

## Q3 2006 Earnings Call

### Company Participants

- Andre Dorf, Head of Paper Business Unit
- Antonio Maciel Neto, CEO
- Bernardo Szpigel, CFO and IR officer
- Ernesto Pousada, Expansion Project Officer
- Rogerio Ziviani, Head of Pulp Business Unit

### Other Participants

- Debbie Bobovnikova, Analyst
- Edmo Chagas, Analyst
- Jorge Beristain, Analyst
- Marcelo Aguiar, Analyst
- Tereza Melo, Analyst
- Unidentified Speaker

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to the Suzano Pulp and Paper Third Quarter 2006 earnings results conference call.

Today we have a simultaneous webcast with live presentation on the internet that can be accessed at the site [www.suzano.com.br](http://www.suzano.com.br). 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. Antonio Maciel Neto, CEO, 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 would also 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 forward 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. First, I would like to make an announcement that we are publishing a re-statement of the quarterly results.

In September, we started operating with one of Ripasa's units, Americana units, by purchasing products from that unit and re-selling it into the market. Inventories then include income -- unrealized income in our -- in Suzano's inventories. And to properly reflect this unrealized income, we have revised and re-stated the quarterly financial information as published.

The impact of these changes you can see in this slide, the first slide of the presentation. Basically, we have an increase in net sales and cost of sales of BRL19.5m.

No change in EBITDA and net income. And in net income per share. And as a consequence, we have a change in EBITDA margin of 0.8percentage points and on gross margin of 0.9percentage points as you can see in the table.

Now I will pass on to Mr. Maciel for the presentation.

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

Okay. Good morning everyone. It's a pleasure to start this morning here the presentation of our Third Quarter results. In the first slide, -- please go ahead -- we like just to present some highlights. And just after we are going to talk a little bit more details about each of the details of -- each of the highlights that we are going to present right now.

We are going to start talking about price, the pulp price that we have announced an increase of \$20 per ton starting on November 1 for every market. And then in Europe our price will reach \$680 per ton.

We are very pleased to announce a record consolidated EBITDA. We achieved \$138 million in this quarter. This is the best ever EBITDA and, annualized, it means \$551 million as we are going to comment -- to present a little bit farther.

Mucuri Project. The second pulp line. The assembly process has begun and is in line with the financial and physical schedules. Everything is going well. And we are on track to deliver this project.

Another -- I think a very important highlight, is the share liquidity, which has increased a lot. We are here presenting the number mentioned that we -- in the Third Quarter of 2006 we achieved a daily volume of BRL6.2m, compared -- which is a very good increase when we compare with the BRL3.2 million that was (notched) in Second Quarter 2006.

Also, we need to mention that we start on September 1 the sale of Ripasa products, mainly the Ripax, which is main brand of the paper brand from Ripasa. And exclusively base. This is for cut size paper.

And also the debenture that we issued during the quarter, in the total amount of BRL240m. 100% was sold. The BNDES acquired the 92%. And the rest by other shareholders who had the preference on doing that.

Now you can see on the screen the increase of our sales volumes. Suzano has mentioned several times its strategy for growing the volume -- the growth strategy.

You can see that from 2003 to 2006 we presented a growth -- annualized growth -- average annualized growth of 14%, which is a very, very good number from our perspective.

So we are on schedule, on track with the consolidation now with the Ripasa volumes and continued growth in our volumes and in the size of the Company.

Talking a little bit about the Mucuri Project. During the quarter we invested in a CapEx of BRL352m, okay. What do -- in the total spent activity \$480m, or 37% of the total approved by our Board.

So in the assembly plant, as we mentioned before in the highlights, we are on track from the financial side and also the construction and timing.

It is also important to mention that the connections -- what we call the 'tie-ins' between the lines one and two were realized during the shutdown -- the maintenance shutdown for line one during the month of September. Everything went well and now we have the key connections are implemented.

Here, just to give you a flavor about the construction, you can see the docks on the top on the left side. The boiler, you recall the boiler. You can notice also the site compared with the old one -- or the (bottom of the) the line one -- that very big, very huge. This is the total (inaudible) and now we have several things to be assembled to complete this construction. You can see that the assembly is moving very fast. The drying machine that they -- in fact you can see in the middle on top the drying machine building and that's moving also very fast.

