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EDITED TRANSCRIPT

FBR.N^A19 - Q3 2007 Votorantim Celulose e Papel S.A. Earnings
Conference Call (English)

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to VCP's third quarter 2007 results conference call. If you need a copy of the Press Release, you can get one by selecting the investor link on VCP's website, www.vcp.com.br.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After the Company's remarks are over, there will be a question and answer session dedicated to the financial community. At that time, further instructions will be given. (OPERATOR INSTRUCTIONS).

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from the expected performance mentioned in any forward-looking statements as a result of the macroeconomic conditions, market risks and other factors.

With us today in Sao Paulo are Mr. Valdir Roque, Chief Financial Officer, Mr. Marcelo Castelli, Chief Operating Officer and IR team. Directly from Europe is Mr. Sergio Almeida, Pulp Commercial Director. Mr. Roque will begin the comments on VCP's strategy and third quarter results, and we'll then open the floor for a questions and answer session. I would now like to turn the call over to Mr. Valdir Roque. Please go ahead, sir.

Valdir Roque - Votorantim Celulose e Papel S.A. - CFO and IRO

Good morning. May I thank you, all of you, for being with us today. I would like to begin this conference call by comment on the new VCP, as shown in slide number two.

As you may have seen, VCP practically completed its divestment process in the Paper asset and increased its position in the Pulp front. Currently, in the Paper segment, we remain with the only 40% stake in the Joint Venture with the Finnish Company, Ahlstrom, a 50% stake in Conpacel and with our special paper mill in Piracicaba.

By increasing our participation in the pulp market, VCP is prepared to leverage its competitive advantage, supported by a strong global pulp market scenario, with a strong global demand and with the pulp price maintaining their positive trend.

However, we are now face a different environment with the currency appreciation. And in order to adapt to that, VCP's focused on cost reductions, primarily fixed costs, to mitigate such a diverse effect.

On the cost front, in light of the new Company's profile, VCP has reduced infrastructure in pursuing 5% reduction in fixed costs and expense, with the full impact expected in 2008.

As for variable costs, we are seeking to reach a 2% or 3% reduction, particularly in wood costs as we have been reduced our dependence on wood from third parties.

On the productivity front, VCP expects to reach more productivity gains by invest [in] Conpacel's pulp and a new capacity expansion for -- of special papers in Piracicaba Mill. As well as absorbing the most from our newly [strategic] business agreement with the Oji paper.

In this quarter, Conpacel had a temporary step-down for the implementation of its Pulp expansion project, increasing its Pulp capacity from 560,000 tons to 630,000 tons per year.

Also in Conpacel, we haven't been able to achieve all the expected synergies at the EBITDA level, and we expect Conpacel's EBITDA margin to reach 40% level, similar to VCP's own mills.

We believe that 2008 will be a [major] year for VCP with its transformation completed. Lower costs, healthy cash flow, enhanced by proceeds originated from divestments and poised for the future, with a healthy CapEx structure, where CapEx discipline is the key.

Moving forward to slide number three. Looking ahead, VCP has already assured its sustainable growth in two main projects. One of the State of Mato Grosso do Sul, the Horizonte Project, and another one in the State of Rio Grande do Sul, the Losango Project.

The Horizonte Project has its construction underway, and is scheduled to start up in May 2009, with a total production capacity of 1.3m tons per year of market Pulp. This is an extremely competitive project, with operational costs 10% or 12% [or 12%] lower than compared to Jacarei Mill, and with a minimum expected return of WACC plus 3%.

Our second [growth pole] is located in the extreme south, in the State of Rio Grande do Sul. We have been developing a forestry base in this region since 2004 and we are still in the process of obtaining social and environmental license so that we may present a new Pulp project to be analyzed on the Board by 2009. This project should also have a capacity of 1.3m tons per year. If approved, we foresee it will start up by 2011.

Finally, we continue to invest in land acquisition to guarantee our forest base for future growth related to both of our existing assets; Horizonte Project with a Phase II, and the Losango Project with a Phase I.

In the longer-term strategy, we will search for strategic alliance and focus on a strategic -- on a forestry R&D enhancement and on [genetkis] development, favored by operational efficiency and a cost controlled [projects].

We believe our growth avenue is open to reach 4m tons of Pulp in 2012, and 6m tons of Pulp by 2020.

