

Q3 2009 Earnings Call

Company Participants

- Alexandre Yambanis, Head of Pulp Business Unit
- Andre Dorf, Chief Strategy & New Business Officer, & IR
- Antonio Maciel Neto, CEO
- Bernardo Szpigel, CFO
- Ernesto Pousada, COO
- Unidentified Company Representative, Unknown

Other Participants

- Carlos de Alba, Analyst
- Debbie Bobovnikova, Analyst
- Felipe Hirai, Analyst
- Josh Milberg, Analyst
- Juan Tavaréz, Analyst
- Marcos Assumpcao, Analyst
- Raphael Biderman, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper 3Q09 earnings conference call.

Today, we have a simultaneous webcast with slide presentation on the Internet that can be accessed at the site www.suzano.com.br/ir. There will be a replay facility for this call on the website.

We'd like to inform you that all participants will be in a listen-only mode during the Company's presentation. After the Company's remarks are over, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Today's speakers will be Mr. Antonio Maciel Neto, CEO. We would also like to inform you that statements during this conference may constitute forward-looking statements. Such statements are known -- 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 over to Mr. Antonio Maciel Neto, who will start today's conference call. Thank you.

Antonio Maciel Neto {BIO 16703850 <GO>}

Okay. Good morning everyone. Thank you very much for attending this conference call this morning. We are here in Sao Paulo in our headquarters.

We have in this meeting, in this conference call with me some of our key managers, directors. We have Andre Dorf, who is our officer in charge of the Investor Relations along with strategic planning and new business. We have also Bernardo Szpigel, our CFO; Ernesto Pousada, our COO. We have Carlos Griner, our HR Officer.

We have other people here, our managers and the people working on Investor Relations. We have Hanef Tesley [ph] our controller, and a good group here to answer the questions after my short presentation and this briefing -- or brief presentation.

Going straight to page two, we have some highlights here. Production of 660,000 tons during the quarter, 2.1% lower than the Second Quarter, and 4.9% lower than the Third Quarter '08.

This is mainly we had the -- some maintenance -- maintenance activities during the quarter. And we had also an incident on Line two at Mucuri, and this was the cause of our reduction of -- at least of 26,000 tons of reduction as compared with Second Quarter '09.

Sales volume very much aligned with the production 661,000 tons, very close to 400,000 tons of pulp, and 260,000 tons of paper.

Net revenue of BRL891 million, pulp production at cash cost of 373 tons -- BRL373 per ton. It does not include maintenance downtime in the incident at Line 2 in Mucuri.

EBITDA of BRL218 million, and margin -- EBITDA margin of 24.4%. Net income of BRL213 million. A big piece of it is a consequence of exchange rate impact on the debt, denominated in dollars.

Net debt to EBITDA ratio of 3.5%, and very good in showing cash position, cash equivalents of BRL2.4 billion in September '09.

And we saw again another debt reduction of BRL476 million, again, with a big piece of it more than explained by the exchange rate variations, the case of the evaluation of our current division.

Page three, we have some highlights about the Pulp Business Unit. You see that the market pulp was the Third Quarter versus Second Quarter '09 very much in line, 1.7%.

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Third quarter '09 versus Third Quarter '08 was the First Quarter of the big price last year, so we have the increase of 9.5 -- 9.2%. And very much aligned the volumes of the year-to-date '09 compared with year-to-date '08.

In the eucalyptus pulp, the BEKP, yes, very much aligned Third Quarter with Second Quarter. Third quarter '09 compared with Third Quarter '08 was a big increase, 28%. This is another -- because that time was a -- some big reduction in the market as well.

And -- but if you see year-to-date '09 versus year-to-date '08, we see almost 17.4% growth. With -- so eucalyptus is growing as we had anticipated before. And we see a lot of room for this trend to continue.

Global inventories at very low levels, 26 days, below the historical average of 33 days. And price increases announced for October 1 and November 1, of \$50 and \$50 to -- this is the reference price, CIF in Europe.

So in the Third Quarter, we had this -- September 1, we have this \$50 price increase in pulp, but this impacted only very small piece of the quarter.

So the increase in September is going to be full implemented in the Fourth Quarter, and as well we have this -- October 1 increase is going to have a good impact, and November is going to be only two-months for the price increase.

Now, as we speak, we are -- we have the price announced for \$700 in Europe, starting November 1.

