

## Q2 2010 Earnings Call

### Company Participants

- Alexandre Yambanis, Pulp Business Unit Executive Officer
- Antonio Maciel Neto, CEO
- Bernardo Szpigiel, CFO
- Carlos Anibal, Paper Business Unit Executive Officer
- Ernesto Pousada, COO
- Unidentified Company Representative, Unknown

### Other Participants

- Carlos de Alba, Analyst
- Debbie Bobovnikova, Analyst
- Hwan Twas, Analyst
- Josh Milberg, Analyst
- Juan Tavaréz, Analyst
- Marcelo Aguiar, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper Second Quarter 2010 earnings conference call. Today, we will have a simultaneous webcast with slide presentation on the Internet that can be accessed at the site [www.suzano.com.br/ir](http://www.suzano.com.br/ir). 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 session. At that time, further instructions will be given. (Operator Instructions) Today's speaker will be Mr. Antonio Maciel Neto, CEO.

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 forward in the forward-looking statements.

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

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

Good morning, everyone. Thank you very much for the participation in this call. This morning, we're very happy to present the results of the Second Quarter 2010. And as usual I will present a few slides here to -- just to comment into -- about the highlights of the results and the market situation and just after we will have the opportunity to take questions.

I have, as usual, all our key members of our senior management team along with me here in Sao Paulo and other places through the conference call as well.

So on page two, I will start with the highlights in the pulp and paper markets as in overall markets. The first one is about the pulp market, in the global market pulp production of 9.9 million tons in the Second Quarter of 2010, 1.7% below First Quarter '10 and 5.4% higher than Second Quarter '09.

I think everybody remembers that Second Quarter '09 was probably the worst quarter for the whole industry and at that time the production -- a lot of producers were reducing their production and trying to sell as much as possible because the trend in the cost -- the price trend was negative.

In sales, market pulp 10.1 million tons, eucalyptus market pulp 3.4 million tons during the quarter. Same, as I mentioned before, this is the -- the sales were slightly higher than production and consequence of that would -- the inventories continued to be in a very low levels, and in this case the sales were slightly higher than production.

Inventories at 25 days is the latest data we have. Before that, the data that we had was 27 days, so below the historical average days, 33 days. When we talk about these historical days, we do not consider that now we have a higher presence of Asia in the market.

So if you go and analyze the historical data, you are going to see that probably this would be 25 days, 26 days compared with the mix of sales that we have today. So inventory is very low and we will come back during the call to talk about this situation.

As you know, we had the price increases in April, May and June. We ended up the quarter with the price at \$920 per ton CIF Europe. The availability during the Second Quarter of '10 was very low due mainly to Chile earthquake and delays in the startup of the April mill in China.

So the key message here is that we have the strong sales very well aligned with what we had First Quarter and good prices and inventory is still in a very low level.

Paper, you see that we are coming back for the levels that we had before the crisis. Print and writing in the local market was 6.9% higher in the Second Quarter compared with the First Quarter and 10.9% higher Second Quarter '10 compared with Second Quarter '09.

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Paperboards, well this is a segment more related to the -- we can have a better comparison with what is going on in the overall economy and we see that Second Quarter '10 compared with Second Quarter '09, we had the 22% increase, 3.7% increase in the Second Quarter '10 compared with the First Quarter of this same year.

We had the highlight related towards the paper imports. We have mentioned here the subject has been a -- very commented during our latest calls, then we try to show you always where we are on this imports. We had the slight reduction as well in the quarter -- in this quarter, 23.4% versus 24.5%. Exports accounted for 40% of the total sales compared to 40.9% in First Quarter '10.

I think good news here is related to the global printing and writing demand. It's very clear that we have a recovery process going on. First semester '10 compared with the first semester '09 we had the very important growth in Latin America 14.9%, Asia 18.1%, North America 7.8% and Western Europe 5.4%.

During the First Quarter, Europe was around 2% and North America was about 5% to 7% depends on the grid. So the Second Quarter, it was better than the First Quarter compared with last year.

Page three, we have here the highlights -- Suzano's highlights for this quarter. Total market pulp and paper production of 705,000 tons; sales volumes of 717,000 tons; net revenue at BRL1.2 billion; cash cost -- pulp cash cost excluding maintenance downtime at BRL464 per ton; EBITDA of BRL413 million; EBITDA margin at 34.7%, good recovery.

At First Quarter of this year, we had an EBITDA margin in excess of 50%, but mainly in the First Quarter we had the sales of our forest assets in Minas Gerais state that was our one-time revenue that we had with a big impact on the EBITDA. Without those effects, non-recurrent effects, the margin in the First Quarter was 32%.

So 32% to 34.7% in the Second Quarter and much better than the Second Quarter of last year, that was the worst quarter that we had for many, many years where we had that at the 21% margin. So very good and aggressive EBITDA margin recovery.

This is a consequence of several pulp price increases and global inventories below historical levels. New increase in paper price, in both domestic and export markets, during the quarter; net income of BRL135 million.

Last year, we had in excess of BRL500 million of approx [ph] in the Second Quarter, but as a consequence of the devaluation of the real, this is a -- now First Quarter, Second Quarter much more aligned at this levels that you are seeing here, BRL134 million -- BRL135 million.

Good news on the net debt to EBITDA ratio, now at 2.7%. So we are right below 3% that we had planned to happen during the year. And cash and cash equivalents of BRL2.5

billion and a gross debt reduction of BRL200 million (sic -- see presentation). It's very good, very strong quarter as in the financial aspects.

