

## Q3 2011 Earnings Call

### Company Participants

- Alexandre Yambanis, Head
- Andre Dorf, New Business Officer
- Antonio Maciel Neto, CEO
- Ernesto Pousada, COO

### Other Participants

- Bruno Montanari, Analyst
- Celina Merrill, Analyst
- Chelsea Konsco, Analyst
- Josh Milberg, Analyst
- Juan Tavares, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst
- Valerie Cisneros, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper Third Quarter 2011 Earnings Conference Call. All participants are in a listen-only mode during the conference's introduction that will be made by Mr. Antonio Maciel Neto, CEO.

And later, we will conduct a Q&A session when further information will be given. We inform that each participant can make only two questions. (Operator Instructions) Now I would like to turn the conference over to Mr. Antonio Maciel Neto, who will begin the conference call. Thank you.

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

Good morning, everyone. This is a pleasure for us to have all of you in our Suzano Third Quarter conference call. Today I will continue with the presentation as I have done during the -- some semesters and quarters.

Next time we will have our new CFO Alberto that is going -- is taking the responsibility of investor relations. And so next quarter on I will be participating on the calls, but I think Alberto and Andre will take the presentations.

I would like to call your attention to slide number three, where we have some comments on the pulp business units. Here the headline is about that our sales in the Third Quarter was very much in line with the Second Quarter, with a substantial volumes being shipped to China.

As you look at the numbers here, you see that market pulp was very much in line, as I mentioned, with the Second Quarter, but we have seen a 3.6% growth compared with the same period last year and 4.8% compared the same period -- first nine months of 2011 compared with 2010.

Big highlight here is related to China, 16.2% versus Second Quarter, 48.8% versus Third Quarter 2010. In the eucalyptus pulp, we -- the phenomenon was the same, China growing 32% in Third Quarter versus Second Quarter and about 48% compared with the last period last year. In China, we have seen some new startup of new paper capacity and we have seen inventories being rebuilt in the region.

In the quarters before, as we mentioned here, Alex Yambanis mentioned several times that the inventories with our customers and with the traders, as well, were being sold. Now this -- we could see that Alex was correct because now we are seeing that this -- China is back, buying a lot of pulp in the second -- in the Third Quarter. And we expect the same volumes or -- for the Fourth Quarter. Alex will comment more on this, if needed, during our Q&A session.

Europe, we have seen some decrease in the demand for eucalyptus we -- in Third Quarter versus Second Quarter, 8.2% reduction. Third quarter, 2011 versus Third Quarter, 2010, 5.8% reduction. However, we compared the first nine months of 2011 with the nine months in 2010, we still see 4.8% growth in the demand in the regions.

Pulp supply in Third Quarter was higher than Second Quarter, 2.2%, and very much in line with what we had seen in Third Quarter 2010. Inventories, we have seen 38 days now, three days less than what we had seen in August, very much explained by the China purchasing process.

Decline in pulp price, FOEX in all regions, we have seen -- it's very tough to define or to forecast what's going to happen in the Fourth Quarter. Alex has more data to talk during the Q&A because the exchange rate variations.

The overall situation in Europe, despite the fact that with the Greece debt renegotiation, we expect some improvement in the overall environment -- economic environment in Europe. But for 2011, it's very different. We are much more optimist because the demand will continue to grow. We are sure about that and we are not going to see big changes in the supply. So let's see.

Final bullet here is related the spread between softwood and hardwood. Very, very high, still, \$169. What is good news for hardwood and a lot of incentives to our customers to move and to change their industrial process to replace softwood by hardwood.

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Suzano's highlights, very much in line with the industry. Third quarter aligned with the Second Quarter, 11.7% growth compared with last year in volumes. Nine months, we are already at 1.3 million tons, 8.8% better than the same period last year. Here we need to highlight that we are including, in 2011, numbers -- the volume coming from Conpacel Wauwau [ph] Limeira unit that now we have been sold those volumes since February 2011.

The destination of our sales -- very much in line what we have seen before, 32% Europe, 34%, now, Asia. Normally, we have had Europe higher than Asia. This is the reality of the market. But with our strong sales in Asia during the last quarter, we had Asia now a little bit higher on our destination compared with Europe. And it's important to underline, as well, the volumes that we are selling in Brazil, 21% in the last quarter. That's a very important volume as well.

Moving to next page, page four, slide four, we are going to talk a little bit about paper -- our paper business unit. Here the highlight is related to our record sales in the domestic market. We were able to sell 62% of our volume in the domestic market, in the Third Quarter 2011.

Some highlights about the paper market. The demand -- the reduction in the demand if you compare same period last year, we have the total demand in the grades that we play. It was 7.2%, nine versus nine months of last year is 2.8%. So here we have seen some difference of what we have seen before.

The demand in Brazil usually grows very much aligned with the product -- the national product. And now we have some of our product growing about 3% to 4% and we still have a reduction in the volumes of paper in this year.