Now I pass the floor to Sergio Almeida, our Pulp Commercial Director, who has been running the Pulp business from Europe since last month, being closer to our clients, consolidating our strategy to focus on the larger-scale growth of the market Pulp production. Sergio will now comment on the Pulp business in the next slide, number four.

Sergio Almeida - Votorantim Celulose e Papel S.A. - Pulp Commercial Director

Thank you, and good morning everyone. Before commenting on the results of the quarter, I would like to briefly explain the reason for my move. As just mentioned by Valdir, since last month I am based in Europe. This was a strategic decision due to the structural changes in the portfolio of products of the Company and the expansion of market Pulp capacity.

Furthermore, we are extending our presence in the various markets through the implementation of our own [offices] in Europe, North America and Asia, to strengthen even more the relationships by guaranteeing the proximity with the market, better understanding of its requirements and, as a consequence, providing an increasingly better support to our customers and partners.

From now on, I will be participating the conferences via phone.

Now talking about the market, conditions remained tight through this third quarter. We have seen many important signs indicating that demands for Pulp will remain strong and firm and prices should maintain their upward trend.

Another price hike of \$20 per ton for all regions was implemented in August. Such increase represents an exceptionally unusual occurrence during the Northern hemisphere summer vacation season which coupled with the scheduled annual maintenance shutdowns of South American producers.

Also in October, another price increase of \$20 per ton for U.S. and Asian markets, and a further \$30 per ton for European markets, was announced and fully implemented on the first day of the month. The Pulp list price are \$750 (sic - see Press Release) in Europe, \$775 [in] U.S., and \$690 (sic - see Press Release) in Asia.

For softwood, in September, a \$30 per ton increase was implemented, thus, maintaining the price gap between softwood and hardwood at about \$100 per ton, reinforcing the substitution process from softwood to hardwood.

We believe that for eucalyptus fiber the scenario remains positive, as enhanced by strong demand, especially in Europe and Asia. And, coupled with reduced supply caused by some unexpected interruptions in production, contributing to the supply and demand imbalance.

On top of that, the new announced capacity additions of Mucuri in Brazil and Botnia in Uruguay, totaling 2m tons per year, is a bit delayed. The most significant volume should not reach the market this year.

Based on this scenario, we reiterate that our expectation for 2007 average price will exceed the 2006 price, since the accumulated average price for the first nine months is already approximately \$689 per ton in Europe, up 7% over 2006, which was \$6,400 -- \$645.

Looking at the Company's performance in the Pulp segment, despite the maintenance shutdown in August when volumes are typically lower, sales volume in the third quarter was 270,000 tons, remaining flat as compared to the previous quarter, but approximately 10,000 tons higher than our guidance.

This is explained mostly by the better-than-expected demand in the (technical difficulty) market, and the volumes [originating] from the conclusion of the Joint Venture with Ahlstrom. [Those] integrated pulp turning to (technical difficulty) beginning of September.

Our Pulp inventories at the end of December were 29 days versus 37 days in June. This decrease was mainly due to the already scheduled maintenance shutdown in Jacarei and Conpacel occurred in the third quarter.

We remain -- we maintain our Pulp sales target for 2007 as 1.1m tons.

Now, I pass you forward to Marcelo Castelli to comment on the Paper business in slide number four.

Marcelo Castelli - *Votorantim Celulose e Papel S.A. - COO*

Okay, thank you very much, Sergio, and good morning everyone. The Paper business in the third quarter recorded an additional 8,000 tons of volume, 17% -- [70%] (sic - see Press Release) of increase in quarter-on-quarter with sales volume reaching about 121,000 tons.

This additional volume is explained mainly by a seasonal demand improved -- improvement driven by the promotional segment with the end -- year-end campaign, the notebook segment preparing for the school year returning and the educational textbook segments with the government programs. Added to that, we had also a reduction in our inventory levels.

In the third quarter, the Paper business had also the effect of the conclusion of the Joint Venture with Ahlstrom, announced on the beginning of September when approximately 80,000 tons of coated and uncoated papers stopped being consolidated in our volumes. Such effect did not jeopardize total Paper sales volume.