Our sales, Suzano's pulp sales, 399,000 tons, 27% lower than Second Quarter, 37.3% higher than Third Quarter of '08. In the Second Quarter, I think you guys remember very well, we had that specific decision to reduce our pulp inventories, and we had big sales in the Second Quarter, that's normal volumes.

So as we compare the Third Quarter with Second Quarter, we see this 27% reduction. However, compared with last year same period, we had 37.3% higher compared to volumes.

Main destinations of our pulp, Asia now 37.9%, Europe 36.6%, and Brazil 17.3%. So we see an increase in Brazil. And Asia now, if you guys remember, about 52% last quarter, Second Quarter due to that specific sales that we had in the Second Quarter.

Now we are more aligned and normalized the percentage to Asia. That's reflected here in this number of 37 -- 38%.

Net prices in the pulp business, we have -- if you compare Second Quarter to Third Quarter, we have \$66 increase, which is 16.6% quarter-over-quarter.

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In reais, this is very important now as we have this big change in devaluation of the dollar. Now we need to talk more and observe and manage our business cost in reais as the base currency for our business. So we have 5% higher than Second Quarter '09, and 25% lower than the Third Quarter '08. So in reais, we are at this level of 25.1% lower than Third Quarter '08.

Net revenue at BRL347.4 million in this pulp business, which is 23.5% lower than Second Quarter.

Cash cost, BRL373 per ton, which is 17.8% as compared with Third Quarter '08. So here you guys see what we have mentioned before.

We have operated a very low levels of the cash cost, this is not -- it does not include maintenance downtime, an incident at Line 2 as I had mentioned before. But this is the good -- (inaudible) -- quarter-over-quarter.

Page four, Pulp Business, you see here that the sales as we mentioned before compares. I think this is important to highlight year-to-date '09 versus year-to-date '08. Here we have the volume of 1,300.7 million tons compared with 991,000 last year. This is about 38% increase in the volume.

You see here what I mentioned before about destinations. We have Asia before with 52%, and now Asia with 37.9%; Brazil before with 11.9%, now with 17.3%. So an increase in Europe as well from 29.4% to 36.6%. You see that we have very low level of exposure in North America, and despite the future we will see movements, we hope so.

In the pulp sales, we had mentioned before or so, but year-to-date we are about 3.2% higher than last year.

Page five, here you see that the demand is improving in the domestic Paper business. Third quarter was -- if you -- we see in the Third Quarter a very interesting recovery of the industry. Compared to -- Third Quarter versus Second Quarter was 20% high in the Print and Writing business, and the Paperboard business was 19.5%, very impressive numbers as we compare quarter-over-quarter.

This is very much aligned with last year, 1.1% higher than Print and Write, and only 0.2% in the Paperboard. Nine months year-to-date, we see Print and Write 3.7%, below last year and Paperboard 9.2%.

We have seen a good improvement in this business in terms of volume. Our Paperboard is very strong as we speak. So I think that for the yearend, we are going to see probably volumes very well aligned with last year, or even possible small improvements.

Print and Writing imports growing very modern, very much explained by the strong real, the imports are growing. This is just one number for Print and Write 16.5% last quarter, 22.6% in the Third Quarter.

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Big number here is the coated paper. However, we saw some growth as well in the uncoated spaces.

Brazilian exports, now we are at 35.8% as compared with 40.2% in the Second Quarter line. This is more explained again by the weak (inaudible) of the internal market.

As we see our business here, Paperboard business, we see the higher volume, Third Quarter versus Second Quarter 4.4%, 22.2% (sic; See Press Release) for Paperboard.

However, we see as you compare it year-to-date for nine months year-to-date, the '09 compared with '08, we see Print and Write 11.4% below, and the Paperboard 19% below as we can see in the box in the upper parts of the page, Print and Write we had in the national market 3.7% reduction and Suzano was 11.4%, and the Paperboard was 9.2% and we are 19%.

So it's clear that we lost some market share here. However, we were able to maintain -- in fact we have 3.4% price increase year-over-year.

This -- as leaders of these both markets, we have the responsibility and the leadership to maintain the price, and to not to deteriorate too much the price.

However, we did some -- we lost some market share mainly to in the coated paper more for the imports in the uncoated a little bit so for imports and also for the smaller players that we have in the market.