A lot of -- especially paperboard when we see 10.3% reduction in the same period, this is - the base of 2010 was very high because this was a time where our customers were rebuilding the inventories, buying a lot compared with the volumes that they had maintained in their inventories during the crisis 2009. So 2010 was a very strong year and it explains partially the reduction that we have seen.

The other piece, very important is also the level of activity in the Brazilian economy that, this year, it is clear that we have seen a reduction in the speed, in the volumes in our economy here in Brazil. Print and write, the same. Reduction 6.3% compared with last year, mainly due to the coated volumes, the 20.4%.

Imports -- market share, I think that's interesting to show that in the coat paper, where we have 70% to 80% of the imports in Brazil is the Second Quarter that we are noticing a reduction in the percentage of the occupation of the market due to the imports.

In Third Quarter, we had, for the coat paper, 54.5% compared with 60.9% in the Second Quarter 2011. So uncoated paper in paper goods is very much aligned what we have seen before. We have mentioned here many times the problems related with a tax evasion on the importation of this coated paper.

Due to the law in Brazil, we have this e-money [ph] paper that nobody -- that is for books and cultural publications. There is no tax and people -- a lot of deviation of this rule has been noted by the authorities and we have been talking about this many times.

But now with the size that this problem is issued, gained before the authorities -- the Brazilian authorities, in the federal level, in the state of Sao Paulo level as well, they are acting very strongly to reinforce the law. And a big piece of this reduction we consider that, due to the actions being taken by the Brazilian authorities.

We haven't seen yet the impact of the devaluation of the real so far. The least time in the paper business to import paper is higher than 90 days. So as we have seen variations in the exchange rates, the valuation of the real only for two or three weeks.

This is not in the numbers yet. So let's see what's going to happen. We are bullish that this deviation, this unfair competition will stop and then we are going to have a more clear numbers and market conditions.

Another aspect that's important to highlight here is that those imports of coated paper are coming mainly from Europe, about 80% from Europe. China is a small market share on this coated paper, e-money paper, coming to Brazil. So it's not true that these actions that the government is taking -- two big problems here with the communication.

First of all, we don't have any protectionism here in the paper industry. What the government is doing in both sides only to -- this is only tried to charge and have the tax paid by those that are importing the products, not for the purpose that we have in the law.

So the key action here is related to tax evasion. There isn't anything related to protectionism here. And this is not true as well that these actions were the governments are taking previous look to the imports license, that the action that every country in the world takes when they see any frauds or any potential tax evasion, that is related to protectionism.

It's not true. It is not against China, as well. This is against those companies that are importing without paying the needed tax. So this is, I think, that important clarifications that we should have and this is a good opportunity for us to talk about that.

On the Suzano's highlights, you see here that in the Third Quarter, we have a better seasonal sales. Normally Third Quarter we have higher volumes than compared with the Second Quarter, 7.1% growth. And in the first nine months of 2011 compared with nine months 2010, we have seen 11.3% growth in our sales.

Again, this is important to highlight that, in those numbers here, we have included Conpacel numbers -- Limeira units that seem -- that has given us a more volume and a stronger position, mainly in the domestic markets during this year.

This nation of our sales, the total sales of paper, now we have this 62.7% in domestic market. This is our records sales -- record market share in Brazil. Out of that, we need -- we have another 15% in South and Central America.

So we have 78%, almost 80% of our sales very much aligned what we have planned in our Suzano 2020-2024 plan, which recommends a strong presence in Latin America, mainly in the South America, where we can compete better and our competitiveness is higher, 11% to the US, 8% to Europe, so far in the year.

On slide number five, we start to hear the discussions on the financial results. In this year, this is like -- explains what has happened with Suzano's net result. Here, we had a very strong impact by the foreign exchange variation.

It's clear for you guys -- everybody knows about that but I would like just to underline once more that this -- those impacts, they do not have any -- it's not related with cash impact. This is more accounting impact as we had this exchange rate variation.

The exchange rate variation in our bottom line -- this -- we faced deterioration of our results of BRL642 million, due to this 18.8% exchange rate variation. We -- the beginning of the quarter, that was the number of the last quarter, end of the last quarter, Second Quarter, the exchange rate was BRL1.56 and we ended up at BRL1.85 within that specifically with that this impact.

As we speak now, if we had the same situation for the end of the quarter, our -- with an exchange rate of BRL1.70, we would be even. That's -- or there is more profit in this business. So this is true for the Third Quarter. As we move forward to the Fourth Quarter, we have more debt coming from our CapEx expenditure. And we have order effects that we will need to manage. And I am going to talk about this a little bit later.

On page six, we can see the debt profile. We would like to reinforce here that Suzano's situation is very strong, very solid, despite the fact that we had this impact on the exchange rate variation on the gross debt.