There are several other pictures. The electricity room for the generators, the evaporation process, the cooking. And also the key part of the boiler being shipped from Antwerp to a port in Europe. That's just to show.

So this is just to give a flavor of the construction. The direction is going very well and we are very confident about delivering this project on time and on schedule and on budget also, which is very, very important to us.

Pulp Business Unit. Just talking a little bit about, again about the prices. Our export price in Third Quarter was \$587 per ton, that's \$558 per ton in the Second Quarter of this year.

We have a very good forecast as we move forward. New price increase of \$20 in November -- November 1 for all markets as I have already mentioned in the starting of this presentation.

High cost producers in Europe and North America continuing to re-structure their production. This opens up space for the low cost producers like Suzano. Also, the higher sales in this quarter due to the consolidation of Ripasa. So far, we have sold the Ripasa pulp to the domestic market.

But as we move forward, we are going to have the start up of this new project that we call internally P630. We will increase access to export market for Ripasa pulp. So far, we have sold the Ripasa pulp to the market -- to the local market. But very soon we are going to have more pulp from Ripasa for the export market and, if you need to, Antonio Maciel, he can talk a little bit later on this.

The inventories -- worldwide we have -- now we have an increase of one day but it's still at 31 days which is very good. It is what we had planned so despite the price increase of pulp, the (marked) continue pushing pulp from our plants and we have a 31 days of -- just maintaining the scenario, the forecast that we had announced last quarter.

Mucuri cash costs. \$206 per ton, this is Mucuri. With the partial effect of maintenance shut down in September as we mentioned. This is the same cash cost we had last quarter, despite that some costs came from the shut down. We are going to see \$1 or \$2 more during the next quarter due to the shut down. But we were able -- our industrial team was able to maintain the cost despite the actions relating to the shut down -- the maintenance shut down.

When you look at the screen on the right side on the top, you have the volume, pulp sales volume. And it looks like that we had a decrease in the sales in the Third Quarter. But in fact the comparison with the Second Quarter, that is a little bit different, because we had an excess of volume in the Second Quarter due to the postponing of one of the boats that was planned for the First Quarter.

So if we have the First Quarter, Second Quarter as an average, you are going to see the same volumes on the Third Quarter. What this is showing in a very stable and a high volume of sales with a good price, what is very good news for us.

The exports -- the destinations of our pulp, we are in line with what we had planned, as we have Europe with more than 50%. So far 53.1%. Asia 35%. North America 7.7% and Latin America 3.9%. So volumes, price. And destinations on track as planned in the beginning of the year.

In the Paper Business Unit, we see a good outlook for the sector.

Domestic market we had some very good increases in our own volumes. We have here -- this is the season of the schoolbooks program when the Brazilian government buys millions of books. And so we leverage also our participation in this program as we have done every year.

We are facing some price pressures from imports. And this is due or is a direct consequence of the appreciation of the real. But you are going to see that we are not considering any change in the price. We are not -- we don't see opportunities to increase the price in the short term. But we don't see significant price decrease also. I think very stable price for next quarter.

Export market, higher international price. You can see at the bottom of the screen that the average spread of paper price versus the eucalyptus pulp list price in North Europe is very interesting. In the Second Quarter we had the \$163. The pulp price is being increased -- are being increased the pulp prices. And we have now about \$148, the spread.

And the historical spread is \$218. So as you look at this information, this piece of information, it seems that we have space to increase the paper price. However, the -- we have seen also in the previous years that it takes some time after the pulp price increase to have the same effect on the paper.

So this is, I think, good information for the analysts that we do see some room, not for the short term. But let's see what's going to happen beginning of next year.

Paper sales. You see that we continue increasing our volumes. In the Third Quarter of '06 we had this 292,000 tons. A very good increase in the domestic market, moving from 171,000 to 184,000 tons.

Destination of exports, here you see the implementation of our strategy to focus on Latin America, where we have more than 50% -- 55.4% is the share of Latin America. Europe is in the second place with 21.4%. North America with 14.4%, Asia with 8.4%.

And here we take the opportunity to highlight the two brands in the cut size market that we are now participating in the market. Report is the traditional Suzano's cut size brand and Ripax, that's the most recognized brand from Ripasa that Suzano is now in charge of selling this brand from Ripasa.

