase of over 6% in the uncoated market and our actual figures didn't reflect that because we were also affected by a certain tonnage that we sold to the notable exporters at a more competitive price which affected our average price.

But excluding that effect, our prices increases surpassed 5% on the uncoated. Also we call this quarter a transitioning quarter because IP sold the mill -- the Luiz Antonio Mill to -- VCP sold to IP the Luiz Antonio Mill and we have seen some extra volumes, extra inventories to the market and some uncertainty from the buyers as well. So we expect the market to recover from this quarter on both in terms of demand and prices until the end of the year.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Great and then one more question. In terms of this tax benefit I know you've talked a lot about it but I just want to make sure. The reversal that we saw this quarter in terms of the Edene benefit that's really just a timing issue, right? You're expecting a return of that amount and some more from this new tax benefit plan sometime this year? Is that correct? Whatever you just paid this quarter for Edene is actually going to be reversed?

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A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes. You are correct. The impact in this quarter is limited to this quarter is the reversal of \$35R million that we had in 2006. We're not going to use any more because of our taxable income instead became negative and so you use only the 75% reduction when you have a positive taxable income. So we're just reverting what we had in 2006. Then from now on we continue as normal.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Okay, then one last final question. Just in terms of your land holdings you have sizable land in the state of Maranhio. That seems to be quite far from your existing pulp mill. I'm just wondering what is your strategy for holding land in the states. Do you think down the road you can consider building a pulp mill there or is it something that you think would be viable as wood to ship to your existing Mucuri mill?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Debbie, this is something that is there for a future mill but possibly but it's even -- it's longer further down into the future. We don't expect this to be our next mill because of lack of infrastructure. These are landholdings for future pulp production.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And in terms of Mucuri you're expanding now to 1.7 million tons or roughly that. What is the largest size that you can see Mucuri getting to or that the site can support? Is it something like 3 million tons, that's technically possible, not that you're going to do it?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Technically, it's possible. We would reduce even further fixed costs, unit fixed costs. This is one possibility, of course. And although the discussion here is the availability of wood to supply in very competitive conditions. There are significant advantages in building another mill in this same site, which can compensate for what could be a higher average transportation distance if we're going to supply that mill with wood.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Supplying it from Maranhio is not an option? That's too far away?

A - Bernardo Szpigel {BIO 2080745 <GO>}

That's too far away.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay so Minagera [ph] and other areas are more likely?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes.

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Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay great. Thank you.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Okay you're welcome.

Operator

(Operator Instructions)

Our next question is coming from Victoria Santaella with Santander. Please go ahead.

Q - Victoria Santaella {BIO 1521297 <GO>}

Hi. Good morning gentlemen. I have two questions, as most of them have already been answered. The first one is regarding the average price for your exports of pulp. Obviously, it's a little bit below the international average. If you can elaborate a little bit more in terms of how much east bound can we expect going forward? And the second is of your new plant how much of the new production has already been engaged in long-term agreement with other company.

A - Rogerio Ziviani {BIO 2080739 <GO>}

Victoria, it's Rogerio speaking. In terms of price I think our price is in line with the market. Don't forget this is the average liquid price, net price. That is after discounts and everything. So if you're looking to other publications from other players in the market our price is in line with or higher than. So these discounts as we have today for the volumes that we have today into the market they are in the lower end of what is practiced in the market. I can tell you that.

Now coming years ahead with the more volumes, of course, those volumes require a little bit more discounts. All depends on the kind of contract that you have. Today we have established for the new project already 60% committed with the long-term contracts, which is very much in line with our plan. We are targeting to have by next year around 80%. So everything is under control, is on schedule and contracts are being discussed as we speak. And we intend to conclude them by the end of this year, beginning of next year to achieve our goals.

Q - Victoria Santaella {BIO 1521297 <GO>}

Excellent. One last question regarding the land, your forest assets, is there any plans to continue acquiring more forest land in Brazil?

A - Antonio Maciel {BIO 20934594 <GO>}

This is Antonio Maciel. We have plans to grow. Growth is our main strategic intention. We have opportunities because we have a very low cost and we feel that we are very competitive worldwide in the total market. So we have plans to continue to grow.

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However, we are now concentrating the launch of the Mucuri plant and we are studying the alternatives, different alternatives where, how and when we are going to grow mainly in the pulp production. So we don't have anything to say for now. Any concrete actions, buying land or finding a new site or expanding the existing site, however, this is on the top of our discussions here, the top of our list of strategic issues. And during this year we will take decisions about that.