During this quarter, we had a change of mix, with greater sales in the local market in which prices are higher. And Coated Paper increased its participation from 39% in the second quarter to 45% in the third quarter.

Coated Paper continues under pressure due to the imports influenced by the foreign exchange rate.

We believe that the paper markets will continue with the positive trend in terms of demand. The new currency environment should place the local market as the most profitable option, even in a more competitive environment. However, with price over -- with pressure over price.

As a [more] strategic [reposition in] value-added papers will be our main focus, demonstrating our flexibility to [variate] our product mix. For 2007, we reviewed our Paper sales volumes from 407,000 to 480,000 tons, increasing by 10,000 tons due to the better seasonality contributing to productivity gains in the Paper business, as well as inventory levels reduction.

Now, I will pass the floor back to Valdir Roque to comment on the Company's quarterly results in the slide number six.

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

Thank you, Marcelo. The third quarter was a typical quarter. We had a maintenance shutdown reducing our production volumes, 3% average currency appreciation, the conclusion of the sale of our 60% stake in the Joint Venture to Ahlstrom and the implementation of Pulp capacity expansion in Conpacel, which will add 35,000 tons of Pulp capacity to our sales volumes by the fourth quarter this year.

Despite all these events, we are able to benefit from the currency appreciation by posting a \$52m gain in our financial result. On top of that, we had a cash generation originating from the conclusion of the Joint Venture, amounting to \$121m. These events together, boosted our net income by 90% quarter-on-quarter and 67% year-on-year.

We sold 390,000 tons in total, out of which 270,000 on market Pulp and 100 -- 121,000 tons on Paper.

Our EBITDA margin was temporarily impacted by the maintenance shutdown of Jacarei and Conpacel's mills, as well as a further shutdown for the implementation of pulp expansion project in Conpacel.

Therefore, we posted a 31% on EBITDA margin for this quarter, a 500 basis point drop as a reflection of the period's events. We reiterate that the maintenance shutdown effect is a non-recurring event of the first quarter 2007.

The effective income tax rate stood at 12% against 10% in the previous quarter due to income tax attributable to financial income through the gain obtained from the sale of VCP's share in the Joint Venture. We believe that the [effective] tax rate will be around [50%] without the negative goodwill effect driven by the tax effect of the dividend distribution in the form of interest on [equity].

Our net debt remains at a comfortable level of less than two times EBITDA investment grade, thereby, results in a debt to equity ratio of 24%. It be worth noting that VCP management prefer to submit to the Board approval a dividend of approximately \$120m to \$150m, despite the fact the Company is heavily investing along [with] the spirit.

Move to the last slide, number seven, I will comment to the cash cost increase in detail. It's important to highlight that this is a temporary increase in the Pulp production cash cost resulting from the already scheduled maintenance shutdown. The Pulp production cost went from \$227 per ton in second quarter to \$279 per ton in the third quarter; a little bit higher than the one released in our guidance of \$270 per ton.

The main factors have contribute to such a temporary increase were, currency effect, exchange rate appreciation ranging from 1.98 to 1.92, cost of annual maintenance shutdown which is higher during this period and a lower fixed cost dilution as a consequence of the lower production into the Jacarei and Conpacel simultaneous shutdowns of approximately 10 days and 12 days respectively.

It's important to note that, in prior years, such costs used to be accrued on a monthly basis but in 2007 began to be recorded only in the current month of the shutdown. In addition to that, we have in the quarter Conpacel's additional shutdown to permit the implementation of the Pulp capacity expansion. Therefore, Conpacel shutdown totaled 25 days as a whole, out of the which 13 days were for the expansion project but with only one line running full, however, with the last production.

The Conpacel's expansion shutdown was a temporary effect and it will not impact the future quarters' production. On the contrary, the expansion project will add 35,000 tons of Pulp, 70,000 tons total effective fourth quarter 2007. The full cash cost for the next [quarter] will be around \$230 per tons dependent on the currency rate.

Operator, we are now ready to take questions from the participants.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS). Your first question is coming from Marcelo Luna of Deutsche Bank.

Marcelo Luna - Deutsche Bank - Analyst

Good morning, Valdir, good morning everybody. I just had a couple of follow-up questions from the morning call. Valdir, if you could comment on how much of the -- if you think about the total \$1.5b construction CapEx for Tres Lagoas, how much you expect will have been invested by December 2007?