So here in the numbers you see that now, as we close the Third Quarter, our gross debt was BRL8.2 billion and compared with BRL7.2 billion that we had last quarter. And about BRL700 million come from the foreign exchange variation.

Our net debt EBITDA went for 4.2%, however, we don't see any short-term leverage difficulties. Our liquidity horizon is very good. And as we have talked many, many times, the Company has been working on initiatives to reduce medium and long-term leverage and I will come back very soon to this situation.

On page seven, this is just to give you a perception on the profile of our debt. You see here that between 2011-2013 -- this -- Suzano will need to pay, as amortization of our debt, around BRL3.6 billion. And we have BRL3 billion in cash sitting here in the Company as we speak.

On top of that, we have the EBTIDA generation that is going to happen during this period. And with that, it's very easy to see that our capacity to pay our debt and to maintain a very solid and conservative cash position in cash is very achievable and is what we are going to have.

This also we haven't had any impact of -- we are not doing any -- using any complex or exotic derivatives. And we are maintaining our policy -- internal policy to hedge only the cash flow, not the balance sheet. So this is where we are -- very, I think, strong position.

Very good long-term debt profile and very good capacity to pay what we have in front of us. As we consider the needs of funding for our Maranhao projects, we have, as we mentioned before, already a good position. I have a slide further where we are going to talk about that. So this is the highlight on the debt that I wanted to disclose.

On page -- next page we have the net revenue moving forward. First nine months now we are at 5.8% growth, BRL3.5 billion so far compared with BRL3.3 billion last year. Cash costs now, as we mentioned in last call, we experienced a reduction. This is a cash cost X maintenance down time.

Now we are at BRL545 per ton. We still consider that to, as we mentioned before, our -- if we have a stable position -- very good operations. And with the chemicals price that we have today, our normalized cash costs would be lower than BRL500. And this is what we are pursuing.

On the EBITDA, BRL261 million EBITDA. This reflects everything that we talked about the revenue with some price reduction in the quarter compared with the last quarter and compared with last year. As always, some impacts on the costs with regard to those things that I have mentioned before.

So this is EBITDA in the levels that low than we expect -- lower than expect, however, with a good perspective as we move forward. For the full year, we are still maintaining our EBITDA margin at 25.2% with BRL887 million of EBITDA. As we move forward, probably we are going to see some reduction in cash costs, some stability in price, or as we start 2012 with some improvements on the price as well.

Page nine, very quick message to update you guys on the Maranhao project, just to tell you that the earth-moving work has been concluded. Infrastructure has been already started. We have about 1,200 people -- excess of 1,200 people working in the constructions. Technical operations -- the training has started already with 300 people.

Agreement for training, we have put in place a construction to train 6,000 in construction works. Painters, welders, and other professions required. We have already 700 people trained and this will be very good for the quality of and for the stability of the project as we move forward as well.

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The funding for the projects is very much concluded as well. BNDES at BRL2.7 billion. Maturity of 12 years with a three-year grace period. Mandatory convertible debentures are already placed, BRL1.2 billion. Funding for the imported equipment supported by the ECAs. These are also very much discussed in some of the case already signed. This is going to be concluded very soon as well.

And we are going to count on the cash flow generation from the EBITDA that is happening as well. At bottom of the page, you see the numbers here. We are going to end up this year probably with BRL1.154 billion dedicated to the Maranhao project to the forestry and the industrial capacity.

On page 10, we have some message related with Suzano Renewable Energy and FuturaGene, our biotech company. In the Suzano Renewable Energy, we signed the contract with Maranhao some weeks ago.

We have a thorough activities on forest engineering and commercial agreements being developed. We are continuously working on the private equity placement and the start up of the first units are now scheduled for 2014. We think that in the beginning of next year, First Quarter, when is the timing that we will need to buy equipment.

We are going to have already defined the investor that's going to participate in the Suzano Renewable company. We are in discussions with other place that we had discussed in the first round. Some of the first round discussions coming back because now with Suzano Renewable Energy much more strong, a lot of forest activity, some land on the ship already defined. Engineering -- concept engineering in the engineering budget already being defined as well. The commercial agreements signed.

So we have the case that we are going to -- every day that we move, we gain more -- a robust story to tell to investors and to get them participating in the Company. We continue very optimistic that this is going to work out.

However, we have always mentioned that just -- we are going to just restart this company and is a no-return point is when you buy the equipment that's forecasted for the First Quarter of next year as we have invested to participate in the Company.

Without the investors, this would be very difficult for us to continue with the Company. But we are, again, very optimistic that we are going to be able to attract good investors to work out with us on this outstanding development that we have in our pipeline of projects.

Just two minutes on FuturaGene. This is a more distant project, but also a big start in our pipeline of projects. In probably during 2012, we will be -- we will have opportunity to explain to the analyst community more about this.