We have the investment announced in biotech Futuragene during the quarter and just after the pellets for energy, the creation of Suzano Renewable Energy. We have discussed about this subject. They are key pillars for our Suzano's 2024 strategic plan and this is a very good way to use our hidden assets in biotech and in the forestry business. So this is a very good preface for the growth in the future.

Page four, pulp business unit. Sales of 420,000 tons in the Second Quarter 2010, 9.1% higher than the First Quarter, and 23.3% lower than the Second Quarter of '09. In the Second Quarter '09, probably you guys are going to remember that we had very -- one-time sales of the inventories. We started the Second Quarter last year with very high inventories, very close to 60 days of inventories.

The trends that we had at that time was the reduction on the price. The price was very unclear about the end of the process. In fact, we were in a very, very difficult situation with a lot of uncertainties in the market. So we took the decision to reduce the inventories and we had very specific deals to reduce the inventories. Then we had the very high volume, but very low margins as I had mentioned before.

Average net price in Second Quarter 2010 was \$741 per ton, 15% higher than the First Quarter '10. So the trend that we had announced before and even in the latest call happened and we achieved another 15% increase in our average net price, 14.2% higher than the First Quarter, that's 15% and 60.3% higher than Second Quarter of '09.

Net revenue in the pulp business of BRL558 million, 24.6% higher than First Quarter '10, and 22% higher than Second Quarter '09. Destinations of our pulp, Asia at -- in the level of 36%, 37%. As we mentioned before, this is going to fluctuate probably in this year. So this level, 35% to 37%. Europe also was 36%, in the First Quarter about 38%, so a slightly growth in the sales in Europe compared with latest quarter.

North America from 8.6% to 7.2%. Brazil, very well aligned, 17.4% of the total in the First Quarter, and now 17.3%, a very (inaudible). So this is the -- probably with that, we conclude this very brief presentation of the numbers of the pulp business, and then we can move to page five to talk about the paper business units.

Sales volumes in the Second Quarter of '10 higher than the First Quarter. Printing and writing, we had 17.8% growth, paperboard 8.4%, and average price in the domestic market 3.6% higher than First Quarter. If compared, the numbers of the -- from the Second Quarter '10 compared with the Second Quarter '09, we see that printing and writing we had 6.5% reduction in the volume, now 1.1% in paperboard and price 2.6%.

See what is important here is to mention that despite the price increase that we have implemented during the last months, we are still 2.6% below what we had in Second Quarter '09. Last year, we were in the crisis, but we were supporting -- reducing volumes and supporting the price.

But another aspect is that normally the -- and this was confirmed during this crisis that paper business is much more stable than what we see in the pulp business where the prices goes up and down with much more -- in a very volatile environment.

So paper has -- when the price of -- the pulp price went down in a big dip -- dive, let's say on the deep reduction on the prices, paper prices maintained in the -- almost the same level. We had reductions, but not in these big levels that we have seen in the pulp. And now with the recovery -- big recovery in the paper price, the pulp price average -- the paper price has maintained the same. So we are very close to recover the price that we had before.

Domestic sales of 53.3% of the total sales and almost the same that we had before. And exports prices -- I think the good news here is that the recovery of the prices in Europe -- in the US of paper during the semester and we were able to benefit from that. So you can see here that in dollars, our average net price in the exports were 7% higher than the First Quarter '10 and 22% better than the Second Quarter '09.

If you compare the same numbers in reais, Second Quarter '10 was 6.3% better than First Quarter '10 and 6% better than Second Quarter of '09. So good news on the recovery of the international market we saw in the slide in number -- in page number two that we have seen some recovery in the volumes in the North America, in the US, and here we see the consequence of a better price in the international market.

On page -- in the same page, we have the destinations of our sales -- the paper sales destination. Brazil, 53.7% to 53.3%, First Quarter to Second Quarter '10. You see here in the Second Quarter '10 also South America and Central America at 20.6%.

That's what puts us in a 75% range of sales in Brazil and South America, what is exactly our strategy to concentrate and to have higher volumes in Brazil and South America. That is very well aligned to what we had in the First Quarter which was slightly improved. Europe today at 11.3%, North America 12.6%. This is very much what we have obtained for our paper business.

Page six, some operational performance highlights. A higher share of pulp in Suzano's revenue. So now pulp is now responsible for 47% of our revenue in the Second Quarter of '10 compared to 46% in the First Quarter '10.

Pulp cash costs, higher price, higher costs and 9.2% in the First Quarter '10. This is explained by higher cost related to wood from third parties. We had the big increase of the supply of wood from third parties, our (inaudible) program and higher chemical costs as well.

The -- in the utilization of the wood from third parties, we had this increase. We are going to see during the second part of the year a reduction on these volumes of the third parties, but not the same volumes that we do -- the same percentage that we had last year where these numbers were very low.

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So we had the peak; this is now being reduced, but is not going to be at the levels that we had before. So if needed, we can debate this a little more after -- during this call. EBITDA margin of 34.7%, this returned to historical levels, in fact, good levels for EBITDA margin. Then a good number -- a good quarter because we didn't have any surprise non-recurring items in Second Quarter '10.

Page seven is the debt and leverage information. You can see here that this gross debt at BRL6.2 billion, BRL200 million lower level than the reduction in the gross debt compared to March '10 and about \$700 million below the lower levels in June '09, so BRL6.2 billion. Cash and equivalents at BRL2.5 billion, net debt BRL3.7 billion, net debt to EBITDA 2.7%.