Q - Victoria Santaella {BIO 1521297 <GO>}

Thank you very much.

Operator

Thank you, our next question is coming from Gabriel Marzotto with Unibanco. Please go ahead.

Q - Gabriel Marzotto {BIO 19277931 <GO>}

Hi. Good morning again. My question is regarding soft and hardwood spreads. How do you expect these spreads to be for the next quarter respectively we are \$60 or \$70 above the start [ph] average. Do you expect that will be trend about \$100 or something like that?

A - Unidentified Speaker

Gabriel, today we have \$100 already on top of the spread. Average of the market in the past was \$50. The spread was \$50 and after that was the substitution. We would see a higher substitution in terms of one to the other. What we see today is that there is no more new capacity coming in of softwood and there are plenty -- not plenty. But according to the market about 2 million tons coming this year as new capacity but only part of it is going to be start up and is going to be in line with the demand according to Yacopori [ph] is going to be 2.2% to 2.5% growth year over year.

So if you look into all that into consideration we may see that this spread can go a little bit higher if we don't see new capacity coming in. As soon as we see some of the operations, some of the machines that are in place, some of them are old machine and they need to continue to use a higher content of softwood. And there are also products that continue to be using a greater percentage of softwood due to the characteristics of these products.

So I think the spread should be maintained or even larger a little bit.

Q - Gabriel Marzotto {BIO 19277931 <GO>}

Okay, thank you. And my next question is to Antonio Maciel, (inaudible) mills ending in 2007 back in phase with Mucuri ramp up and basically all the definition from Tarza [ph], Componsaro [ph] and Nimbo [ph] what can you expect regarding investments or (inaudible) provisions? I know that you already gave guidance in the last question. But can you be more emphatic regarding -- in this point?

A - Antonio Maciel {BIO 20934594 <GO>}

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Unfortunately I can't be more straight and more direct on this answer. We have mentioned several times that growth is our main goal, is on top of our strategic initiatives. And during this year probably you'll hear more about that. But so far we don't have anything to say. The only thing we can assure you that as we launch, or Ernesto was able to show you that we have had so far an extraordinary, excellent launch prepared. This is our key focus. You know that every day we gain or every hour we gain on launch will be very good for our cash during this year, next year. So we are fully engaged.

We are integrating Embu plant, in the paperboard side experience some very good news also that we -- not able to tell you right now but in the next call, the next quarter, our intention is to give you more information, more pieces of information about Embu also. The Componsaro consortium is working well. It's fully consolidated -- the synergies have been captured. So we are completing a very interesting cycle of growth this year, this first semester. And we are preparing as we talk a new growth cycle. And this will be so far I can anticipate anything about that but this is underway.

Q - Gabriel Marzotto {BIO 19277931 <GO>}

Okay. Thank you. And I have one final question. I would like to go down a little bit to the effective tax rate from 2008 on (inaudible). Do you work with this range of 15, 20% until which date exactly, probably 2013, 2015 when all the tax rate would be exhausted?

A - Unidentified Speaker

Well we are -- this in fact this is based on a long-term, a ten-year present value calculation starting from this year, 2007. So the overall tax year is until 2017 because it's important to remember that if you have some of these effects will move on as we -- if you cannot use in the same year we have a tax loss, a credit which we'll be using over the coming years.

Q - Gabriel Marzotto {BIO 19277931 <GO>}

Okay. Thank you.

A - Unidentified Speaker

Sure.

Operator

Thank you, our next question is coming from Paulo Sora [ph] with Emspra [ph]. Please go ahead.

Q - Unidentified Participant

Hi, gentlemen. I have actually three questions. The first question is what's the outlook for paper demand in Brazil, 2007 and eventually 2008 in terms of growth? And if you could give us a guidance what's your EBITDA margin for the Paper business today and what you expect going forward? Then the return on invested capital specifically on the Paper side of your business?

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A - Andre Dorf {BIO 15460232 <GO>}

Okay hi, Paulo. We've seen or we saw in the First Quarter a slight decrease in demand and every peak and rising rate. Our very year over year, our paperboard market grew 3% and we were able to grow 6% and in printing and writing there was a slight decrease of 5% year over year. We expect this, a recovery of the demand starting from this quarter and followed by the third and Fourth Quarters. And to recover this decrease until the end of the year. As I said the First Quarter was a transitioning one and we had some impact on demand as well.