Domestic sales back to the levels of 60%. Remember that we have tried to maintain 60%, 40% ratio for the domestic market and the exports.

However, due to the weakness of the market in the first half of the year, the increase in dollar sales and the Second Quarter especially we increased up to 50% of the exports. Now we are back to 40% exports, 60% is the ratio that we like, and we think that's more appropriate for our business as we move forward.

Export average net price. You see that compared nine months year-to-date, '09 to year-to-date '08. In dollars we have a reduction of 15.5%; in Brazilian reais, we have an increase of 4.4%.

So here in reais as well, we have the 4.4% better price than we had last year that what is very important because our costs are about -- is very close to 80% denominated in reais, so reais is very important for us.

Page 6, is just the showing the graphs what we have mentioned before. Here I would like to call your attention for year-to-date '09.

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In the volumes we are 6% below what we had last year, 808,000 tons compared with 859,000 tons last year.

On reais, that's our revenue, we are 3.7% below, BRL1.7 million versus BRL1.8 million last year. Destinations, as we had mentioned before, our strategy is to concentrate our business in Brazil and as much as we can in South America, Central America.

So here you see that we are more than -- almost 80% in this -- 70% in the Brazil and South and Central America. All the other markets are very much aligned with what we had before, and there is -- (inaudible) before as well.

Page seven is the comments on the -- just few and quick highlights on the Third Quarter results. Sales volume, I had mentioned before, 661,000 tons. Paper volume in the domestic market 154,000; pulp volume exports was 330,000.

Net revenue, we had mentioned before; EBITDA in reais is -- when you talk about the sales volume in the first line, it's important to underline that the Third Quarter '09 versus Third Quarter '08, we had 10.8% higher volume.

Paper was about 15% below last year, but Pulp was 43.7%. Net revenue is 10% below; EBITDA is 41.8% in reais, 48% in dollars as we mentioned. EBITDA margin, 24.4%. So -- and the Net debt/EBITDA at 3.5%.

As we go to page eight, we compare nine months '09 versus nine months '08. Sales volume, we are at 17.6% high, Paper in the domestic market, 13.4% below.

In Pulp volume exports 45.6% higher. Net revenue is very much aligned, a 1% reduction year-over-year; net income very big increase now at BRL742 million, big impact of -- in our balance sheet of the exchange rate variation.

Last year, we faced a big devaluation of the real during the year mainly after September. So we had this change for -- we had a very big impact on the balance sheet and as a consequence, net income was -- nine months last year was only BRL43 million.

This year, the year-to-date we have the opposite, the same impact of exchange variation but in another direction up. So we are running at BRL742 million in the net income.

EBITDA BRL766 million, or 29.6% below. And EBITDA margin, we are at 26.1% compared with 36.7% last year, about 10% points lower levels.

So page nine, the last page, just some key message that we would like to deliver today. And just after we can start our conversation, we will try to answer your questions.

The first one is about the demand recover in Pulp and Paper. Mainly in the Paper it's higher demand in Brazil, Print and Write and Paperboard markets, especially in

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Paperboard.

Pulp, some reduction in global produce inventories; again as we mentioned 26 days is a very low level of inventory and new price increases coming on-stream that we had in our - this in November that we are going to implement is the number 6, I think that the price increase we had this year.

However, as we are at \$700 of price in Europe, CIF reference price, this very interesting discussion that we would like to entertain as soon as we can is why we have talked about price.

We in the last 10 years, if we start in 2000, we have an average price -- our (inaudible) price was an average, BRL1,360. And this was very much the same along this period with some variations we had price, higher price or lower price, but always with the exchange rate going the opposite position.

So as you multiply the value, the pulp price per the exchange rates, we can see a very stable price in reais at BRL1,360. And this was the exchange rate -- average monthly exchange rate every month and having a very simple average, we had during this 10 years BRL2.36 as an average.

And the price was around 600, in fact a little bit below 600, in fact 580, 560 -- 76. So if you have an average of exchange rate of BRL2.36 and our price is around 580, we have this BRL1,360 of pulp price. Today, as we speak and we are moving to \$700, if you consider a exchange rate of BRL1.7, we are going to have BRL1,190.

So today as we celebrate this \$700 in reais far away from the price -- the average price we had before. This is why we are working so hard to reduce the prices, and to have a -- our costs -- in the -- to increased price into the -- price of our suppliers, okay?