It's good to remember that too in March we were at this ratio of net debt to EBITDA at 3.4%. In June '09 less in the Second Quarter of '09, we ended the quarter at 3.5%, a very strong de-leveraging process. Everybody knows that we had mentioned that our goal was to be below 3% during this year. In the Second Quarter, we are already at 2.7%.

This is the -- at the bottom of this page, you have a graph showing the situation of our needs in the amortization schedule. Compared with our cash, we have BRL2.5 billion of cash and then for the coming years, we have levels of amortization that give us a very good liquidity situation. We are in a very good shape on cash needed to pay the amortization schedule that we have (inaudible).

Okay. Just to go into my -- to the end of my presentation, we are at page eight, and I would like just to underline some methods that they have mentioned before, but would like to call your attention to those.

The demand recovery in the pulp and paper market. Okay, we see that the paper, we have a higher demand in printing and writing globally with worldwide good recuperation -- good recovery on printing and writing, paper and paperboard and especially in Brazil and more particularly to the paperboard market.

Pulp global inventories below historical average that you can say that's very low levels of inventory and we had up to the quarters successive price increases. However, as you already know, some of our competitors decided to reduce the price during the last week of July.

We were a little bit surprised with this move because we were looking at the inventories and then seeing that the inventory is very tight. So -- but different reasons probably created the motivation for some of our competitors to move downwards about \$50 in the price.

Still we -- in the reference price of CIF Europe, we went from \$920 per ton to \$870, still a very good price compared to historical levels and also with the exchange rate that we have now.

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However, we tried to resist because of the fundamentals were there; low levels of inventories, strong demand. But as most of our -- all our key competitors moved in that direction to give \$50 price reduction, we didn't have other alternatives than to reduce our price as well in \$50 over here.

As you know, most of our contracts have a reference on the list price and everybody has announced and this was going on, on the reduction of \$50. But -- so we resisted, we tried to see if this was just a movement of one or two producers.

But as this became a industry trend or industry decision, we didn't have other alternative than to reduce our price as well. So now during the month of August, we are with our prices at \$50 below what we had in the July month.

Let's see what's going to happen next. If the inventories continues tight like we see and we think this will continue considering all the information that we have in our hands, probably this price we will maintain -- we don't see with the volatile environment with the bad news coming from China, a difficult recovery in the West and we have seen most of the bad news than good news in the last weeks.

We don't see space for a price increase now. However, the fundamentals are in place to at least to maintain the price as we see now. However, we don't see for the motivation that started the process to reduce this first \$50 and they are coming from the peak of \$920 before other things will happen.

So very difficult now, probably we were going to have questions on these, Alexandre Yambanis can talk a little bit better and more about these. But what we see is that this -- from my -- from where I am looking at the markets, I'm looking -- I'm seeing the inventories in a very low levels and I don't see -- normally when -- last year when we started the price reduction, the inventories were on excess of 60 days. Now we are at 25 days in inventories, very different situation to start a downward price trend. So let's see.

Next on highlights is operational margins recovery where we have mentioned, we are proud to present 34% plus margin on EBITDA margin. This is a good performance of our team and thanks to the good pulp prices as well.

Solid financial position, as always we are going to always to talk about these, very competitive debt cost, very good debt profile, very good process on the financial management of our assets.

Leverage reduction from 3.4% to 2.7% -- 2.7% the EBITDA ratio, the EBITDA -- the net debt to EBITDA ratio and gross debt reduction of BRL200 million.

About the growth strategy, we are going to start talking more and more about our vision and our plan to that we call here internally Suzano 2024 plan is our strategic plan. In 2024, Suzano will be completing -- will be at 100 years and this will be just the -- we started this

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process two years ago to define and to discuss the positions and where we will -- how Suzano could be or would be in 2024.

Then the growth strategy that we have inside this plan has one of the most important part was to grow in the market pulp, this eucalyptus market pulp and because we see a lot of space for us as the lowest or one of the lowest cost producers of pulp with our strategy of moving forward with organic growth. This is going to maintain our strategy to be very low cost producer of pulp. This is a very important position.

We have progressed on the scheduling of those projects, Maranhao and Piaui. We're moving forward according to the timeline that we have. However, as we are finishing our basic engineering process now, we are -- we have some changes in the numbers that we compared with the numbers that we had announced in July '08.

So we had changes in the steel prices and copper prices, engineering prices. We had the impacts on the land cost. We had scope changes on our relationship with Vale [ph] compared with what we had in July '08. I'll be saying this again because this is the base for our comparison. However, we -- on the other side, we had the new technologies coming.

Good news on energy production and so what I'm saying that the numbers have changed. The -- however, these -- the net present value per share continues to be very strong, very good and we will, in the coming weeks, present to the market the new numbers of the project.

We said that this was going to be at the end of the year, but we are -- we are very close to be -- to announce the new situation of the project. Because after these two years, a lot of things changed and we would like to review and to present to the market these new numbers related to cost and the technologies and all the change.

So what I can anticipate that the project's function will be extremely good, very important. We had a review about that in the Board of Directors of the -- during this week. It's very good to have a cushion and good process that's moving forward.

So just anticipate one of the questions, I'm just saying that very soon you guys are going to have the new numbers of this project. Also, the sale of non-strategic forest assets, BRL334 million, you mentioned that we had this in the EBITDA numbers, but the largest -- the piece of the cash came (inaudible).

## Operator

Pardon me, this is the operator, please stand by, we will have them on the line momentarily.

## Unidentified Company Representative



Yes -- no, we just got reconnected. Yes.

## Operator

Gentlemen, you may proceed.