In terms of 2008 we expect also a growth, a significant growth in 2008 as we have seen some more intention and some more investments in education publications and also of the GDP as a whole. It impacts directly our packaging businesses and also our notebook and publishing books businesses as well.

In terms of prices we also see a trend of recovery throughout this year although we haven't announced anything for the short term. But we foresee a price recovery in the following months.

Q - Unidentified Participant

You didn't have a multiplier on GDP that you expect in terms of demand for paper of the coming years?

A - Andre Dorf {BIO 15460232 <GO>}

Yes it depends on the grade. Our packaging grades are more elastic to the GDP but it varies from 1 to 1.5 times the GDP growth.

Q - Unidentified Participant

And still regarding the Paper I see most of the analysts very negative on your Paper side of your business. At the same time we saw international paper paying a huge premium on the acquisition of the Paper business of VCP. So I would like just to clarify what's the rationale between your Paper business in Brazil and if you could give us a guidance on what's the profitability of this business going forward?

A - Andre Dorf {BIO 15460232 <GO>}

Yes, since we moved our structure to this business unit type of structure we've been able to analyze the Paper business as a stand-alone business within the company. And we've analyzed our margins in every segment and in every market. And the conclusions are that we've been able to achieve some EBITDA margins lower than the Pulp ones but also interesting ones. And a good return on invested capital because the Paper business requires less capital invested. It's less capital intensive compared to Pulp and Forest.

So the Paper business is obviously more regional than the Pulp one but it's quite interesting from the cash generation perspective. Suzano is the leading player, is the number one or two in every segment that we participate we have a good presence brand

recognition and quality recognition in the region and I mean Latin America and we've been able to capture a premium and good margins out of this business.

Q - Unidentified Participant

Okay and my second question is too regarding your income tax bracket. I see most of the analysts projecting income tax close to 30% for you in the coming year. Can you clarify again that you are expecting an effective tax between 15% to 20% over the next ten years on your projections going forward? That's correct?

A - Bernardo Szpigel {BIO 2080745 <GO>}

That's correct, Paulo. What you see in the 30% is the accounting effective tax rate. The income statements and the financial statements do not reflect present value figures as you know. So since we have an effect of deferral of income tax from an accounting point of view doesn't make a difference in terms of your accounting effective tax rate, no change because of that effect of deferral.

When I mentioned the 15% to 20% is when you discount on a cash flow basis then this is the amount of effect that you get, 15% to 20% effective interim tax rate and social contribution for present value purposes.

Q - Unidentified Participant

Okay that is the importance for a cash flow point of view. Okay. And my third question is regarding pulp prices. Most of the analysts are also projecting a very strong reversal on pulp cycle in the second half of this year and into 2008. Can you give us guidance on what's your view on pulp cycle going forward, if you could share what would be a worst case scenario for Pulp price in your view, into the second half of this year and also next year?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Okay you're right, as I told you before, I think some of the analysts are revising their prices for this year compared to what they have forecasted at the end of last year. And I think we are doing the same thing due to the fact that even with the new tonnage coming in from Chile and the lower demand in the first seasonal quarter in China the demand continued to be very good.

And also the demand for paper and the other end is also good. And if you take into consideration that the European market the exchange rate to the dollar also is helping some of the local producers all those factors and that is the new paper machine coming in and big ones in Asia all that put in together the demand continue to be positive on a 2.2% to 2.5% per annum forecasted. Everybody is forecasting a better year as a whole.

Now looking to the second half as you mentioned the worst scenario, I think the worst scenario is very difficult to predict but from the demand side. And the supply side as we can see today and the currencies around the world. And the stable prices of petroleum

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and everything we can see this price it can be more stable and the upper side than it is today.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Thank you, our next question is coming from Felipe Reis [ph] with Santander Investment. Please go ahead.

Q - Unidentified Participant

Hi. Good morning gentlemen. My question is regarding new competition into the Brazil market of Paper. I mean my question regarding actually more focused on strengthening [ph] of international paper business in Brazil. You mentioned in your previous answer that you expect to rather higher paper prices going forward this year or so. My question is even with this, in my view, tough competition can you be able to increase prices or I'm wrong. So the competition was not strengthening and we should not see a tougher market environment for Paper in Brazil.

A - Unidentified Speaker

Hi, Felipe, actually we were able to implement some price increases in the First Quarter and we expect to do so from now on. Actually what happened the balance between supply and demand didn't change with this move of IP so we don't see any additional capacity in the market. It's just the existing capacity changed hands. So we don't expect any change, any fundamental or structural change in the domestic market from now on.

