



**Operator:**

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to the Suzano Pulp & Paper 2Q06 earnings results conference call.

Today, we have a simultaneous webcast with slide 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. Should any participant need assistance during this conference, please press \*0 for an operator.

Today's speakers will be Mr. Bernardo Szpigel, CFO and Investor Relations Officer; Mr. Rogério Ziviani, Head of Pulp Business Unit; Mr. André Dorf, Head of Paper Business Unit; and Mr. Ernesto Pousada, Mucuri Project Officer. Also with us today we have Mr. Antonio Maciel Neto, CEO of Suzano Pulp and Paper.

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 forwards in the forward-looking statements.

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

**Bernardo Szpigel:**

Good morning, everybody. Before we start our presentation, Mr. Maciel would like to make some opening remarks.

**Antonio Maciel Neto:**

Good morning, everybody. It is a pleasure for me to participate in my first conference call, where we are going to show and present the results of the 2Q06. Today, most of you know that I have been working for Suzano for one month now, and so today I will participate in this and pay attention to the presentations of our officers here, and I will be available for your questions at the end. I would just like to introduce myself, and the next times I would like to participate in all the conference calls from now on. Thank you very much.

**Bernardo Szpigel:**

Thank you, Maciel. So, proceeding with the presentation that you have on the website, highlights for the quarter – we would like to start by mentioning that pulp prices reached now in July US\$ 660 per ton CIF northern Europe, the highest price since February 2001, which is a good development – Rogério will talk about this later on. The second point to mention is that we have concluded the shareholder restructuring of Ripasa, a very important event for us in two aspects: one is that, from now on, it will be possible to see in full clarity what is the impact of Ripasa on our performance without being constrained with the restructuring that



we could not move on; and secondly, very good performances that Ripasa is now having in the last quarters will be seen when we combine the results of the two companies.

We have an increase in the free float as a result of the restructuring, and also the liquidity of our shares. On a pro forma basis, our EBITDA for 2Q06 with 50% of Ripasa reached US\$ 125 million, a very good level, and also the increase in the EBITDA results in an improvement in our net debt EBITDA ratio, that we will be looking at later on.

In terms of production it was a very good quarter, we had records both in pulp and paper, the Mucuri project is going very well, on schedule, Ernesto will talk about that later; we will be issuing convertible debentures in early August, this is R\$ 240 million, and since June 1<sup>st</sup> Antonio Maciel is our new CEO. Now Ernesto will talk about the status of the Mucuri project.

**Ernesto Pousada:**

Good morning. I would like to give you a brief status of the Mucuri project in Bahia. So, our CAPEX for the 2Q06 was R\$ 410 million, and the total we disbursed in the 1H06 is US\$ 310 million. We are still estimating for the full year of 2006 a total disbursement of around US\$ 800 million.

The basic infrastructure on the site is completed, and this has given us lots of confidence that we are well-prepared to keep it up with our start-up date of October 1<sup>st</sup>, 2007. The future machine operators are also being trained as we speak, and this will also give us a handicap when we start-up the new lines in terms of having a more aggressive learning curve. And plus, you know, doing the construction safety is another important issue, we have reached a new benchmark, with more than 3 million men/hour without any fierce accidents, so this is a very important number as we make progress on the construction.

100% of the forests to produce the 1.1 million tons of pulp, which we will achieve during our learning curve, are already acquired, and we already committed 80% of the total budget for... We did not disburse 80%, but we committed 80% of the total budget for the project.

In the slide number 4, I think you can see a couple of pictures. On the left side you can see the dryer machine building, which is pretty much advanced, and as well as on the right side you can see the recovered boiler, which already being [inaudible]. So, the construction is pretty much on schedule, we are getting ready for finishing up some of the civil construction during the 3Q, so the construction is moving ahead pretty nicely, and, as I said, at this point in time, we feel very confident on reaching this October 1<sup>st</sup>, 2007 start-up.

I will pass on now to Rogério Ziviani, our head of the pulp business.

**Rogério Ziviani:**

Good morning. In this 2Q we had an average price of US\$ 558 per ton achieved, in comparison with the US\$ 523 in the 1Q in the export market. That means a 6.7% increase, or US\$ 35 per ton.

The strong sales volume in this quarter, we have to make a remark here that during the 1Q06 this year, we had a [inaudible] sale to China with 11 thousand tons that were supposed to be leaving in the last week of March, and due to port congestion in Brazil, it left



only at the beginning of April, so that is to be taken into consideration as an increase, which shows 32% in this quarter. If we take these 11 thousand tons out, we only have 11% increase, which is also a very good number that is good to notice in this remark.

In terms of production, we have achieved in the 2Q a level 160 thousand tons, which means that if we analyze this number of what we have achieved so far, we are in the range of 550 sustainable production for the year 2006 as a whole. We also postponed a maintenance shutdown, which was scheduled for last month in the Suzano mill, and will be occurring now in the month of July.