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

Okay, sorry for the interruption. We had a line disconnection and we are coming back. I'm just concluding these -- on this page eight, we were talking about the acquisition of Futuragene and the launch of Suzano Renewable Energy. This -- those process are very well connected with our growth strategy now in the Suzano 2024 project.

So having said that, I would turn back the -- to the operator the -- to move forward with the call, and we'll be very happy to answer your questions. Thank you very much for the presence and the attention to the presentation.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) Our first question is coming from Carlos de Alba of Morgan Stanley. Please go ahead.

### Q - Carlos de Alba {BIO 15072819 <GO>}

Yes. Good morning. Thank you very much for taking the question. The first one would be on the market outlook. I mean, we talk -- now you mentioned that that is quite bullish with tight inventories and therefore there's a possibility of prices remaining stable.

What I don't understand is it seems to me that these fundamentals have been in place for the last few months, and yet prices came down. I wonder if you could -- and I know it wasn't Suzano who initiated the cuts, but if you could help us understand this puzzle, it would be very good.

And second, if you can give us an update on how much pulp sales you think you can do this year. You are -- during the first half, you did 806, and presumably, I assume you can run close to full capacity in the second half, despite the maintenance downtime that you have in Mucuri.

Then my final question would be if you could explain a little bit of what happened with the Ripasa transaction in the quarter. It was a BRL19 million expense -- financial expense in relation to this transaction. If you could just walk through what happened there and maybe talk a little bit about any potential transaction with [total sale], that will be great. Thank you very much.

## A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes, hi Carlos. I'm Alexandre Yambanis, and I will address your first two questions. I will preface what I'm going to tell you by saying, in a nutshell, that the supply demand fundamentals remain structurally very sound in the market. And why is that so? In the first place, as you saw from the figures that have been presented by Mr. Maciel, demand is picking up quite healthily and briskly around the world, paper demand. Okay, this is point number one.

Point number two, inventories remain under control worldwide, I mean -- and broadly, pulp inventories remain under control. And point number three, there is new capacity of paper coming on stream, notably in Asia and specifically in China. In the next 12 months, we will see -- we are seeing the start-up of nothing less than 3 million tons of paper, new capacity coming on stream in China. So the structure of supply and demand remains very sound.

Now, how -- and you mentioned a very good word, how can we explain the puzzle of paper, of pulp prices decreasing in such an environment -- such a healthy environment. Well it's quite simple. It is a sum of transitory factors that have occurred specifically in China. And I would mention three of these factors, which have caused the Chinese market to rock the boat a little bit and have caused some of the pulp players to move ahead, and adapt their prices.

The first factor is that the traders in China have been de-stocking pulp for the last two, three months. And this is due for the simple fact -- to the simple fact that pulp prices are very high, and that was an attraction for traders to sell at a discount, in order to discount -- to de-stock their inventories.

The second factor is the start-up of April's Rizhao mill, in the Shandong province in China. This is a 1.2 million tons pulp mill and they have been selling start-up pulp at discounted prices. So that, of course, attracted many buyers to buy at those discounted prices. But again, this is a transitory factor. We believe that April, being a serious Company, will very soon come back to the market trend, to prices that will better reflect market trend.

Last but not least, there has been energy problems in China, as you probably know. And many paper producers have been precluded -- have been restricted in terms of energy supply, and they had to produce less paper.

Adding to that, the weakness of the euro in Europe which made European producers to regain some of their paper market shares worldwide in -- to the detriment of the Chinese paper makers, which were exporting quite briskly before that factor. But again, another transitory factor.

So to sum it up, supply and demand, very sound, some transitory factors made some players pull the trigger and decrease the prices. In our view, they could have held those prices a bit longer.

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**Q - Carlos de Alba** {BIO 15072819 <GO>}

Thank you, Alexandre.

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

You are welcome.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

And about your pulp sales for the year?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Yes, pulp sales for the year, we're quite confident and comfortable that we will sell as much as we produce. So sales will meet production, and we'll have quite a healthy year in terms of volumes of pulp.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

And with respect to producer, almost full capacity, just taking into consideration the maintenance downtime in Mucuri?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

We expect, and reach around 1.7 million tons of pulp -- of market pulp near capacity.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Great, thank you. Then a final question on Ripasa transaction and Conpacel?

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

Yes, hi Carlos. This is Bernardo here. The Ripasa transaction that is mentioned here is the -- when we acquired Ripasa in 2005, a portion of the payments for the controlling shareholders was subject to -- was to be paid on a -- afterwards, and that it was subject of a -- to a put and call option scheme by which we had a call option on this portion of equity and they had a put. As part of the restructuring, these values were then later swapped into Suzano's shares as well as VCP, and now [CBS] shares.

A portion of this delayed or this later payment was exercised in -- I guess it was 2009, and then there was a remaining -- a portion that was exercised this year, in April. It was left something like 790,000 shares of Suzano class -- preferred class A. And these were paid-up, it was -- so they exercised their put option.

And we paid a total of BRL42.6 million. On an accounting base, 23.5 million tons were registered -- as were recorded as shares in treasury, and BRL19 million as financial expense in this quarter. So this is the end of the acquisition, the last stage of the acquisition of Ripasa that started in 2005.

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**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Okay, just --

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Thank you, Bernardo.

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Okay, go ahead, please Carlos.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

No. I just said thank you.

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Okay. Thank you. On this -- on the Conpacel possible transaction, we don't have from our end anything to say; we don't have any news for those.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

But would you be interested if those assets were up for sale?