So our suppliers -- but we see just to mention for everybody here that \$700 is a very good price as compared with the number that we had in the -- as the average number in the last 10 years. However, this is a -- with the exchange rates you have today it is too far away from where we had before.

So in the operational performance, that's what we were starting to talk, we have our cost and expenses controlled. The pulp cash cost is of BRL373, and as we mentioned before that's very low cost, and growing and is still with some possibility of improving, and the 24% SG&A reduction year-to-date. So that's a very strong cash-cost reduction, mostly a few percent, and SG&A at 24% lower than last year.

As I mentioned before, as we have these exchange rates change, we had also cost reduction and this is partially -- this is going to offset partially the problem that we have with the exchange rates.

I had mentioned before the strong cash position at BRL2.4 billion and a moderate reduction of the net debt of BRL476. If you see year-to-date, we are about a \$1.5 billion below that we had before.

And about the growth strategy, we have here one -- just one line to say that we -- our Greenfield project is moving. They are moving very fast and according to the timeline that we had prepared before.

So we are maintaining our Maranhao and Piaui Greenfield projects and doing -- we are on-track delivering what we had planned (inaudible).

Having said that, I will pass back the floor to the operator, and we will be very happy to answer your questions.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now start the question-and-answer session. (Operator Instructions) Our first question comes from Felipe Hirai from Merrill Lynch. Please go ahead.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hello. Good morning. Good afternoon, everyone. My first question is related to China. If you -- Antonio, if you could just give us an update of what you're seeing in the Chinese market, how you are seeing inventories there, how you are seeing demand and how you are seeing supply? Thank you.

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

Felipe, I'll pass this -- I'll ask Alexandre Yambanis, who is in Europe, to participate in the call to answer your question. Please Alexandre, could you answer Felipe's question?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes. Thank you Maciel. Hi, Felipe. Good morning, how are you doing? The -- well, about the Chinese market, well, some highlights. Just to give you an idea, hardwood imports in China for the first nine months of 2008 was 353,000 tons, whereas for the first nine months of 2009, was 1,156,000.

This is all hardwoods, so a difference of about 800,000 tons, out of which 500,000 tons was captured by eucalyptus. What that shows is that Chinese demand not only is continuing to grow at a robust pace, and this is mainly due to the new paper machines that are coming on-stream in China.

Just for next year, we're expecting to see anywhere between two and three million tons of new paper machines, all grades included, and I include Printing and Writing, Tissue and

so forth.

The good news for eucalyptus suppliers like Suzano is that those are modern paper machines, high-speed machines, and paper quality in China is standing to improve.

In other words, formation and opacity, which are characteristics that are mainly supplied by the utilization of eucalyptus in the paper -- in the paper furnished are on demand in China, not only in China, Chinese also exporting papers and they are having to compete in world markets.

So two-fold reply, number one vast volumes in China are continuing to increase our projection is the additional volumes in 2010, and there is a quantity aspect which favors eucalyptus pulp.

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

Felipe, just to complete what Alexandre mentioned, just to add some highlights, as we talk some of you I have -- had the opportunity to travel to China in the beginning of August and -- these 10 days there, and we have received our two or three key customers that came to visit us.

What we have in mind is that China is -- continued very strong, and we don't see a big drop on Chinese demand. We have some analysts talking about -- you guys know about that -- talking about some reduction in the First Quarter of next year. Some of them are talking about that they have some inventories are going up, but though this information -- pieces of information is the same that we have seen on the ground.

Alexandre Yambanis is traveling to China next week, is going to spend another 10 days there to talk and to see and to work along with our people there that we have, the Chinese people, that we have that's working with us there and to see. So in short we see -- we still see China very strong and maintain the levels of purchase that they have.

This final -- last move that we had in price was very important for us because now China is back to list price. You saw that we have a big increase in the -- to go to list price, and as Suzano is the Company with higher level of contracts with the key players, so it is very important for us to go back to the normal situation with which price in China as well as the same that we have in the other markets where Suzano plays.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you. And my second question is given that we have seen that the market is in a much better situation now, mainly that the pulp market, would you consider to be making more acquisitions now, or would you consider trying to accelerate some of your investments or if -- I don't know if that's at all possible at the current stage?

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

We have a strategy that we have announced this to have a (inaudible) growth in the pulp market and to improve productive and reduce cost and all other active (inaudible).