What's going on in FuturaGene here is just to tell you that the integration of activities from the delapses [ph] trial in Brazil are concluded. We have settled the board of directors with

some interesting independent members.

Last Monday, exactly one week ago, we had board of director meeting and Tapechenenga [ph] where we have our big labs. Here -- and we had all the board members, Alan Gould. That's the former VP Biotech from Dow AgroSciences for many, many years in the biotech business as an expert in biotech related to the agro business.

And now he is working his bridge [ph], but now leaving the West for -- in more than 20 years. And he is working now in private equity companies. A lot of knowledge, a lot of business document related to the biotech business, helping a lot of us on the board of directors.

Jose Paulo Silveira, Brazilian, a former executive from Petrobras. During six years, he was the head of the same research and development center of Petrobras, one of the biggest and most modern research and development center in the Southern Hemisphere. So for those that don't know, this was the guy that invented and implemented the technical capacity -- the technological development for deepwater production in Brazil.

And this was the turning point for Brazil and for Petrobras on the offshore exploration. And Silveira is a person that is bringing us a lot of knowledge related to innovation portfolio of projects management and the transformation of science to technology.

Miguel Nicolelis is a Brazilian scientist, living abroad to Brazil for more than 25 years now. He is one of the most important neuroscientists worldwide. He is now the head of the neurosciences department of Duke University in the West.

A person with a very strong scientific knowledge, good approach, bringing to us some expertise on how to handle the science process and how -- and to use the very -- most modern technology as well. So very proud to have those guys as board members at FuturaGene.

And other highlights as well that we are going to be launching our R&D FuturaGene in China in December 2011. Then we are going to have three centers of research, fully integrated, which will be Israel, Brazil, and China.

Page 11, a -- just some mention of some ongoing initiatives. We continue working on the sales of our 70% participation -- Amador Aguiar Plant, that's Capim Branco in the Capim Branco River.

We are -- we have proposals, we are in different [ph] stage of analyzing some of the proposals and very soon we are going to have some news. Sale of land in state of Sao Paulo, that I have mentioned several times before, is we have work in progress as well. And very soon we are going to see some results on this.

Initiatives under study, those that I mentioned before, that I have mentioned before, are ongoing initiatives where we have people ownership responsibilities to develop and to



make those activities happen.

Here we have studies and this is a very much align what we have mentioned in our material fact that we have announced some weeks ago, saying that it's true that we are studying the sales of certain assets in the paper segment and we are studying as well the possibility of selling some of our interesting new projects of pulp. These are under study. We haven't decided anything so far.

As you know, our leverage issues related to the situation we are going to face only 2015, end of 2012, we have time. And we are considering those initiatives to solve the medium and long-term leverage, once we don't have any problems in the short term. We have order initiatives undergoing. We are reducing our working capital a lot. We are improving our cost management and we see better revenues as well as we move to 2012 next year.

Before going to the conclusions, I just want to give you an update on the covenant. This -- we have taken some questions from the analysts about the covenant. I will start saying that even though our net debt EBITDA has achieved 4.2 times in this quarter, we haven't broke any covenant so far. So it's not -- we had some players saying that Suzano had problems with the covenants. It is not true.

What we have, just to give you some highlights, we have the debentures -- the issuance of debentures. There we have a covenant at four times. But to break the covenants, we need to exceed four times twice, two quarters. So we have exceeded in this quarter. If we exceeded again on the next quarter, then we are going to have -- we are going to see the covenant breakup. So we have one quarter to remediate and if you needed to renegotiate the covenants.

One of the alternatives we have is we can sell some off of these assets or we can, if we see any improvements in the ongoing situation, and with a lower level of exchange rate, probably we will not break the covenants in the Fourth Quarter again and then to characterize the breakup of the covenant.

However, we have a clause in our debentures as well where we are allowed to pay in advance if we have problems with the covenants. We can pay in advance up front the dividends. This is BRL635 million, is the most expensive debt that we have in our portfolio here, in our least of debt.

So this is -- we are going to see or we remediate the numbers in the Fourth Quarter or we got the negotiation to get a waiver on the covenants or we are going to pay these covenants. We are not going to allow the covenant to be -- to -- we are not going to see a breakup on the covenants of these dividends. We have other covenants related to the ECAs. Those are the agents that supported our project Mucuri -- the Mucuri project before.

This is about BRL300 million and this is only -- we will happen -- is an annual verification, so this is going to be verified only by the end of this year. And the same, we are working

with them. We have new contracts coming on stream for the Maranhao project. They understand the industry very well. They have a very good relationship with Suzano.

And here again, the solution will be a temporary waiver or, if you needed to do, we will pay. But this is not the case. We are very much aligned with the idea that we are going to get this solvent. So in short here, just to tell you that we haven't break any -- broken -- we haven't broken any covenants so far and we are going to work and we are not going to break any covenants as we move forward.