Here are some highlights of the numbers. You see that the sales as we compare the Third Quarter of '06 with the Second Quarter '06, the sales volume is almost the same, 0.9% down is almost the same.

The paper sales in the domestic markets, we had an increase of 7.8% as we mentioned before.

Pulp sales volume in the export market is 14.2%, as I mentioned before. In average in the Third Quarter it is aligned with the average of the combination of our first and Second

Quarter.

Net sales, 4.7%. That's here with a BRL855m.

The pulp cash costs, without the cost of the standing timber, is BRL447 per ton. This is the same as we mentioned before.

EBITDA in dollars, as I mentioned before, \$138m, 10.4% up versus the Second Quarter, the (debt) of EBITDA up for the Company. Annualized is \$551m.

In margin -- EBITDA margin of 35%.

Here we show the net profit. BRL98 million in the Third Quarter, versus BRL103m. So a change of 5% down. And this is more than explained by the exchange rate variation. As we compare with the Third Quarter of '05, then we will see more clear the impact of the exchange rate on our results.

As we have a significant exposure in dollars, every time we have a variation in the value of the exchange rate we have an impact, positive or negative depends on the direction that the exchange rate goes.

In 2005, Third Quarter, the real experienced a strong (variation) during the quarter, 5.45%. It is impacted positively in our results in the accounting that the same phenomenon didn't happen in the Third Quarter of 06. So this is the key difference. Because you could see that the EBITDA, sales. And all the fundamentals very well on track. And the variation in the net profit is mainly due to the exchange rate.

Here a little bit of information about our net debt compared with our EBITDA. Consider that despite the fact that we have invested a lot of money in our projects, especially the Mucuri Project. And we have received a significant flow of finance from the banks, especially from BNBA, we are -- in the Third Quarter, as you see the Third Quarter 06 net debt \$1.594b. And annualized EBITDA at \$551m.

So the ratio between the net debt and the EBITDA is at 2.89, what for us is a good achievement. We are still -- despite the fact that the project is moving forward very fast, we are still below 3 in this ratio.

Here a little bit more information about our debts. Maturity time of the long term debt is at 4.1 years. Average costs in dollars for the piece of our debt in dollars is at 5.9% per year. And our average cost of the real debt is at 9.3%.

So, for our (Brazilian) standards, these are very good numbers and what will give us a very strong confidence of the net present value of our key investments, especially the expansion of our Mucuri plant.

This is the piece of good news as well. The liquidity of our stock in the Brazilian stock market increased. You can see that the daily volume average went up from 60 -- about in the -- let's say the Second Quarter -- in the First Quarter of the year we were below \$1 million per day, we were at \$759,000. Second quarter 2006 we went to about \$1.5 million per day. Third quarter '06 is about \$3 million per day.

In the first days of October, when you see on the right side the last column -- you will see the notes explaining that this is the value that we had on October 1 to October 16. So we -- in October we -- our shares are trading at an average volume of \$6.3m, almost \$6.4m.

And the number of trades is up also. The new number of deals, daily deals, moving also from an average of 100 to very close to 200 deals per day. What is very good news and is a result aligned with our strategy to be a stronger player in the capital markets.

Okay, this is what we think that are the key highlights and that we'd like to introduce for our conversation. Thank you for the time for this presentation. Now we will be available for questions.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) Our first question is coming from Marcelo Aguiar of Merrill Lynch.

#### Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi, Antonio and everybody. Good morning. I have a couple of questions. The first question would be related to the competitive environment in the domestic paper market.

We had two -- I mean we already had one very important event which is you and VCP dividing Ripasa. So Ripasa used to have a market share in the domestic market and, of course, you are competitors and it seems that you will not split equally the market share of Ripasa. So who is more efficient, who is better position? Is it the one that (down the bottom has) -- or gain more market share that Ripasa used to have. So this is a very important competition environment for the next quarters you might be in.

And the second one will be when VCP's sales Luiz Antonio, gives Luiz Antonio to International Paper because Antonio also has a market share in the domestic market. And again, going to be modified, because I doubt VCP are going to let them take all the market share.