We also have a favorable forecast for the year ahead, especially in July, where we already did an announcement on price increases. As everybody knows, in Europe we will be having US\$ 650, as Bernardo said before, in Asia we are going to have US\$ 610, and in North America US\$ 695. Some of the reasons why there was favorable market in the 2H are that the high cost mills continue to shutdown, - we are working today with 1.5 million tons already announced -, and we have another 300 estimated from the economical side to be also shut down in the 2H, that everybody is saying. And then also we have a strong increase in eucalyptus pulp demand, especially in Asia, we have increased about 72% if we compare to the same period of last year; mainly because in 2005 we had at the beginning of the year the start-up of Rainan mill, which absorbed all the production in the domestic market, and now it continues to come back to the level of demand of 2-2.5% per annum increase in this demand.

We also had a higher demand in Europe, we see that this summer most of the coated producers are going to continue to maintain that production schedule, they are not going to stop during the month of August, which is quite normal, and also some of the uncoated producers will also continue to run flat during this summer. And one more thing is that the Latin American producers all have scheduled maintenance shutdowns during this quarter – the next quarter now, the 3Q –, which also will mitigate a little bit the [inaudible] of pulp, which can help us for the price increases ahead.

If we look to the next slide, we have a comparison here on the long and short fibers, and also if we take into consideration the CAD, which is having the same effect as the Real, where since 2004, even though the prices have increased in USD, in CAD they continue to have exactly the same number as they had before. So, which means that they are having higher costs in terms of production, and less revenue on the other side.

That is what we have for the time, and I will pass now to André Dorf to talk about paper.

**André Dorf:**

Good morning, everyone. Talking about paper, we had an increase in our domestic sales volume in the quarter, we had an increase of 5% compared to the 1Q06, and 11% compared to the same period of last year. This represented almost 62% of our total paper sales, which is also an increase in comparison to the last quarter.

In terms of outlook for the 2H06, we expect higher volumes in the domestic market, due to the government purchases of books, also because of the elections, and a positive environment due to the decrease of the interest rate.



It is worth to mention that our higher volumes in the 1H06 were basically due to the exports of notebooks at competitive prices, so we expect a recovery in prices in the 2H06. So, this is a positive outlook in terms of volume, it will also be a positive outlook in terms of prices as well.

In terms of exports, we concentrated our exports in the Americas, 65%, and I would like to highlight that our pulp continues to be in the Americas and Europe, which currently presents a positive outlook in terms of demand and prices for the 2H06.

Now I will pass back to Bernardo Szpigel.

**Bernardo Szpigel:**

Moving on now to the quarter's highlights, please go to slide 8, where we compare the 2Q06 with the 1Q06. The evolution in the sales volume is 12%, paper sales in the domestic market had a 5% increase, as André already mentioned, and exports 32% of increase. Net sales of R\$ 653 million, compared to the previous quarter, that is an increase of 12%.

Negative notes: on the pulp cash cost, which increased by 3% from R\$ 434 per ton, excluding cost of [inaudible] of course, to R\$ 447 [inaudible] main impacts and, the reason for that was an additional maintenance costs in our auxiliary boiler, we had a large maintenance job there, and that increased our cost in the quarter.

EBITDA had an improvement of 12%, which means R\$ 219 million, reflecting also, in addition to the costs that we mentioned, a good impact of better prices and volumes in general, and also the impact of non-recurring costs at the rate of R\$ 6.3 million in the quarter.

It is interesting to notice that in dollar terms we reached US\$ 100 million of EBITDA, which is a good result, and the margin did not improve as much, as we mentioned, because of this non-recurring cost items and additional production costs, only an improvement from 33.4% to 33.6%. Net income decreased by 32%, from 152 to 103, basically because in this quarter we had a stable [inaudible] rate throughout the quarter, and also from the beginning to the end of the quarter, so no impact in this quarter of a depreciation of the Real on our balance sheet, which had occurred in previous quarters.

So, the highlights for this quarter's EBITDA and the positive sides, higher pulp and paper sales volumes, and also paper and pulp prices in the export markets. Negative factors: the non-recurring expenses of R\$ 6.3 million, lower domestic paper prices and increase in our pulp cash cost.

We also show on slides 10 and 11 on a pro forma basis the impact of Ripasa. As we informed, the figures of... We are consolidating 53% of Ripasa since May, so not a full quarter, and here we show that this quarter we can see very clearly the impact of Ripasa in our numbers, and also the very good performance that Ripasa is having in the last quarters. We see that, in a pro forma basis, we had an impact on sales volume, domestic paper sales, pulp sales, net sales increased by between 15% and 30%. EBITDA reached R\$ 272 million, an increase of 24%. In USD terms that represents from US\$ 44 million to US\$ 125 million - annualized we are talking about US\$ 500 million, which is a very good performance for Suzano.