Page 12, just key highlights. In short, what I have seen -- what I have mentioned before, that pulp sales were in line with the Second Quarter and the paper sales were much higher, 7.1%. Domestic markets -- have record sales in domestic markets, 62.7% in the -- for our paper segment. We have increased the market share in most -- in every line where we play. The operational much more -- there is stability in Mucuri has driven us for a cash cost reduction.

And the most important stuff here in this conversation is that we are continuing to maintain our financial conservative in this approach, maintaining BRL3 billion in cash, maintaining and develop comfortable debt profile. Good amortizations in competitive in costs aligned with the project cash flow.

Maranhao project funding very much already structured. No leveraging difficulties in the short term. Liquidity horizon for best times of approximately 28 months. And several ongoing initiatives to reduce medium and long-term leverage. With that, I give the floor back to the coordinator of the call for us to have the opportunity to take the Q&A.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We ask that you please limit yourself to two questions. The first question comes from Bruno Montanari of Morgan Stanley. Please go ahead.

### Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon, everyone. Thanks for taking my question. To comment a little bit on the pulp demand outlook in Europe, China, and North America now in the coming months towards the end of the year that would be great. Thank you.

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

Hi, Bruno. This is Alex Yambanis. So in a nutshell, I will try to cover the three markets briefly. The -- I'll say that the pivotal element for the Fourth Quarter is called Asia, and more specifically, China.

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Why? There has been, with prices declining around the world and specifically in China, trade -- Chinese traders have started to restock already -- so to buy pulp, the traders, by nature, they are speculators. And the speculation this time around will turn in favor of the industry and not against it simply because we lost some feathers pricewise.

If you add to that the fact that Chinese paper capacity is increasing and being boosted very aggressively, already in 2011, you had the startup of nothing less than 4.5 million tons of paper capacity in China alone and between 2011 and 2013, we are forecasting some 8.5 million tons of new paper capacity in Asia as a whole.

But most of that capacity, starting as we speak, in 2011 and the beginning of 2012. So it's easy to conclude that China, and more broadly, Asia will pull the market in the next coming, I would say, weeks and months.

What happened so far was the opposite effect with big inventories hitting the market and prices falling by virtue of those inventories. When it comes to Europe and the United States, as you saw by Maciel's presentation, paper demand in the Third Quarter has decreased. Paper shipments have decreased both in Europe and the United States.

The explanation is very easy. Europe with the euro prices and a very, very high degree of softening of the European economies reflected in paper demand. Paper tracks, overall, as you know, economic activity. And this time around it was no exception.

In terms of the United States also, publishing papers and publishing material has decreased, leading to a decrease in paper demand. But we are not so pessimistic. We think that this should rebound as well with Europe putting its problem together -- the euro problem. We believe that we are bound to have a better first half of the year next year. It's the high season in Europe. And that will also apply to the United States as economic growth improves.

But again, the big push will come from Asia, from China. We're quite positive about it and again, it's very difficult to forecast on a week-to-week basis. Inventories have come down, but not enough yet. But we think that we will experience in the end -- at the end of this quarter, sort of a restoration of the equilibrium in the market with a rebound starting at the First Quarter 2012.

**Q - Bruno Montanari** {BIO 15389931 <GO>}

All right. Then, if I may ask a second question. In terms of pricing, would you think that spot prices have bottomed or should we still see pressure in the coming months?

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

Well I obviously -- well, first of all, I would like to believe they have bottomed because they came down quite aggressively. I -- and I think, technically, yes, they have bottomed because we are now approaching or even surpassing the cash cost line of the higher cost producer.

So yes, I think on a spot basis, they have bottomed. And with the resumed purchasing activity, especially in China from the part of the traders, I don't -- I think that will -- that will give sustainability to spot prices.

**Q - Bruno Montanari** {BIO 15389931 <GO>}

Very clear. Thank you very much.

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

You're welcome.

## Operator

The next question comes from Thiago Lofiego of Merrill Lynch. Please go ahead.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Thank you. My first question is on your deleveraging options still. Regarding these alternative options, you mentioned you are still studying. Would you consider selling a stake on the Maranhao project or this would be more regarding the POE project? Just if you could provide some more clarity on that, that would be great. That's my first question.

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

We have, as I mentioned before, Thiago, a list of actions that we are taking and when we mention that in the list the menu [ph] of alternatives here, so sell possible -- the possibility of selling some mistakes in the pulp projects, we are including the possibility of selling some stake on the Maranhao project as well.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Okay, but as of now, there are no negotiations going on. This is just studies or are you having conversations with any potential partners on these partnerships?

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

We are just studying, analyzing the impacts on the Futura business and analyzing this against other alternatives that we have mentioned. We haven't had any negotiations so far.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Okay. Thank you, Maciel. My second question would be regarding your long-term EBITDA margin assumption. What's your best guess for long-term EBITDA margin or EBITDA per ton for Suzano on a consolidated basis? And if you could break this down on paper and pulp, that would be great. Thank you.