So my question to you is the next at least two or three quarters you have these type of changes. What do you believe we could see happening in the pricing front in the next three quarters, let's say, up to the Second Quarter 2007, when we should have all this settled down.

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

Let me start to make a few words and then I pass on to Andre to -- for him to talk more about this subject.

Marcelo, the market share that we are experiencing now is aligned with our plans. Now we are going to face a big change because, for sure, IP will capture the market share of VCP, who actually is a major portion of this market share.

But the competition in the marketplace will be the same. We are going to have Suzano playing very hard. We are improving our operations and we are focusing more and more on paper side as well. So Suzano will continue to be a strong player in the market. We are going to have now IP with a larger market share than before, much larger that they had before. And VCP will be around as well because they will still have some piece of the market.

I don't see major reasons for, let's say, a price war. We don't anticipate this. We think that the view for the IP and VCP, IP is an international player. They know what they are doing. If you compare the price that they paid in this view, I don't think that they are considering to decrease prices, to increase much more market share. And VCP and the Suzano, we have seen a very efficient and very stable commercial policy.

We -- on the other hand, you saw that the spread between the pulp prices and the paper prices. You think that there is still some space for a price increase because the historical spread is higher than what we are (practicing) in the marketplace nowadays.

So from the upside side we see some opportunity. But not for the short term. For the -- some turmoil in the price, a price war, we don't anticipate due to the characteristics of the market. But I want to give an opportunity to Andre also to address some words to you.

**A - Andre Dorf** {BIO 15460232 <GO>}

Hi Marcelo. Good morning, everyone. I'd just like to add that this deal doesn't change the structure of the industry in Brazil in terms of supply and demand. There is just a migration of some volumes and market share, existing volumes and market share from one player to the other. And no new player in the market. So that's another reason why we don't see any turmoil going forward in terms of prices or market share competition in the domestic market.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Andre, the second question would be, could you share with us which was Ripasa's market share in the domestic, let's say, uncoated where they were much stronger in the Second Quarter. And which was Suzano alone in the Second Quarter and what is Suzano today in the third? Do you have these figures?

**A - Andre Dorf** {BIO 15460232 <GO>}

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I don't have these figures with me now. I have the nine months '06 for the coated according to (BRASELPA). They had --

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

I mean uncoated.

**A - Andre Dorf** {BIO 15460232 <GO>}

Uncoated, let me see here. Uncoated, including cut type, nine months of '06 they had 14 and Suzano had almost 27, 26.6, according to BRASELPA.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay, thank you. The last question for now would be related to pulp cash costs. In the release the pulp cash costs that you show there is just for (these) cash costs or are you already incorporating Ripasa's Americana cash costs? And, if not, which would be the level that Ripasa's Americana new cash costs has nowadays?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Marcelo, this is Bernardo. The cash cost that we published is just Mucuri at BRL447 per ton excluding wood pulp, standing wood. The cost -- the comparable -- and this is what is published. The comparable cost of Ripasa is BRL550 -- sorry, BRL520 comparable.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Thank you, very much, Bernardo.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Okay.

**Operator**

Thank you. Our next question comes from Debbie Bobovnikova of JP Morgan.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Yes, hi. Good morning. Just continuing on the paper front in the domestic market. We saw VCP's results and it seems like they weren't able to sell all the volumes in the domestic market that they hoped to because they saw a weaker market. You, on the other hand, seem to have a pretty nice increase. I just want to understand what the difference is. Is it different markets that you're focusing on or is it a different strategy that explains for the difference in volumes sold? That's number one.

And number two is, VCP is now guiding for a pretty sizeable increase in volumes in the Fourth Quarter in the domestic market. If we look at the numbers I see about 15% increase quarter-on-quarter implied by VCP's targets. I'm just wondering if you see that type of increase as being reasonable for the last quarter of the year. And if you're going to be in

step with that or if you think that is overly optimistic in the market. And that it will actually be lower? And what will happen with prices as a result if VCP doesn't, indeed, increase their sales to that extent? Thanks.