If you move on to slide 11, we show our net debt/EBITDA. Now we can see very clearly the impact of the performance of Ripasa; excluding Ripasa's EBITDA, our net debt/EBITDA ratio of 3.5, if we increase Ripasa's performance on this quarter this comes down to 2.8. So, also, again we believe that from now on it will be possible to see more clearly what Ripasa has brought to us and why we have acquired it last year.

Now we end our presentation, and will be ready for any questions that you may have.

**Daniela Guanabara, Pactual:**

Hi. Good morning to all. I have a question for Rogério. Rogério, do you have any update about the start-up of the Chilean plant? And if, in your view, this could be some downwards pressure for pulp prices in the 2H06 because of the start-up of the Chilean.

**Rogério Ziviani:**

Good morning, Daniela. They are on schedule. We have, as far as we are informed they have Arauto coming in first and CNPC coming more towards the end of this 4Q. The effect in the market that we are forecasting is that Arauto will start with soft wood, which would be very positive at this moment, because there is a shortage of soft wood in the market, and CNPC will start with eucalyptus, but today there are only forecasting to be on the international market only on the 1Q of next year. They will have all their start-up being used by their own operations in terms of paper, so we are not forecasting any negative effects at this moment and neither the analysts of the market.

As you can see the new [inaudible] has come out last week, it is pointing out a flat price for the 3Q and the 4Q. So, we are working in the same pattern, but I am a little bit more optimistic about the 4Q than I was before.

**Daniela Guanabara:**

And regarding environmental license, do you know if Arauto is OK? If they have got the license to operate the whole plant in Nova Aldeia?

**Rogério Ziviani:**

As far as I am concerned, they have the license to operate, but they are going to start in a very slow way. They do not want to make the same mistake that they did before, so the information that we have is that they are prepared to run with a 10% diminishing capacity during the start-up period to see all the problems that they may face. But they have the license, as far as we are concerned.

**Daniela Guanabara:**

OK, thanks. I have just a quick question for André. We have seen an improvement in the local market regarding paper demand and we expect this demand to remain stronger in the 2H06. What are you expecting for the year of 2007? What could be the major drivers for a good paper demand in 2007?



**André Dorf:**

The demand in 2007 will depend basically on the economic activity of the country. I mean, if interest rate continues to decrease and we have no major negative impact due to the elections, we expect 2007 to be as strong as this year has been.

**Daniela Guanabara:**

And the mix of sales, we can still consider a mix of sales with over 60% in the domestic market?

**André Dorf:**

For 2007? Yes, we consider 60% in the domestic market, 60%+. And it is worth to mention that we also expect this notebook export program to be a stable one from now on. I mean, after the anti-dumping lawsuit that was filed in the United States against China, this encouraged the local producers to increase their exports to the United States buying more paper from the local producers.

**Daniela Guanabara:**

OK. Thank you.

**Edmo Chagas, UBS:**

Hello, good morning. I have two questions. The first one, Bernardo, is related to expectations for the 2H06. You mentioned that your EBITDA was affected by non-recurring expenses related to the reorganization in the 2Q, and on top of expected demand improvement and price improvement, what would be drivers for improvement in your profitability in the 2H coming from costs and high utilization rates in to your operations?

And the second question is related to the financing of the Mucuri expansion; you are going ahead with a convertible debenture insurance in the 2H as well, and you already have most of the finance guaranteed. But do you still consider that the company could issue equities to finance part of that expansion?

**Bernardo Szpigel:**

Good morning, Edmo. Your first question regarding costs, we continue to see improvements in our cost performance. If you look at what has happened in our cost; at Mucuri we have been in a very good [inaudible] since the 2Q of last year, when we started to get all the stabilization and the end of learning curve at Mucuri optimized plant. This quarter in fact was not a normal one, we had to make this large maintenance in our auxiliary boiler, and this is not the planned maintenance shutdown that we have every year. So this was sort of a non-recurring cost item.

We continue to see improvements in the performance; we also have in our variable costs this quarter, we had to perform a boil out in our drying machine, which also increased our chemicals consumption. Other than that, things are moving very well and we expect improvements further on.



On your second question, regarding the funding for the Mucuri project, the issuance of the R\$ 240 million convertible debentures is something that was announced already. In fact, this is going to help us – if people remember –, R\$ 240 million is a seven-year maturity. We amortized 30% in the year five, 30% year six and 40% year seven, so the average duration use about six years, [inaudible] a TJLP plus 250 basis points. This will compose our funding, not specifically for the project, but our funding for everything other than the project.