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

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This would be great, but I can't. Unfortunately, I cannot give you this level for exposure, Thiago. But --

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Or a medium range.

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

Yes, no. What I can tell you that we are forecasting the lower cash costs for the Fourth Quarter that we had before. And some avoidance in some other costs that we had overall. And as Alexandre already mentioned, we are considering that what he has mentioned about the pulp price, along with the capacity utilization that we are seeing now that's big as we have China back to the game.

As we have mentioned before, we are going to have an improvement in the EBITDA margins. We do not give -- our policy is not to give any guidance on the results, but I can give this just some thoughts about what's coming next. But I cannot give you any guidance so far. Sorry for that.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Sure, Maciel. Yes, my question was more on the longer term, not specifically for the Fourth Quarter. I was mostly thinking about the fact that pulp prices are now at -- not historic highs, but at a very high level compared to historical prices. And your historical margins were much higher than the 20% you delivered in the Third Quarter.

So I was just wondering if we could see margins recovering over the longer term. Let's say over the next four years, three years, or if the new reality for margins is more within the 20% to 30% range -- 20% to 25% range?

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

No. I think that we are going to see higher margins that we saw this quarter as we move forward. However, we have a new reality, of course. This is true for all the costs you are seeing. Brazil, we have seen a lot of labor costs growing. We have seen -- everywhere you look at you see costs increase. And this is a new reality for Brazil. I don't know -- I can't tell you it's actually the levels.

However, we -- here you need to see at least three key elements that's price in dollars. You need to see the exchange rates that you are counting on because we have about 75% to 80% of our cost denominated in real. So that's a very important impact on this.

So now it's worth it to always look at the pulp price in real. And because you mentioned historic price that we had seen before in dollars. However, with a completely different exchange rate that we had before. So -- and the costs. And the key problem we have today is to see our costs raising. We are working very hard to reduce costs, to increase productivity.

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Just -- if you look four or five years down the road, this is the reason that we are putting a lot of investment and time on the FuturaGene because this is a batch that where we are going to increase the -- have a frog leap on productive related to the forest.

This is an alternative that we are looking for to increase our margins, to support our new projects. So in short, margin will be better than what we saw this quarter. However, with the cost pressure that we have seen probably below the historical levels that we have seen before.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

That's fair enough. Thank you, Maciel.

## Operator

The next question comes from Josh Milberg of Deutsche Bank. Please go ahead.

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

Good afternoon, everyone. And thanks for the call. My first question is on your renewable energy project. You made it sound as if the only obstacle to moving forward with the industrial phase is getting an equity partner. But have you looked at the possibility of postponing the project indefinitely or at least until you've resolved the company's broader leverage problem?

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

Hi, Josh. This is Andre. You're right. What we have seen is a lot of development in many other fronts, namely commercial engineering, forestry based, assembling the team. So everything is in good shape as of now. What's missing is the capital structure -- the final capital structure.

We are working on that. And if we don't conclude that, we'll postpone the project. But we don't count on this. Our best case scenario is to have this done until the First Quarter of next year and then move ahead with the projects on time.

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

Josh, this is Maciel. Just to complete what Andre has mentioned, you saying, if I understood -- if I have understood your question, you said that the only thing that we think developed off of the Suzano Renewable Energies, the capital structure. This is one point. But we have our timing to develop the forests, the industry phase, and also the port facilities, do other stuff.

So the timing to start up the first unit to 2014 is okay if we buy the equipment by the First Quarter of next year. So we have this time -- we are on time, working on different fronts. Andre is leading our teams on the commercial front, the engineering front, the industrial front, commercial front, to have everything located. But we still will have a whole point that will be defined by the capital structure of the Company.

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

Okay. Thanks for that. And my second question is on your potential sale of paper assets. I was hoping you could just comment onto what degree this really represents a major shift in your strategic thinking, taking into account your move to expand your paper exposure last year with the acquisition of Conpacel. And if you could also give us an idea of what or which paper assets it could actually make sense to sell.

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

Josh, we have several paper assets. We are looking -- we are just giving transparency to the market that we are studying this subject. I think all the companies worldwide always looking for alternatives to have a better capital structure in the benefits from actions like this. We just give -- decide to give a disclosure to the market.

We are studying this possible alternative along with many others, including the projects -- the pulp projects with other assets that has been -- that we have the opportunity to sell. So far we are on the study stage. We have some banks working on this, looking at different alternatives. And we are not on a hurry on this.

You know that the bigger -- the leverage depends on the -- this is going to depend a lot about EBITDA generation about the market. However, if you look up the number sales we have mentioned since the beginning 2008, that by 2013 we are going to have a leveraging, a higher number, higher level than we think that's appropriate.