We have here a group of people in charge of looking at new business and pay attention to all the importance of M&A. Andre Dorf is the head of this group and we are always analyzing and looking at opportunities. But so far now our strategy is to have -- to move fast on the implementation of our original group project mainly with the construction of the two new Greenfields, one at Maranhao and Piaui. This is what we have now.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you.

Operator

our next question comes from Debbie Bobovnikova, from JPMorgan. Please go ahead.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. Good morning. First of all, Maciel, I want to congratulate you on winning the CEO of the year from RISI Latin America. That's a pretty big honor, so congratulations.

I had two quick questions. One, if I may, on the pulp inventories. Can you give us a sense of where you stand on your inventories and also if you'll be providing us with the details, again, on your press release on pulp inventories any time soon?

I think it helps us to get a sense of, especially this year, what is your potential for full-year volumes given the job in production that we had in the quarter. It would help to understand where the inventories stand for you.

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

Okay. Thank you very much for your comments. You guys know that we have the best team in the industry. This is why I'm always getting some awards. Just on behalf of our teams, thank you very much for the comment.

Talking about the pulp inventories, we are working a very low -- we are (inaudible) with very low levels of inventories. So in the First Quarter, we are very much going to sell what we are going to produce.

We don't have exactly (inaudible) to sell more than what we are going to produce. Andre would like to say something in addition?

A - Andre Dorf {BIO 15460232 <GO>}

No, no, just to mention that global inventories -- I don't know if you had the chance to look at the global inventories. They are at around 26 days, way below the historical

average of 33 days, and the lowest since June '02. So we are at a -- at very low levels as of now.

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

And Suzano is very much alive than before.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Then the second question is on your CapEx plans, there was some news this morning, I guess, from the local papers that you might be revisiting the amount of investments to be made. I assume that's because of probably a decrease in import costs, steel costs, et cetera.

Can you talk a little bit about the possibility of decreasing the CapEx that you need to build those two mills? And also, if you could talk a little bit about the expected costs of those two mills, especially because it seems like they're going to have very different wood structures in terms of your self-sufficiency in wood. So if you can make any comments on that that would be helpful.

A - Andre Dorf {BIO 15460232 <GO>}

Okay, Debbie, this is Andre again. What we mentioned to the media last week is that because we announced the value of the CapEx or the CapEx amount for those projects before the crisis hit the fan last July, the metals and the metallic commodities were at the all-time high, and the exchange rate at that time was different as well.

So that's why we should be able to reduce the total CapEx for the two mills from the \$1.8 billion that we announced last July.

Also the backlog of the machinery producers were at full at that time, and we feel that we'll have better conditions to negotiate then the machines and all the equipment by 2011 in better conditions. So that's why we said that we should be able to drive this down whenever we buy the equipment.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. And in terms of the costs, the operating costs for the mills?

A - Andre Dorf {BIO 15460232 <GO>}

Yes. We're in the process of doing all the engineering analysis for the new technologies and new equipments for those sites. In normal conditions, we'll have the modern young site with a higher proportion of third parties wood supply as you mentioned.

But with the scale and the new technologies, we should be able to offset that. Also because we engage in a very favorable logistics contracted valley as well, along with the wood supply contract.

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So we should be able to offset this higher proportion of third parties' wood supply. So we'll be able to disclose a better guesstimation of both CapEx and operating costs by either the end of this year or beginning of next year, whenever we finish all the engineering studies.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great, thank you for that.

Operator

Our next question comes from Marcos Assumpcao from Itau.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. Good morning, everyone. I would like to explore a little bit more the pulp market. So my question goes to Alexandre Ymbanis.

Regarding capacity restarts, can you comment a little bit if you're already seeing some capacity restarts in Europe, in Canada, in any place else? And actually, my question is why we're not seeing more with the level of prices that we're seeing right now?

A - Alexandre Ymbanis {BIO 16470785 <GO>}

Okay, hi, Marcos, Alexandre here. Yes. We are in fact seeing some capacity restarts that are due to price level -- to current price levels.

Obviously, many of those mills that have been taken down -- it is a long process to restart a mill. You have to re-contract, if you wish, your wood supply. You have to -- all sorts of small CapEx that are required to restart a mill. We have to reinstate all the liaisons with your suppliers and so forth, and also with the market.