Valdir Roque - Votorantim Celulose e Papel S.A. - CFO and IRO

Let's put it this way. The costs for the project still remains around the \$1.5b, which is the total that were published last year. We have so far, I would say, \$90m expended so far and to the year end, it will be around \$130m. Okay. That's a bit the cost for the project so far in the [projected] results.

Marcelo Luna - Deutsche Bank - Analyst

Okay, so \$120m towards the end of they year?

Valdir Roque - Votorantim Celulose e Papel S.A. - CFO and IRO

Yes.

Marcelo Luna - Deutsche Bank - Analyst

Okay, great. Thanks. And Valdir, can you also, and we talked about this already, the learning -- a learning curve, the expected learning curve for Losango given the plantations that you already have. Would you expect a learning curve for that project to be similar to Tres Lagoas, or you would say it's really early to make any assumptions on that?

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

So far, Marcelo, I would say that the learning curve will be the same. Based on the premise we have today we can assure to you [that's the best] we can do in the future.

Marcelo Luna - *Deutsche Bank - Analyst*

Okay, great. And just the one quick question to Sergio, if I could. Sergio, can you talk about your general views in terms of substitution of eucalyptus stock for other grades of Pulp in Europe. I don't know if since you moved to Europe if you've been talking to local companies and if you -- if you have the clear sense for how fast is substitution happening?

Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

Marcelo, I have seen this movement since last year, actually, with a bit more speed than the previous years. With the price gap of about \$100, of course, every single company is trying to reduce their cash cost. And by doing that they also realize that they can increase a little bit the productivity. In certain Paper grades they even increase the quality because of the properties of the eucalyptus fiber.

We have seen a very aggressive movement this year on the tissue segment because they are also substituting a lot this softwood. The traditional recipe for the tissue production is one third of softwood, one third eucalyptus, one third other hardwood fibers. Now we have seen that most of them are targeting at least 60% of eucalyptus fiber in their [furnish]. This is a big increase for this fiber.

Another important signal from the market is the indication that we have not seen any turmoil with the last expansions that enter into the market. [This saying], we are not expecting anything dramatic different from the market conditions existing right now because the substitution is taking place in an accelerate speed.

It's difficult to tell it percentage-wise, but we can tell you that we have been received much more enquiries from the regular customers on top of this subject. So this business, very aggressive but difficult to tell you if it's a certain percentage per month or per year; we don't have this data.

Marcelo Luna - *Deutsche Bank - Analyst*

Sure, and you're saying it sounds like the new target for tissue makers would be using 60% of eucalyptus instead of 30% -- mid 30s.

Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

Yes, that's right. That's the information we have been receiving from the customers because they are already planning volumes for next year and they are giving us the indication that they want to increase because of this substitution.

Marcelo Luna - *Deutsche Bank - Analyst*

Do you have a sense for how much eucalyptus pulp is currently sold in Europe to tissue makers?

Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

Out of -- you mean the Brazilian volumes are slightly above the 1m tons. I won't say -- we already have something like 30% for tissue and growing.

Marcelo Luna - Deutsche Bank - Analyst

30% for tissue, okay. Great, and the last quick question is, it looks like the turn level of inventory is about one month of production, which would be around 100,000 tons of Pulp. What is -- I'm just wondering, what is the absolute minimum level of inventory you could go to in a year where you see apparent demand much, much higher than what you can supply the market. Could the inventories come down to 15 days, 10 days?

Valdir Roque - Votorantim Celulose e Papel S.A. - CFO and IRO

No way, Marcelo. We are already in the very minimum possible. Below that level we cannot supply the basic requirements of our customers. You have to take into consideration that all the Pulp that is on the way in transit is an inventory for us.

The transit time to Asia is between 45 to 60 days, Europe is minimum 18 days, United States in the range of 23 days. If you combine that, the transit time versus the mix, you're going to see that you need a minimum around 30 days, otherwise it's impossible to attend the basic requirement. So numbers like 15, 18 days are just a dream; it's not a reality, for sure.

Marcelo Luna - Deutsche Bank - Analyst

Okay, so you're already at you minimum and it going down so it sounds like they are tight. All right, thank you very much both of you. Thank you, Sergio. Thank you, everybody.