This 3.5 is a -- times -- is a guideline that's a -- just a orientation because all our very experienced board members, they know that this quite an exchange rate that is happening and will continue to happen in this very volatile economic environment that we are going to leave as we move in the coming years.

So this is why we are not strict on the 3.5. We will accept some variation, not structurally done on the -- above 3.5, but on this -- in a spot basis on spikes due to exchange rate variations will happen. So we, as I tried to underline here again, is that in a short time, we are in a very short position.

We don't have any liquidity position and we have some times to take care of the capital structure. And to sell some specific paper assets is being studied. The same for pulp project. The same for working capital reduction.

The same for Capim Branco and other -- all this like. And also our capital increase, as well, that I mentioned before in the Portuguese call. I answered a question that this is also, in the least, however, this is the most expensive for the shareholders and we are going to take this action only if needed after all the other stops. So far, Josh, I'm sorry for that, but I can't give you any more disclosure on this because we don't have any decision taken on this.

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

Okay. But just -- could you maybe just clarify whether what you're contemplating is more likely to be a single, let's say, less efficient paper plant or could we one day, in the not too distant future, wake up and discover that Suzano is fully divested of all of its paper assets?

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

Josh, what we have on in our line, in 24 projects is to be an important player on this business of paper where we have a very strong leadership position. And we are studying this subject. Unfortunately, I cannot give you any more exposure on this discussion so far. Sorry for that.

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

Okay. That's great. Thank you.

**Operator**

The next question comes from Juan Tavares of Citi. Please go ahead.

**Q - Juan Tavares** {BIO 21336472 <GO>}

Hi. Great. Thank you. Good morning, everyone. Just actually to follow up a little bit about your view on your paper segment. Could you give us maybe a view of long-term fundamentals of where you would say is your most preferred to least preferred kind of break out?

Do you prefer mostly the fundamentals for distribution of the paper versus paperboard versus uncoated versus coated? Just to get your view on the fundamentals, which might be your most preferred segment within the paper division.

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

In the paper just -- or when we are saying that about -- we have an integrated paper business. We have our own forests. We have a very efficient business. We have a big, big network of distribution, now more than 30% of the market after the acquisition of KSR. We play in the paperboard in the high end segment. We have a very strong presence on the pharmaceuticals, in the food segments, and cosmetics as well.

On the print and write paper, we are very diversified as well. So it's a business where we don't -- we can't see that this is a specific business that we have a more -- we are better or worse on this. We were very concerned with the quoted business, with this fair competition that was coming with -- from the tax division.

But however, now, we are much more optimistic with the actions being taken by the federal government and the state of Sao Paulo authorities as well. So we don't have any preference on the business. We like the integrated business and they are very well complementary for each other.



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**Q - Juan Tavares** {BIO 21336472 <GO>}

Okay. Great. And maybe a question for Alexandre on the pulp side. You mentioned that China activity, that you're seeing a rebound of them rebuilding inventories. Are you referring to the September data we saw or are you actually saying that October activity was much better than September?

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

Well I'll say that, basically, both. But it started in September and this continuing in October as well. And the reason for that is the traders perception that prices are very close to the bottom.

And if you wish the following Berkshire Hathaway's figure that you cannot wait for the bottom to happen because it will rebound right after. So they are -- they started a buying program, let us say, before the prices actually hit the bottom.

**Q - Juan Tavares** {BIO 21336472 <GO>}

Got it. Great. Thank you very much.

**Operator**

The next question comes from Andre Pinheiro of Itau BBA. Please go ahead.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Hi. Good morning, everybody. Actually, it's Marcos Assumpcao. My question is regarding Mucuri's pulp plant performance in October. If you could comment a little bit about that, mainly regarding the production and stability and also on cash costs.

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

Hello, Marcos. Here is Ernesto Pousada speaking. Regarding the October performance of Mucuri, it was very good. Actually, we even hit some specific records in pulp production in line one, market pulp production. So it's very stable, actually, since August. So it's the third month in a row that we had the stability.

Still, the second -- Third Quarter results were still affected by the July problems. But we have an extensive plan that we put together to recover the stability of the mill and we're very confident that we are on the right track. And that should help us in, as Maciel mentioned before, to reduce our cash costs for the Fourth Quarter.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Okay. A second question, a very quick one. If you could provide us a number for CapEx for the next -- actually, for the next two quarters, if you could.

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

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Marcos, we are not going to -- we don't have this in the detail here. Just give a call to Andrea Fernandes. Then she's going to give you some more clarification on this, please.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Okay. Thank you, Maciel. Thank you, Pousada.

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

Bye, Marcos.

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

Good-bye.

**Operator**

The next question comes from Chelsea Konsco [ph] of ITAA-CREF. Please go ahead.

**Q - Chelsea Konsco**

Hi. Thank you for the call. I was just wondering if you have any additional available credit facilities undrawn in addition to your cash position.