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

Yes. We have the -- we have mentioned before that this is an asset that we could consider, and soon we will see -- you know that we have the tag-along, we have drag-along, we have the first refusal positioning. As soon as we receive any proposal, we are going too seriously to analyze. So far we don't have anything in our hands, and we maintain our position that we will look at the transaction seriously.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Excellent, thank you very much.

**Operator**

Our next question is coming from Josh Milberg from Deutsche Bank. Please go ahead.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Thanks, good day everyone. My first question is on pricing. Back in June, we had seen a widening in the gap between list price levels for pulp, between different regions, with hikes implemented in North America and Europe, and prices maintained in China.

So my question is, at today's levels, do you see significant regional differences in profitability, and could you just touch on, briefly, how discounts to lists have evolved in Europe and Asia over the past several months, if there's been any more there?

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**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Yes, Josh. This is Alex Yambanis again. If anything, discounts have been -- have decreased across the board, okay, with differences between markets. But we have been implementing discount decreases across the board. So I'm answering your second question first.

In terms of the pricing differential between markets, this has to do with the different market dynamics as applicable to the different markets we sell to. And no, we are not seeing any differential in those different prices going forward.

We see the maintenance of those differentials and the -- some of them have very logical explanations. For example, pulp in North America is sold on a DDU basis, whereas pulp in Europe is sold on a CIF basis, pulp in Asia we invoice upon shipment, and so forth.

So some those price differentials are explained by virtue of the modality of sale.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Okay, that was very clear. Thanks for that. I was also hoping you could provide some additional perspective on the Chinese paper market. Some reports we've seen suggests that there's a significant oversupply of paper there in the domestic market. And you had mentioned that electricity rationing led to lower paper production recently. But could oversupply also be a factor behind some curtailment of production? What's your perception there?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Well there is a slight oversupply and this is mainly due to the fact that the Chinese have been encountering some difficulties in exporting their paper, due mainly -- main two reasons for that factor. The first reason being the countervailing duties that -- and the anti-dumping duties that have been established by the US market, this is one side of the coin.

And the other side of the coin is, as I mentioned in the first question, the devaluation of the euro made was such that European paper producers became -- regained their competitiveness in the international markets, and regained somehow, some of the lost market share that had been lost to the Chinese.

Now, let it be no mistake, there are some small un-efficient, highly pollutant paper plants being shut in China at an accelerated pace and on the other side there are very modern, huge paper machines coming on stream that will require the quality of pulp that is produced by Suzano. So we are very comfortable with the supply and demand fundamentals in the Chinese market going forward.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Okay. Thank you very much.

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**A - Alexandre Yambanis** {BIO 16470785 <GO>}

You're welcome.

## Operator

The next question is coming from Hwan Twas [ph] from Citi. Please go ahead.

**Q - Hwan Twas**

All right. Thank you. Good morning, everyone. Just a quick question first on pulp, and given that we are seeing this shift in demand or at least in your sales towards Europe, can you talk a little bit about the sustainability of that recovery we're seeing in Europe? And would you expect this type of sales mix to remain during the year or do you see China coming back at some point this year?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Well our sales allocation is pretty much balanced. And it is equivalent, give and take, to what we intend as an allocation for our -- an ideal allocation for our sale. So we have not, if you wish -- if you wish, we have not changed that allocation in any big extent.

This being said, yes we have been just very rationally shipping slightly more to Europe in the last couple of months. And this is solely due to the fact that European market remained buoyant despite the summer. Traditionally, European paper mills shutdown during the summer. This time around, due to the fact that they had some pent-up demand to catch up, they -- many mills have shutdown at -- to a lesser extent than the summers before.

Now, we foresee the Chinese demand coming back big time in the next coming months. As I mentioned, the problems in China are transitory, and they will tend to go away in the next coming couple of quarters. We foresee specifically the last quarter -- the Fourth Quarter as, in the Chinese market, as a quarter that -- where business will come back. And due to those new paper machines, and the Chinese demand will come back in full swing.

**Q - Hwan Twas**

So I guess that it leads to my next question then. Why is it your assumption now of saying that you just see prices remaining at these levels if you're expecting -- inventories are still very low and you are expecting China come back and the market to get better. Why not expect more increases in pulp prices?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Well we are right now experiencing a slight correction in prices. Our competitors have announced lower prices. We had to follow because of contractor obligations and so forth, as explained by Mr. Maciel. We don't exclude that the current prices might come back as soon as the demand is back.

We're not saying that the prices will remain at this level in the next coming quarters. We don't exclude recuperation of the previous levels as the supply and demand fundamentals evolve and China comes back to the market and allows us to -- and allows supply to tighten.

### Q - Hwan Twas

Okay. Fair point. And on your cost on that we saw this quarter, obviously you've been saying before that you are going to increase your level of third party wood. Are we -- have we reached that mark in terms of what you see as the appropriate level from third parties or should we expect further increases in the next quarter?

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

Twas, this is Bernardo. Well on wood, what we -- on third party woods, what we saw in this quarter was a participation of third party wood of around 40%. Up until last quarter, we had something like 25%. So it was definitely a big increase.

This is -- will be mostly concentrated in this quarter, but then we are going to be moving. If you look, for example, into 2011, our medium; to long-term level, the third party wood participation would be something like 30%. So we are coming off below from what we have seen in this quarter, but not as low as what we had last year in this First Quarter.

To give you an idea of how much this -- the impact in terms of cost -- of cash cost, we are talking here -- or cost of wood, we are talking here a reduction of something like 20 -- almost BRL20 from the levels that we are running today. So yes, Second Quarter was higher, but then we'll go back to lower levels, but not as low as what we had before.