Valdir Roque - Votorantim Celulose e Papel S.A. - CFO and IRO

Thank you, Marcelo.

Sergio Almeida - Votorantim Celulose e Papel S.A. - Pulp Commercial Director

You're welcome.

Operator

Thank you. (OPERATOR INSTRUCTIONS). Your next question is coming from Juliana Chu of BES Securities.

Juliana Chu - BES Securities - Analyst

Hello, good morning, gentlemen. I just would like to have information about the Ahlstrom Joint Venture. Do you have any idea how much Pulp would you like to sell or do you intend to sell for Ahlstrom next year?

Valdir Roque - Votorantim Celulose e Papel S.A. - CFO and IRO

Just for the Joint Venture?

Juliana Chu - BES Securities - Analyst

Yes.

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Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

Okay, let me try to answer your question. Our volume was forecasted for 2008 as a recurrent basis will be about -- in terms of Paper, about 380,000 tons.

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

How much Pulp will you be -- (inaudible) the Joint Venture.

Juliana Chu - *BES Securities - Analyst*

Yes.

Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

Pulp (inaudible) it will be about --

Juliana Chu - *BES Securities - Analyst*

Yes, from VCP (inaudible).

Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

-- I think 90,000 tons, in that range.

Juliana Chu - *BES Securities - Analyst*

And that would be the normal Pulp price, or would it be the wet Pulp or different Pulp?

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

[To] market price.

Juliana Chu - *BES Securities - Analyst*

Market price.

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

Yes.

Juliana Chu - *BES Securities - Analyst*

Okay. Thank you.

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

Thank you, Juliana.

Operator

Thank you. (OPERATOR INSTRUCTIONS). Your final question is coming from Chris Willis of Impala.

Chris Willis - *Impala Asset Management - Analyst*

Thank you. Just a question about the European situation, perhaps, for Sergio. If you talk a little bit about how tight the market is going into the winter months and how well positioned do you think customers are there, in terms of dealing with the fiber shortages as we move through the winter months. And how much is weather related versus currency related, in terms of continuing to put pressure on fiber suppliers in the region.

And maybe if you have any comments on the Russian tariff situation as well that would be appreciated. Thank you.

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

Okay, Chris. The situation, this is still quite tight but that was mainly due those conditions that took place in the last winter where we were expecting a strong one and there was only a mild winter causing all this shortage that we already know. The Russia taxation is just reinforcing this shortage of pulp here.

Inventories in general are very low. If you look at the [used pulp] in the European part they are not -- most of our customers, they are not able to replenish their inventories. The expectation this year is to have a normal wintertime, so they are confident they will be able to cut and to harvest all the forest requirements they have. They are not expecting any shortage of wood by the end of this winter.

But the winter is not yet here, it is just expectation. In a few weeks we will see how it works. So for a while they have lower inventories, but they have expectation that will manage to harvest their wood requirement.

Chris Willis - *Impala Asset Management - Analyst*

And do you have a sense of how much more Pulp could have been produced if there had been a normal winter? Just wondering if it was possible to quantify the amount that was removed from the market due to the wood shortage.

Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

I don't think I have this figure Chris. I can try to figure out, check if I can have something and let you know. But for sure I don't have that because we have different species in different areas, and the winter has a different behavior according to the area. Like in Scandinavia it happens some difficult, in German some others and this affects the difference with the various species we have in Europe. Difficult to have this number but I will try to dig some information. If I manage to get, I'll let you know.

Chris Willis - *Impala Asset Management - Analyst*

Good, thank you very much. I appreciate your comments.

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Sergio Almeida - *Votorantim Celulose e Papel S.A. - Pulp Commercial Director*

You're welcome.

Operator

Thank you. There appears to be no further questions at this time. I'll turn the floor back over to Mr. Valdir Roque for any closing remarks.

Valdir Roque - *Votorantim Celulose e Papel S.A. - CFO and IRO*

Well, thank you all for participating on our call. VCP will continue pursuing its excellence concerning results and, therefore, increasing its EBITDA margin again. We will also continue investing to guarantee our growth process, aligned with the investment discipline, high technology development, sustainable management coupled with the corporate governance.

Thank you. See you next quarter.

Operator

Thank you. This concludes today's VCP's third quarter 2007 results conference call. You may now disconnect.

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