**A - Andre Dorf** {BIO 15460232 <GO>}

Okay, hi, Debbie, this is Andre. Talking about the market, the shipments to the domestic market, actually, we have a different product line compared to VCP. We add on paperboard on top of, uncoated and coated. We have paperboard on our line and they have those chemical papers. Actually, we were able to perform and to sell a very good volume in the Third Quarter, basically, focusing on the main markets, notebook producers, publishers and this schoolbook season and we also expect this to continue in this quarter, in the Fourth Quarter. So we expect our volumes to be in line in the Fourth Quarter compared to the Third Quarter and also an addition of 40,000 tons coming from Ripasa for us to sell in the market.

In terms of prices. And this is a good remark, we have reported in this quarter a consolidated figure. So we have the domestic prices, consolidated with Ripasa. They have, or they performed, a significant sale or significant volumes in the domestic market so to clean up inventories, old inventories, to -- in this transition phase to the consortium. So -- and they did that against prices. So our consolidated figures show a reduction in the average price.

According to our managerial figures, we have a slight increase in our prices, an almost 2% increase compared to the last year same period. And 2.9% compared to the last quarter. So I don't see any price war or any reason to have a price decrease in the domestic market in the future.

On top of that, in the export side, we exported more (2D) to Latin America on an FOB basis so we don't carry the transportation costs and logistics costs on prices. That's why we also presented lower export prices compared to the other periods. But, again, this is not a fundamental change or a managerial change. It's for the best of the Company in terms of results.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. Thanks for that. One more question then on the demand side. You talk about a new or the annual spending by the Government on schoolbooks, could you just quantify what that means for your volumes and also what type of pricing? Do you offer discounts on that or how does that work?

**Q - Unidentified Speaker**

Yes, we usually don't disclose the program alone but we expect to sell just between 25,000 and 30,000 tons in the program overall and this is spread out throughout the months up to December.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. And pricing is it typically higher or lower than your average?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

It's Lower.

**A - Andre Dorf** {BIO 15460232 <GO>}

It's lower. It's lower.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

All right and then one question on pulp side, if I may. You now disclose the rest of your Mucuri pulp cash costs and now Ripasa. What about Bahia Sul? Can you give us the figures for that?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

I answer. Well, Mucuri is a -- Debbie, this is Bernardo. When I talk about Mucuri that's Bahia Sul.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

I'm sorry.

**A - Andre Dorf** {BIO 15460232 <GO>}

Mucuri is the new name of Bahia Sul.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Right. Right.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

The Mucuri unit is the location of the mill in the city of Mucuri.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay, I'll have to look at my map again. Sorry about that.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Sure.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

One -- so, sorry if there are no questions right now, one more question then. On your liquidity, it's nice to see that you're liquidity has increased significantly over the past few months. I remember there was talk in the past about you potentially doing a new share issuance. I just wanted to get a sense of if you're still considering that and, if so, if you

have any time line in mind and also, if the share issuance will come with an approved governance?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Debbie, you know that this is a permanent target that we have to improve the float and liquidity. We have been having over the years a number of instances. The most recent one, of course, was the re-structuring of Ripasa which increased the float and this combined with the market environment and, we understand also, with the outlook for the growth of the Company has resulted in very good interest in our shares. And in this permanent objective of increasing float and liquidity we will pursue other opportunities in the future as well. At this point we have nothing planned yet.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. And have you considered anything in terms of increasing the corporate governance of existing shares?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

I think that we have the -- for this year, with the actions that we have done, we have already implemented, we are working very hard to improving the way we present the results. We are working and the market is reflecting now this (further) liquidity. And so far we are on what we have planned for this year. We can consider we are -- we always -- we will be always considering further actions.

We have declared that we would like to be a major player in the stock market, consider improving. We have had several opportunities for the future where (being playing) a good and strong player and that turned out to be very, very important for the future. We have declared this several times and this will continue. So. So far, we don't have anything to announce but we will continue always to study and analyzing opportunities to improve our governance.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay great. And actually I just realized where I made the mistake. Anyway, the buy of Mucuri, I guess I was just asking about Suzano top mill and the cash costs there.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Okay, Debbie. The cash cost of Suzano is slightly higher than Ripasa's mainly because in Suzano we have -- the pulp there is dried in a different system. There's a flash dryer. So it's not really comparable to the same extent. It's slightly higher than Ripasa's level.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. Thank you.

**Operator**

Thank you. Our next question comes from Tereza Melo of Citigroup.