### Q - Hwan Twas

Okay. And my last question on the paper market. We -- at least data that I saw for July is that we did see some imports increasing into Brazil. Are you seeing any pressure there on local prices or do you still see momentum for further price increases during the second half?

### A - Carlos Anibal {BIO 19090865 <GO>}

Hi Hwan, this is Carlos speaking. If you look at the last 12 months, the import share has been around 18%, okay. And for the time being, the current market conditions, we don't see any change on that, okay. We might see a reduction on the uncoated free sheets and a minimum increase on the coated paper. All in all, it should be the same.

### Q - Hwan Twas

Okay. But do you expect any paper price increases, further increases during the second half?

### A - Carlos Anibal {BIO 19090865 <GO>}

Not for the time being. What you are going to see in the Third Quarter is the consolidation of the price announcements that are announced between the first and the Second Quarter mainly in the export markets.

**Q - Hwan Twas**

Like another 5%?

**A - Carlos Anibal** {BIO 19090865 <GO>}

Might be a good number.

**Q - Hwan Twas**

Okay.

**A - Carlos Anibal** {BIO 19090865 <GO>}

For export, okay.

**Q - Hwan Twas**

Okay. Right, perfect. Thank you very much.

**A - Carlos Anibal** {BIO 19090865 <GO>}

Welcome.

**Operator**

(Operator Instructions) Our next question is coming from Debbie Bobovnikova from JPMorgan.

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

Hi. Good afternoon. I'm sorry if I am repeating myself. I had to join late. But I wanted to ask a couple of questions. One, on the pulp price outlook, and you actually mentioned this in your press release, right. The spread between paper prices and pulp prices are actually at quite low levels, well below historical average. How sustainable are those levels and how do you see that evolving?

If we get back to normal levels, is that because you expect paper prices to increase significantly in key markets in Europe and US, maybe pushed by your more optimistic outlook on China, or there is the other side of the equation, do pulp prices have to fall? But I guess it is a two-step question, one, do we need to get back to historical spreads between paper and pulp and if so, how do we get there? That's my first question.

**A - Alexandre Yambanis** {BIO 16470785 <GO>}



FINAL

No. Debbie, we only see -- our paper customers worldwide, they usually welcome when we increase prices of pulp. Of course, they tend to complain it is too high, it is set to pressuring us, but on the other hand, that allows them to increase their own paper prices.

And this is what we are seeing right now. Paper prices around the world are increasing. In different grades and different regions, you have different rates of increase, but paper prices are regaining momentum. And that's basically thanks to very strong pulp momentum.

So we see that -- we don't see necessarily that the spreads have to be -- to go back to previous levels by means of decreasing pulp prices. We see probably spreads going back to previous levels due to the increasing of paper prices.

### **A - Unidentified Company Representative**

And just to complement, prices are moving up in the major markets like US and Europe.

Paper prices.

Paper prices, of course.

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

Yes, of course, but does that mean that, let's say, in your domestic market that you are pricing paper, are you able to pass on fully the change in pulp in order to regain back the spread?

### **A - Carlos Anibal** {BIO 19090865 <GO>}

As -- this is Carlos speaking, okay. As Alex explained before, okay, in the paper markets we have a less volatile environment, okay. Prices did not drop so much last year, okay, and right now we are increasing prices, but not as big as we are increasing the pulp price.

### **A - Unidentified Company Representative**

In the domestic markets.

### **A - Carlos Anibal** {BIO 19090865 <GO>}

In the domestic markets.

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

Okay. Great. Then the second question I have is just a follow-up on cost. I guess they are going to be for the next quarter and you were very clear on your outlook for wood contribution to cost. But I just wanted to get a little bit more color, first, on the wood side. How much -- what you think in terms of domestic prices of wood?

FINAL

There is some reports that said that there is a very hot market for timber in Brazil, and that is pushing up all wood prices. So I was just wondering if you have seen any of that and how your contracts are set up to take into account changes in spot prices.

Then also what will be -- what do you think will be the ultimate impact for next quarter because obviously on the one hand you are saying that you are going to use less third party wood and that's going to be a benefit to costs, but on the other hand, we also have that maintenance time coming up. So net-net, should we expect one to offset the other or is there room for cost to be slightly low, lower, higher than this quarter? Any comments?

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

Debbie, this is Bernardo. On wood cost, in fact, the news that you get from Brazilian -- wood prices are going up. They don't affect our own position in our markets. We have long-term contracts with these third parties. Prices do not fluctuate with market conditions as can occur in other markets.

In fact, the market for wood in Brazil that can absorb this -- where you can observe these things are more in Sao Paulo or in the southern region of Piaui of the country, not in -- where we produce, okay.

And on the impact of the maintenance shutdowns and can you -- ?

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

Yes. Good morning, here is Ernesto. When we talk about the shutdown, typically we have a cost of around BRL25 per ton on the maintenance shutdown.

The other important component of cost is the chemicals. Chemicals -- we are not seeing a major increase in chemicals, but slowly some of the chemicals have been recovering from the low -- from the trough we had in September last year. So what we have seen caustic soda and oil are -- some small increases happening month after month. We are working hard in gaining a better productivity for our costs.

So all we know we expect some things slightly better than we had in the Second Quarter, okay. But not anything significant.

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

Was the \$20 improvements from lower wood will be offset by the BRL25 increase from maintenance shutdown, but then will be once again offset on the efficiencies. So net-net the efficiency will help to switch us back to lower cost outlook? Did I get it right?

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

Yes. But also I mentioned the chemicals are moving up a little bit. And were gaining efficiency but on the other side chemicals are moving up a little bit and then you have --

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so all in all we should see -- we expect a slightly better cash cost, slightly better.