Q - Unidentified Participant

Okay a second question going back now more to long-term strategy, I know that you are still working on the plans but just a quick question, should we expect any growth plans in the paper side of the business or the projects that are now on your desk as they're all related to pulp?

A - Antonio Maciel {BIO 20934594 <GO>}

This is Maciel. We are considering the short-term growth more in the Pulp side. We have some actions in the paper side related to productivity, de-bottlenecking and other acts. But as to new investments that's considering as the huge investment we are considering only in the Pulp for the short term. The reason is very easy to understand. In Brazil about 30%, 30% to 35% of the production is exported nowadays. So for us to have an internal market to absorb about the big investments in paper this is more difficult as we have -- our key business as we see in the future the Paper business is more regional in Latin America rather than a global business.

So not only for us but for our competitors as well is more difficult to consider big expansions as we have already a substantial part of our production being exported. Now

on the Pulp side we see our market as a global market and with the competitive advantage that we have developed here in Brazil we see more space for the growth in the short term.

A - Unidentified Speaker

And a quick comment we do have some de-bottleneck projects on the shelf as soon as the market presents some substantial demand growth.

Q - Unidentified Participant

Okay thank you.

Operator

Thank you. Our next question is coming from Marcello Luna [ph] with Deutsche Bank. Please go ahead.

Q - Unidentified Participant

Good morning, gentlemen just a couple of follow-up questions. The first one on your margins. It sounds like you've been working successfully in reducing your cash costs. I just want to have a sense for where would you see your EBITDA margin or Suzano's EBITDA margin going towards the end of the year?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well in terms of; Marcello, this is Bernardo, continue to pursue costs reductions and improvements. Expect that margins will reflect those. In fact we are now operating with the assumption that the exchange rates will be at these levels of \$2R or even below that. This is a possibility so we are revising all of our cost structure. Maciel has mentioned this in this occasion and previous occasion all of the movement that we are doing in terms of increased productivity. So we expect that our margins will improve from where they are now even with a strong real. For this year this will be mainly from these productivity increases. Then starting at the end of this year and in 2008 we'll have an improvement in EBITDA margin because of the new capacity, the new capacity coming from Mucuri.

You know that pulp mills and Mucuri are very competitive. So we are moving for that additional capacity with EBITDA margins in the range of 45% to 50% EBITDA margin. This is what a very competitive mill can produce in Brazil. So for this year on will be based on increased productivity and cost reductions. And a new important step then start in 2008.

A - Antonio Maciel {BIO 20934594 <GO>}

Marcelo, this is Maciel, just to add what Bernardo has already mentioned that EBITDA comes from the cost and price, you know? And Bernardo already mentioned the cost efforts we have been developed. From the price side we have especially on the Pulp the substitution effect. We shared this morning some interesting data. In Europe in the First Quarter we had 2.5% growth in the demand for the marketable [ph] pulp and we had a

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10% increase year over year, the same period, of the shipments of the pulp from eucalyptus. So we have seen substitution as a reality. We have talked with our suppliers.

In fact Naspozado [ph] organizes a steel meeting in Mucuri some weeks ago. We had opportunity to talk with most of the CEO, worldwide CEOs of our suppliers, taking the event to show off this meeting where we were there really to have a final agreement and a final commitment with the launch. And that they have told us that they have received many -- a lot of request from paper producers asking for technological solutions to replace long fibers to short fibers. So eucalyptus is a good alternative and we have seen some substitution. Growth of the demand is natural because in China the new machines are much more flexible so they can use more eucalyptus fiber, pulp. So we have demand growth, substitution growth.

And as we talk about price in the pulp and the paper side it's important to underline that the dollar of course it has weakened not only against the real. We have seen this phenomenon happening against almost all the currencies around the world. So as we increase prices to recover some of the margins lost during the currency effect our customers will not need to increase their price to their customers. Normally the price increases is very difficult because our customers as we increase our prices and all the industries they need to increase their price to maintain, at least to maintain their margins to their customers.

Now as we speak our price increase will not reflect anything for their customers if we add at only the currency effect. So we will be continually working on the cost side but we are paying a lot of attention and opportunities on the price to -- we don't have a guidance to tell you exactly the EBITDA year-end but we have already introduced and we have already changed our management numbers here that are everything to talk to use the new exchange rates we have. We are not going to be here fighting against the real. We have adopted these new numbers and we are going to work to support, to increase the EBITDA.