### Q - Tereza Melo

Hi. Good morning, just a couple of brief questions. The first on pulp, pulp prices. How confident are you that these November price increases are going to stick, especially when we consider that European demand is not that strong and, as you mentioned in your presentation, the spread between paper and pulp has been declining? And if -- in which markets do you think it's easier for this \$20 price increase to stick?

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

Hi, Tereza, it's Rogerio. The prices that have been announced last week and we continue to follow these announcements and. So far, the reaction from the client has been very normal, which means that we are confident that this is going to happen, due to the fact that they have low inventories and we also have low inventories. At the same time, we have Asia as a market where continue to grow the demand and this market is taking more volumes than last year and new machines are starting up now through the beginning of next year. So, right now, we are confident and this price will be implemented in full during this year.

### Q - Tereza Melo

And you are more confident in Asia Pacific region, less confident in Europe may be, or not?

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

I think the price -- the market will balance on all markets because otherwise the structure - these price structures will divert (strongly) from one place to the other. So, right now, the demand being where it is and the contracts that we have, there is not that much margins from the client that they can play too much because, otherwise, they can (say) two or three months without the product which we divest from one market to the other. So, as it is, we are confident that this price will stick in all markets as we can speak today.

### Q - Tereza Melo

Okay. Great. On another note, can you just remind us what Suzano's long term target for if you have any (ambitions) for pulp and for paper, just a review (decision) of the company?

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

In terms of --

### Q - Tereza Melo

Capacity.

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

CapEx or price?

FINAL

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## Q - Tereza Melo

Capacity.

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

Capacity. In terms of the capacity in the pulp, we have right now roughly 600,000 tons together with the Ripasa numbers, in terms of market pulp. Next year we should be adding capacity also in Ripasa and in Mucuri. As you know, the (productivity) will add another 1.1 million tons. We have also this Ripasa which will add another 70,000 to 80,000 tons of market capacity should be half coming to us, half to our partner there. And then we have also some internal growth in terms of de-bottlenecking of paper that Andre may talk about.

## A - Andre Dorf {BIO 15460232 <GO>}

Okay, in terms of paper, we work at the capacity of 1.1 million tons and that's our -- including Ripasa and that's our forecast for the next quarters.

## Q - Tereza Melo

Okay. And what about the long term goals? Do you have any vision what is -- would be the size of Suzano, let's say, in 2015? Do you have any -- because I know that you have some forests in other regions, where do you see further growth for Suzano?

## A - Bernardo Szpigel {BIO 2080745 <GO>}

So far we have these two projects going on that -- the incorporation of Ripasa and also the implementation of the second line in Mucuri. Here we started the different alternatives but we don't have anything to announce now and we are not prepared to disclose any of our future plans so far.

## Q - Tereza Melo

Okay, thank you.

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

Thank you.

## Operator

Thank you. Our next question comes from Jorge Beristain of Deutsche Bank.

## Q - Jorge Beristain {BIO 17554499 <GO>}

Hi. Good morning gentlemen. Jorge Beristain with Deutsche Bank. I wanted some specific guidance on Ripasa in terms of the production that you forecast for 2006 between pulp and paper.

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And then if you could walk us through the 2007 to 2009 outlook. As I understand it there's some de-bottleneckings there and as well some change in the nature of the pulp that will be produced. I'm sorry, just to be specific, I mean for 100% of Ripasa production, not just for the 50% that's attributable to you.

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

Okay. So in terms of pulp, we have roughly today 250,000 tons for 2006 and we're going to add another 70,000 to 80,000 tons on this project P630. That should start by November next year.

In terms of paper --

**A - Andre Dorf** {BIO 15460232 <GO>}

On the paper side, yes, we have 360,000 tons a year for the whole Company and this is related to Americana. And the other three small units we are considering offer strategic alternatives.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

In total we are talking, for Ripasa today, a capacity of 720,000 tons of products, of which 220 are pulp -- 250 are pulp and for -- and the P630, which will start later in the following year, in 2007, will reach 800,000 tons of capacity in Ripasa, of which 320,000 will be of pulp.

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

Market pulp.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Yes. And could you comment as well, at what point do you start selling the dry pulp? Because I know that a lot of pulp was sold in wet form.