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

Okay. Great. Thank you very much.

**Operator**

The next question will come from Carlos de Alba from Morgan Stanley. Please go ahead.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Yes. Thank you, just a couple of additional questions. One is one on and maybe Bernardo, you will be able to help me with this. One is on the taxes. Any update there on how we should model the taxes, the income taxes going forward on an effective basis?

And second, in the -- when you present your cost of pulp, you do not include the forestry deplete -- the depletion of forestry costs. I wonder if you could comment a little bit what is the magnitude of the depletion cost, please. Thank you.

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

Bernardo, could you answer, please?

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

Yes. Well on taxes, let's start with taxes. On taxes, yes, you are aware that in our own effective tax condition, we -- the incentive, the tax incentives that we have especially in the (inaudible) region in the northeast, they have an effect that they reduce our income tax expense.

And what we have seen -- when you look at our effective income tax on an accounting base, we see new numbers that especially for the one of the tax incentives that we have, we have a tax -- an income tax expense that in fact we do not disburse. This is deferred with the -- according to the depreciation, that schedule that we have.

So when you look, for example, at the effective income tax rate that we have in this quarter, we were something like around 29%. What we really paid in terms of income tax on a cash basis was zero. We did not disburse anything.

The effect on a cash flow basis of income tax for us is a reduction of something like 70% of our income tax. Say overall -- and the effective tax rate is something for us today is running on the -- between 10% and 15% on a cash flow basis.

To explain this in detail I will need some more time, and I can do this with you. We have done this in the past, but we can go over this in the -- the other point that I would like to add is that because of improvement in prices, and the participation of our Mucuri unit in

the total revenue, we have now resumed, let's say, utilization of -- a more effective utilization of this income tax reduction.

It is related to how much the total revenue, the participation of the production of the Mucuri out of our total revenues. And this has increased because of better pulp prices. So our effective tax rates, especially on a cash flow basis, has improved in recent quarters, okay.

With the depletion costs, on the -- that we don't -- that you asked for, we are not -- we have not been publishing it. But the order of magnitude is something like BRL30, BRL35 per ton of pulp.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Excellent. Thank you very much, Bernardo.

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

Sure.

## Operator

The next question will come from Marcelo Aguiar from Goldman Sachs. Please go ahead.

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

Hi, gentlemen. Good afternoon. Just two quick questions, one for Alexandre. If you can give us some feedback, Alexandre, what you are seeing in terms of demand for pulp from Europe and US.

I understand that Europe and US -- I mean, as inventories is low in the consumer side, if you are not seeing deceleration on the paper production, I do suspect that we should continue to see quite strong volumes for July and maybe August compared to what we saw in June. Can you confirm that and add some color?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Yes, you are absolutely correct. Inventories in Europe, they have -- they are measured by Utipulp which essentially are inventories held by paper makers in their own backyards. And they are reported by a certain number of very important producing conferences in Europe and Utipulp inventories are at all times low.

Another measure of inventories in Europe are inventories at ports. And those are also low. There has been the latest figure is from yesterday and there has been a really very, very slight fluctuation in the inventories in Italian ports, but nothing of any significance, one vessel or something like that.

So inventories as a whole, be it in port, warehouses or at customer's backyards, are very low in Europe. So I can only confirm that. In the US, inventories are not high either despite the fact of some domestic mills having started up.

I happen to, I spoke to China early this morning, as I do almost on a daily basis, and I was very happily informed that hard wood producers from the US that has started up their mills again and were trying to push prices in China have stopped the price -- their own price erosion and are offering their own pulp in China at better prices, so which leads me to believe that inventories in the US are under control as well.

So you are correct in your assertion by saying that demand in the US and Europe is still healthy with low inventories.

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

So Alexandre, to make the case the bare case where pulp price could fall, I don't know, to \$100 or something like that, you need to have this supply side equation. So just to pick your brain, where the supplies could come from and what could make really, I mean, a bare case for pulp price from here?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Yes, you mean a catastrophic supply side scenario. The fact of the matter is that we are not seeing that. We are not seeing that as I said because inventories are still pretty much under control worldwide. There is maintenance shuts in Brazil. Not only ours, our competitors in Brazil are also taking maintenance shuts.

We don't see a big wave. And the Chileans have restarted, of course, and their inventories are higher than they were at the earthquake time. This being said, Arauco, the last mill of Arauco, the unbleached mill producing 500,000 tons, we just heard this morning this has been published, you probably read it as well.

But that mill start-up has been postponed now to February or March of 2011 in lieu of 2010 -- November 2010. So we don't see a big wave of inventories coming up. And if some, we believe it will be very easily absorbed by the new paper capacity coming on stream in Asia.

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

Okay. Great. Maybe I will shell out the last question to Carlos Anibal regarding paper prices in the domestic market. I mean, Carlos, we have been reading a lot of changes during the course of the Second Quarter. But I would like to you to maybe comment just what you guys made from July onwards. What type of price adjustments you did and how is the implementation going on locally?

**A - Carlos Anibal** {BIO 19090865 <GO>}

Okay, Marcelo. Good morning. Before that, okay, I just have to make one point clear. When we announced a price increase, the final average price increase will be determined

by the product mix and by the channel mix. So if you sell more, the channel mix that has a higher price, we are going to have a higher price. And also the opposite is true, okay.

So you -- regarding your question for July we are now (inaudible) 10% for coated paper, okay, and another up to 15% for paperboards, okay. And we will be implementing that through the Second Quarter, second half of this year. So having said that, we expect a price in the Third Quarter slightly above the one that it had in the Second Quarter.