Q - Unidentified Participant

Great thank you very much. So it sounds like most of the productivity gains are going to come during '07 and most of the EBITDA margin gains should come in '08 when Mucuri 2 should be at full capacity. It sounds like it would be ambitious to assume EBITDA margin close to 40% for the Fourth Quarter of 2007? Maybe it should be slightly higher than what it is right now. But not too much higher? Would that make sense?

A - Antonio Maciel {BIO 20934594 <GO>}

No, Felipe, we're not providing a guidance on that respect. What we say is we'll continue to get improvement from where we are now. The new capacity from Mucuri in fact starts kicking in significantly towards -- it starts in the Fourth Quarter of this year but according to current plans will be producing 120,000 in the year but selling something like 60,000, 65,000 tons in the year. So the impact is not significant in this year.

What you're going to see is, in fact, from 2008 onwards the significant change in the composition of pulp and paper in our business. Today pulp represents 25% of our sales and it will move to a much higher percentage as only from 2008 onwards.

Q - Unidentified Participant

Sure it's clearer. Thank you. The other question is regarding the -- exactly Mucuri 2 can you just remind us when Mucuri 2 should reach close to 100% of its capacity utilization in 2008?

A - Antonio Maciel {BIO 20934594 <GO>}

Yes our current plan is again is to start up in October this year and our learning curve is planned to take 12 months so we should be running full capacity at September next year.

Q - Unidentified Participant

Great and the last question with regards to the interest expenses it looks like the financing program with VNDS [ph] and the other institutions is working well. You have very low interest expenses now. When would you expect the interest expenses to come to normalized levels I would say, maybe from 2008. But if you could just clarify?

A - Antonio Maciel {BIO 20934594 <GO>}

No. I don't -- I don't know exactly what you understand by normalized levels. I think we are already getting interest costs and interest rates. We, of course, we had for the funding of the project I will say exceptional good rates. But also the market has moved into a lower interest rate in general. So we are very -- we are already reflecting what we call the normalized levels interest costs. And of course, we would expect then to improve even further.

Of course we are talking here of the non-project related funding, which was exceptionally good. But also for our other funding interest rates have come down and we expect to enjoy the new conditions of the market as we move forward.

Q - Unidentified Participant

Thank you.

Operator

(Operator Instructions)

Our next question is coming from Debbie Bobovnikova with JP Morgan. Please go ahead.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Yes, just one follow-up question to the earlier question on your Paper business. You said you made some detailed studies on the returns. Can you just help us understand so

you're saying that returns of invested capital for your Pulp and Paper segments are equal? Is that correct?

A - Bernardo Szpigel {BIO 2080745 <GO>}

You mean the returns? Not equal but similar. They're not exactly the same depending on the point of the cycle but normalizing they are pretty much -- they are close.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay and then I mean I guess on that point you mentioned that Paper has been a tough business. In Brazil there's a lot of excessive capacity still whereas Pulp Brazil definitely has an advantage in terms of its location and cost. I'm just wondering if you're going to invest further in growing your Pulp segment would you consider actually divesting of the Paper segment in order to be able to fund more of the Pulp side? Where it seems like the returns are still slightly higher than on the Paper?

A - Antonio Maciel {BIO 20934594 <GO>}

No. That business -- Antonio Maciel -- we are not considering divesting in the Paper business. If you look at our numbers you're going to see for the cash generation that we are going to experience after the launch of the second line in Mucuri we will have all the conditions to leverage the money required, the results required for the expansions. So we will have the capital market available. We have debt market available.

We are not considering divesting in Paper to fund any for the development on the Pulp side. And we are as Andre Dorf has mentioned before we are number one or two in the segments we play. We see Paper is a more stable business. Nowadays we have a higher price in the Pulp. When the price cycle goes down in the future the Paper is more stable. So our leading position in the Latin America Paper business has a lot of value for us and we are not considering any big change in the short term.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay great. Thank you.

Operator

Thank you. This concludes the question-and-answer section. At this time, I would like to turn the floor back to Mr. Bernardo Szpigel for any closing remarks.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Well thank you very much. I would like Mr. Maciel to close this presentation, please?

A - Antonio Maciel {BIO 20934594 <GO>}

Well just a few words. Thank you very much for participating in the call. Bernardo, myself and all the officers here will be available if you have additional questions. We have

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planned to be closer to the investors, closer to the capital market as we move forward this year. So thank you again and hope to see you soon. Thank you very much.

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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