**A - Ernesto Pousada** {BIO 15951890 <GO>}

Yes, Jorge, that is already in place. Since May/June this year they have finished, they have added this dryer machine. So we are selling 100% dry pulp. We can also make some more dry pulp to be transferred to our own other small machines. But I would say that 99% today is already sheet, okay dried.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Thank you. And my second question has to do with U.S. GAAP along the lines of what Debbie was asking earlier. Have you put any date as to when you would see launching a parallel system of accounting under U.S. GAAP and would that be tied necessarily to a follow on share offering or could it be done independently of that?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Well, Jorge, the -- we have don't have a date but it could be made independently. We don't have a specific plan for an ADR. We could have a -- we could do it independently. This is something that we have been considering.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Do you consider it a disadvantage to not publish in U.S. GAAP given that your two main comparables, VCP and Aracruz, do as well as the Chileans publish in U.S. dollar translations?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

I would say that, for the investors, it would be better also to have the U.S. GAAP figures, definitely. So we would see this as an improvement to align ourselves also in this aspect.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Great. Thanks.

**Operator**

Thank you. Our next question comes from Edmo Chagas of UBS.

**Q - Edmo Chagas** {BIO 1786085 <GO>}

Hi, yes. Good morning. My question is related to your Mucuri expansion. In one of the slides we have a breakdown of your pulp export sales. I'd like to know in your talks with perspective clients, if you foresee a change in terms of the breakdown of your export's provision going forward after the expansion is on line?

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

Hi Edmo, it's Rogerio. As you see that we are, last quarter, we published about 60% into Europe and we are publishing now 53% into Europe. That has started to make the change from what we are forecasting for the years ahead. Of course, we do have a product that is more desirable or requested by European standards. But also China is now also demanding these products. So we are now trying to follow the contracts for the future expansion. That's why we are changing the pattern to what we are having this year, on this quarter. So, for next year, I won't see that much change and for the year 2008 maybe we will see a slight improvement in North America.

**Q - Edmo Chagas** {BIO 1786085 <GO>}

So, from the picture you have in the Third Quarter, you believe that you are going to expand the share of South American on your exports?

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

Exactly.

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**Q - Edmo Chagas** {BIO 1786085 <GO>}

Okay. Thank you.

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

You're welcome.

**Operator**

(Operator Instructions) We have a follow up question coming from Marcelo Aguiar of Merrill Lynch.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Hi everybody. So a couple of follow ups if you allow me. The first one would be related to the -- let me see if I understood properly. Andre, if I'm not wrong, you mentioned that you are going to add another 40,000 tons in the Fourth Quarter (add) volumes. Is that correct, because of Ripasa?

**A - Andre Dorf** {BIO 15460232 <GO>}

Yes.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay, because you've just mentioned several capacity numbers. When I look at the capacity number for paper and look at Suzano's capacity number and then see what is the normal capacity on a quarterly basis, you said in the Third Quarter you sold almost what you have of capacity. So what's behind this 40,000 tons addition from Fourth Quarter?

**A - Andre Dorf** {BIO 15460232 <GO>}

Yes, I'm talking about the existing Suzano capacity being added, 40,000 tons coming from Ripasa.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay, the capacity, not shipments right, in the Fourth Quarter?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Capacity.

**A - Andre Dorf** {BIO 15460232 <GO>}

Capacity.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay. Okay. Okay. And, another question would be related to the -- your -- what you're going to do in the case that VCP sell their small paper mill. It seems that they're going to

sell and they mentioned on the conference call they're going to sell fast. Are you considering buying or are you going to sell your stake also?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

(inaudible) -- we are concluding this week the evaluation of the plants. We have commissioned an outside bank, the Rothchilds, to analyze and to give us some advice on this. This has been done -- has been developed together with VCP. As soon as we have -- we conclude this week of the analysis we will have about two weeks to decide if we are going to present an offer to VCP. We have already 50% of those plants. We will decide if we are going to present our offer for one or two or the (plants there). We have already -- we haven't decided yet if we are going to present or not the offer. And this will happen and we will decide we have about two weeks to decide that. So, in coming weeks, you are going to have this final decision from our side.