For the project itself we have practically concluded, we have BNDES and Banco do Nordeste do Brasil already contracted and disbursing, and we are about to conclude the contracting of the ECA portion for imported equipment. This has been approved, and is being finalized in the coming weeks for the ECAs. The largest would be with [inaudible].

So, in terms of specific plans for the project itself, all of the necessary funding is in place. New equity issue would not be necessarily related to needs for the project, but also we have continued to pursue the improvements in our liquidity float. So, more equity in the market would be positive, not a very large amount, but continuing to move in to that direction. It is a possibility, nothing is defined at this point in time.

**Edmo Chagas:**

OK, very clear. Thank you.

**Bernardo Szpigel:**

Thank you.

**Marcelo Aguiar, Merrill Lynch:**

Hi, everybody. Good morning again. Related to pulp market, Rogério, could you be a little bit more specific related to the pulp mills shutdowns? We have been seeing a lot of numbers here and there about the total shutdowns made for this year, you guys have been talking about 1.5 million tons. I would just like to check how much of that was already shut and how much shut be shut down now in the second half or in the 3Q. I do not know if you have this data now.

**Rogério Ziviani:**

Hello, Marcelo, again. We are internally working in this 1.5, which is already confirmed by various sources that we have. We also had some other ources that are projecting something like 1.8 million tons already announced, including the integrated ones that are going to disappear from the market. There are some numbers in between these 1.5-1.8 million tons out of the market announced for this year, OK?

Some of them have already shut down and they are out of the market. Some of them are in the phase out. As I explained before in one of our meetings, they cannot shut down from the day to the night. They have to prepare the whole infrastructure to shut down the mill, and also in terms of the payroll of the labor force and everything.



So, they have to preannounce that with at least three months in advance and some of them are in this phase right now. But, internally, we are working with this 1.5, and my best estimate is that this year we are going to be seeing something very close to 1.7-1.8 to be out of the market.

**Marcelo Aguiar:**

OK, but do you believe most of that was already out?

**Rogério Ziviani:**

As far as we are concerned, I would say that about 700-800 thousand tons are already out of the market, that is including the market pulp, and rest is shutting down in the process from now to the end of the year. So we have the great results of the numbers that have been announced so far, that is going to be concluded in the second half of this year.

**Marcelo Aguiar:**

OK, great. Now a question for André Dorf. Related to the market, André, I heard you saying that you expect 2007 to be as strong as 2006. I am a little bit more concerned, because this year, as you know very well, we have some specific issues like elections, World Cup and also a much stronger government program in the case of books acquisition. So, is there a bubble that occurred this year that next year will not occur, so when you compare volumes in 2007 with volumes in 2007 you risk to have volumes falling? I would just like to understand the size of this bubble that exists in 2006 and will not happen in 2007.

**Rogério Ziviani:**

Yes, this a good question. I do not believe this is a bubble. We had these notebooks exports effect in the 1H06, which is expected to occur, from now on, every year, or at least in 2007. In terms of World Cup, this improved a little bit the volumes of paperboard in the 1Q, anticipating the World Cup, but now in major. I mean, the net increase of the World Cup is even, because we had a lot of temporary closures of the graphics, the printers and during the games days. So, I would not attribute any increase of the market to the World Cup per se.

The only effect that we had this year which will not occur next year is the government purchases of books. But, on the other hand, we have a more positive outlook in terms of interest rate and economic growth, which is expected to offset this one-time event of the government. So, bottom line: we expect 2007 to be as strong as this year has been.

**Marcelo Aguiar:**

OK, good explanation. And related to paper price in the international market, if I am not wrong, the performance of your prices seems to be a little bit lower than your competitors in terms of export prices. I would like to just understand what we are up to see in the following quarters in terms of higher uncoated export price in your numbers. So, we have a carry over fact that did not happen, or some price improvement that you did not place in Latin America yet, because you have a very significant volume in Latin America, so just to try to understand the movements in your uncoated export price in the following quarters.



**Rogério Ziviani:**

Yes. This is a combination of some effects. Actually, our export price grows at 7.2% compared to the 1Q, and this has a lot to do with our export mix, and in terms of products and regions; and we export a lot to Latin America, which has certain delay in terms of following the North American increases. So, we expect, yes, a certain effect of these recent price increases in the next quarter, or in the 3Q, and along the year.

**Marcelo Aguiar:**

OK, thank you very much.

**Operator:**

There appear to be no questions at this time. I would like to turn the floor back over to management for any closing remarks.

**Bernardo Szpigel:**

I would like to thank everybody for the participation in our conference call, it is a pleasure for us, and we will be, of course, available to any other questions that you may have, and until next time. Thank you very much. Bye-bye.

**Operator:**

Thank you. This thus concludes today's teleconference. You may disconnect your lines at this time, and have a wonderful day.