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

One point. I mean, the imports of uncoated paper has been much lower as percentage of average [ph] consumption in Brazil and we have been seeing several announcements of uncoated paper price increases in US and a couple in Europe already. So I think we didn't see any major uncoated paper price increases in Brazil. Can you explain this?

**A - Carlos Anibal** {BIO 19090865 <GO>}

Yes. The one that we announced was -- early this year was a 7.5% for uncoated free sheets and now 6% for cut size. What we had between this price increase and now, okay, we had a lot of paper being sold as tax exempt paper. So that put some pressure on uncoated free sheet markets. So the guys who are buying local, you import the paper that is tax exempt and selling that as a commercial paper. So that reduced our ability to pursue more price increases.

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

So from now on, your view is more and more pressure downside, or are we in a stabilization, or do you think there is a chance that we can see uncoated paper price increases until the end of the year?

**A - Carlos Anibal** {BIO 19090865 <GO>}

For the time being, you would see some stabilization.

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

Okay. Thank you very much, gentlemen.

**A - Carlos Anibal** {BIO 19090865 <GO>}

Thank you.

**Operator**

Our last question will come from Juan Tavarez from Citi. Please go ahead.

**Q - Juan Tavarez** {BIO 15083199 <GO>}

All right. Great. Thank you. Just a very quick follow-up on the paper sales. You're obviously shifting more of your sales to the domestic market. Should we expect this ratio of exports

to domestic sales to continue to improve or do you think this is the level that we should expect for the rest of the year?

**A - Carlos Anibal** {BIO 19090865 <GO>}

Okay. Juan, we're going to see in the second half of the year a reduction on our exports, an increase in our -- in the percentage of our domestic sales, okay. For the whole year, we're going to have a number between 55% and 56%. This is what I see for the time being.

**Q - Juan Tavaréz** {BIO 15083199 <GO>}

All right. Perfect. Thank you.

**A - Carlos Anibal** {BIO 19090865 <GO>}

Thank you.

## Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back over to Mr. Antonio Maciel Neto for any closing remarks.

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

Okay. Thank you. Just as it was very well considered by Carlos here, but in the beginning from the -- about the disposal of the pulp pressure like we very much colored this expression, we are trying to define where we are. I think positive is a very good one.

But for the supply side, if you look at the supply side, what we have in the Second Quarter '10, we had the Chileans; they were back. They were back, but most of the time [ph] we don't see any change about the supply of changing more or less than we had in the Second Quarter. It is the same one.

April, is our plant is ramping up, is it going to see this real that is going to have more pulp coming on stream, but not too big impact is coming out.

New -- the producers, the high cost producers that have shutdown their plants before are now coming back. What we have seen that before a big change what we have seen before because before at \$650 or around that, we were -- the higher cost producers were coming back on.

Now due to the tweeky effect, now we have a lot of the environmental requirements for those high-cost old plants to come back. It is very difficult for them to come back. Another situation is the labor situation, difficult situation (inaudible) high and then after putting people in downtime and then coming back, this has been a difficult situation.

And also old price was a big demand for biomass applications mainly to energy. We have seen wood prices going up and this I think explains at least partially what we have seen with the speeds of the plants, the high-cost plants coming back to the market.

So from the supply side, we don't see any big impact in coming months or in coming quarters that we are going to see big volumes coming that will be able to destabilize or put a little pressure in downward prices as we come -- we see. From the demand side, we see that this in China a lot of different aspects happening, but mainly about the 3 million tons of new capacity coming on stream.

It's true that some small plants have been shutdown, but this doesn't change anything because those small plants normally they use no wood pulp. So we'll see a shift from no wood to marked pulp, mainly eucalyptus pulp, that's happening here.

So in the US, in the Europe, in Latin America, we don't see any movement to where we are going to see lower demand coming into stream in the coming months. It can happen. Well I'm not saying that is not going to happen, but this is the trend.

So this is why we are bullish that the inventories will continue in a low levels or is likely to recover. So this is the fundamental that we have worked out always. In fact, we have the change in this trend because of some of our competitors like to reduce prices at the end of July within the same fundamentals; they know it is going to happen next. But this is where we earn [ph] this.

From the paper side, we see worldwide this demand. Price is going up, a very good discipline in the key market so about shutting down old plants, high cost plants and maintaining the inventories in a good level and in a reasonable levels.

In Brazil, the product -- the growth in international pulp is moving 7%, 8% this year. A lot of packaging demand is coming on stream. A lot of paperboard, a lot of actions from the government to restrict illegal imports, see there is some tax there. There is a lot of new action from the government to being implemented as we speak now.

So we are bullish that the Second Quarter was a good quarter, outstanding in the recovery in the margins, and then probably we can maintain or improve this as we move forward.

This is our take from what we are seeing from where we are seeing the demand. Let's see if we can move forward. From the expansion and the process and the growth process, very soon we are going to talk again about the costs in the new technologies, the new scopes of our plants that we are working that they have mentioned before.

And also hopefully in the next quarter, we are going to have opportunity to give you more information about Futuragene and about the capital structure of Suzano Renewable Energy. that's moving forward very -- probably next quarter or in the coming months, we are going to have a structure to put us a -- you guys are going to understand better how



nice high -- interesting is this business that we have applied for the last three years and now we are starting.

Okay. Thank you very much for the presence and we will continue here to take all the questions through our people here. Thank you very much.

## Operator

This concludes today's presentation. You may disconnect your lines at this time. Have a nice day.

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