We -- after that, we are going to have, if we decide to buy one, the remaining -- the plants will be sold. We are going to have a bid in the market and we anticipate that, up to end of the year, we would like to have all the investment concluded. So, in short, in two weeks we decide if we are going to present a proposal or not and, after that, we are going to go forward with the selling process.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Antonio, if I can add an addition to this point. Do you -- which is the net revenues of this paper. The streaming at (Cubatan) went boom and (Lemaira) together. What are the generated revenues and EBITDA in the First Quarter?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

This is the quarter, we don't have the --

**A - Andre Dorf** {BIO 15460232 <GO>}

We don't have the figures here. What we have is their capacity.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

The capacity.

**A - Andre Dorf** {BIO 15460232 <GO>}

(160,000) tons a year.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Yes. But we still don't have (the) quarter numbers here. And we are going to have these in the offer very soon, Marcelo. So far we don't have these numbers to give you.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

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Okay. Another question, it will be related to paper consumption growth for 2007. This year has been a very strong one, a very surprising one, I think for everybody in the market. I would like to check with you what, at this point, you expect and you are budgeting for 200, which would be the domestic demand growth for uncoated, or it would be for coated and for cardboard?

**A - Andre Dorf** {BIO 15460232 <GO>}

Actually we've seen all lines growing so far this year. So it's not a specific event or something (for) this year. We haven't included our budgeting process for next year so we are not disclosing anything related to projections and forecasts for volumes next year.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay. Last one, I promise. And in the case of CapEx, Bernardo, are you able to give us what you expect for next year, which is just Mucuri and which is the other investment for 2007?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

For Mucuri, as we have already announced, for this year a level of \$800 million to be invested and we are quite on schedule for that. And then, for next year, is \$370m.

For the other CapEx, we have not finalized our budget yet.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

And for this year, how much is for the other CapEx?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

For the other CapEx we are talking about \$150m.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

And this includes Ripasa?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

No, no, this is just Suzano. And it includes also CapEx for Capim Branco which is a hydroelectric plant. This year we are spending something like \$20 million in it.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay. Thank you, very much.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Sure.

## Operator

(Operator Instructions) Our next question comes from Jorge Beristain of Deutsche Bank.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Hi, Bernardo, sorry, I just wanted to close a loop on this. I might have misheard you but the 2006 capacity for Ripasa, in pulp, is 250,000 and in paper for 360. So I get a total of 610.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Total for the year for Ripasa, is 720,000 tons of products. But just, I think it is important to mention that we have 160,000 tons for the three plants that are being considered to be sold. And what we are -- the difference between the numbers that we mentioned is this. For this year, Ripasa is 720. 360 is what we are sharing with VCP, that's where we have the consortium, 360. And we have still remaining 160 of the plants, the three plants, that are -- will be sold. Okay.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

I'm sorry to be obstinate here but I'm not understanding what you're saying. Can you just give me the number for pulp and for paper total for Ripasa.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Okay pulp, 200,000. Paper, 520,000. Total 2006, 720,000 tons.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Okay.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Just to add, for the information, out of the 520,000 tons of paper, you have 160,000 off the three small plants that we are considering to sell.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

And then -- in late 2007 you're basically adding the 80,000 tons of pulp only?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Yes. This is the project that we have.

**Q - Jorge Beristain** {BIO 17554499 <GO>}

Okay. And that's at 100%, that addition?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Yes. 100%.

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**Q - Jorge Beristain** {BIO 17554499 <GO>}

Thank you.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Thank you.

**Operator**

Thank you. There are no further questions at this time. I would like to turn the floor back over to Bernardo Szpigel for any closing remarks.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Well, thank you very much for your participation in this conference call. This was a very good quarter to show what is the strength of Suzano with now after the completion of the re-structuring of Ripasa, the strength of our cash flow EBITDA generation and the continuation of the Mucuri project on schedule. Of course, we'll be available for any further questions that you may have at any time and I'll pass on to Mr. Maciel for his final remarks.

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

I'd just like to thank you everyone in this call for the attention and for the time you spent with us. We will continue to work together as we move forward. The shared liquidities are a very good highlight for this quarter and I'd like to thank all of you who have directly or indirectly been involved in that. Thank you, very much.

**Operator**

Thank you. This does conclude today's Suzano's Pulp and Paper conference call. You may disconnect your lines at this time and have a wonderful day.

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