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

Could you repeat, Chelsea? Sorry for -- I didn't understand your question.

**Q - Chelsea Konsco**

Okay. I was just wondering if you have any additional credit facilities that you have undrawn, in addition to your cash position.

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

No. We don't have. We don't have. You are saying the stand-by facilities (inaudible) other is start for this. We don't have. The cash we have is what we have taken from the market. We don't have anything to be used down the road.

**Q - Chelsea Konsco**

Okay. And also, I'm not sure if I heard correctly. But was the BRL887 million guidance, is that for 2011 EBITDA?

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

This is -- let me see here what we have seen. This is on slide number eight, Chelsea. It's -- BRL887 million is the accumulated EBITDA in the first nine months of 2011.

**Q - Chelsea Konsco**

Okay. And you -- did you say you're unable to provide full year guidance?

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

Yes. We are not going to provide full year guidance, but tell you that we are expecting a better margin and better numbers in the Fourth Quarter as compared with the Third Quarter.

**Q - Chelsea Konsco**

Okay. Great. Thank you.

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

Thank you very much.

**Operator**

The next question comes from Celina Merrill of Credit Suisse. Please go ahead.

**Q - Celina Merrill** {BIO 6748233 <GO>}

Hi. Good morning. Thank you for the call. Just to follow-up on the question regarding the covenants. I know you mentioned that it's two consecutive quarters. And I was just wondering if you could just confirm at that same maintenance covenants and not an incurrence covenants?

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

Celina, it's -- the covenants -- we need to -- it's to break up the covenants in this specific debenture, we need to have two consecutive quarters above four. I don't know if I have taken your doubt yet. Could you repeat or this is your --

**Q - Celina Merrill** {BIO 6748233 <GO>}

Yes. It's just the question of whether the covenant is measured on the amount that you have outstanding. It does not apply if, for example, you wanted to raise additional debt via a different facility.

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

Yes. Yes, yes, yes. Exactly. It's a covenant related with what we have in the current financial situation and as we have more debt, this is going to have a higher number. If we have reduction, this is below.

**Q - Celina Merrill** {BIO 6748233 <GO>}

Okay. Thank you. Then my second question is regarding your capacity expectations. You had spoken before about how you expect your CapEx plan to look like for the Suzano 2016 -- additional expansion at Maranhao and other facilities. Can you let me know if there's an update to your expected CapEx plans going forward?

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

Yes. The CapEx plan is what we have announced in the beginning of June. We are very much aligned with those specific numbers. At that time, we had moved back the startup of Maranhao project to November 2013.

This was the original number for why we tried to push this to beginning of February -- April of 2013. Due to the overall situation and economic environment, we pushed it back to November 2013.

And we have postponed also the plans for POE for April 2016. And for POE, we are going to take the final decision on beginning of 2014. Because this no return point is when we buy -- normally is when we buy the equipment that was for 2016. The startup -- we'll need to take the decision by 2014. So this is what we have. We haven't changed much on what we had announced in June.

**Q - Celina Merrill** {BIO 6748233 <GO>}

Okay. Thank you.

**Operator**

Then next question comes from Valerie Cisneros of Morgan Stanley. Please go ahead.

**Q - Valerie Cisneros**

Good morning. Thank you for taking my question. Just a quick question on covenants. I wanted to know whether the maximum leverage covenants affect only the third series of debentures. So you have those kind of covenants for -- those kind of restrictions also for other series of debentures of other financial instruments.

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

It's not solely for the third [ph] series. And this is at the level of BRL635 million as we speak. All the other ones are not interconnected with this.

**Q - Valerie Cisneros**

Okay. Thank you.

**Operator**

The Q&A session is now over. I'd like to pass the conference call back over to Mr. Antonio Maciel for his last statements.

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

Okay. Thank you very much for all the participants here. We -- I would like just to make sure that, for all the analysts, that we are on track, on time, on our actions to take care of our medium and long-term leverage.

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On the short-term, we are, I think, in a very good position, as we have been before. And we are going to keep working on the leverage issue as we move forward. To build up the future, we need to deliver the present.

I think we are going to see better cash costs coming with the stability in Mucuri. I think that the prices in China back to the game will help us on this as well. Good presence in the local markets on the paper, good news on the actions against the unfair competition that we are facing in the uncoated paper business.

So let's see, the external environment is still very, very tough -- a very volatile situation -- environment as we move forward, despite the fact of the Greece [ph] -- that being renegotiated. So it's not going to be easy days. However, we have a strong team, a very clear strategy, and we are going to continue to work to deliver our results.

Thank you very much for the participation. Andre Fernandez, Alberto now is in charge of - also being the senior, the manager on this -- the institutional relations, will be always able and available for the discussion. Thank you very much.

## Operator

The Suzano Pulp and Paper conference call has ended. We thank you for your participation and have a nice day.

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