So this takes some time, it takes time. But yes, we know for sure that some mills have restarted or are thinking about restarting either with or without change in capital structure, in management, and so forth.

We've so far, indeed, and you're correct, we haven't seen much more for the reasons I just mentioned. It takes some time for that to happen.

And also some of these players are not sure of the solidity of the markets, although the markets have been recovering. As Mr. Maciel mentioned, many consultants are still very skeptical concerning the first two quarters of next year.

We happen to be less skeptical, because we see that -- if we put two and two together, we'd see that Chinese demand will continue next year even if there is a -- an eventual disruption in the First Quarter, this will be temporary, and it won't be structured. But some of the players that are out there are not very sure and again with all the factors they have to put together to restart their mills, it takes time. There is a drag effect there.

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Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay.

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

Marcos, this is Maciel. Just I would like to add very few comments on this. You need to -- the exchange rates also -- the dollar is devalued against all the currencies worldwide, more against real. But the producers in Canada, US, in Europe, in Chile, they are facing big problems as well.

As we see good price and all, let's see, January or November first \$700 in Europe, CIF. However, the exchange rate has impacted a lot. So this is not the same set of standard that we had before. So the 600 700 (inaudible) tend to come back.

Another point that we are not able to calculate the impact so far, but this is something we need to have in our (inaudible) in the future is about wood price in the West and mainly in the Europe.

Wood prices are going to be subsets that they help in Europe to generate energy from biomass is very high as we speak, so we have some competition, more competition for the wood.

And also as we had to talk before about the subsidies that they are enjoying out there, nice subsidies that they are enjoying, some of the integrated producers are enjoying in the West and the Canada, they are not sure that these subsidies will continue after December.

So it's something for them to come back with the production. Just counting on with this big subsidies is something that they need to think a little bit. I think that we are going to have a better and clear image or a picture about the market by yearend after this more clear forecast on the demand and also about the subsets.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. My second question is regarding paper. With the expectation of Brazil growing more than 5%, close to 6% next year, what is Suzano expecting for domestic paper consumption in Brazil in 2010-2011?

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

2010, Marcos, is what we have talked here. It has been a very hard job to -- as such to work in our early forecast 2010 because we see that the market is going to be higher, that the volume is going to be high, but we have a big question about the exchange rate. We know that's going to be at a very low level, but it is the big impact on it.

So we don't have any guidance to give now, but we see that next year the volumes will be higher with the growth of the country that you have mentioned; 4%, 5% is more than

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natural that you are going to have growth.

This is going to see also in the same -- in the whole region where we play with (inaudible). So we are going to see higher volumes in the paper business, and some question, Marc, about price due to the exchange rate values.

A - Andre Dorf {BIO 15460232 <GO>}

Marcos, this is Andre. Just to add another comment. The figures that we are looking at this moment, year-to-date in respect to paper demand or consumption in Brazil are highly affected by the bad numbers that we got in January and February.

If you remember, in the First Quarter of this year, we had some grades falling by 20% -- between 20% and 25% compared to the previous year.

So we've been in a recovery mode since March, and this year -- at this quarter, the third -- in the Third Quarter, we had already some grades with a higher domestic demand compared to last year.

So we expect this positive trend to continue in the Fourth Quarter and in the last -- in the next year as well.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you. The last question to Maciel. If you could comment a little bit your opinion on the interests of CMPC in the Brazilian pulp market after the acquisition of Guaiba if you think that this changed or not the competitive environment here in Brazil?

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

Marcos, I don't see any big change coming on the stream because the volume is going to be the same. The production that Aracruz was delivering in Guaiba is going to be the same for a while. As we had the opportunity to read in the newspapers and the comments from the transaction, the expansion of Guaiba is going -- most likely will be on 2015 or after that.

So we don't see any big change in the competitive scenario because the volume is the same. CMPC has been a big producer as we speak. So they play head-to-head with us in most of the markets, and so they are going to have more volume and fiber is going to have lower volumes, but the total offer to the market will be the same.

And they are a very good company, very strong, very industrial, very dedicated to industry. And they have a very good reputation. So we don't see any big change in the marketplace.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Carlos de Alba from Morgan Stanley.

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

Hi. Good morning, gentlemen. The first question would be if you could elaborate a little bit more on China? Two issues that we have seen is one, the volatility in the imports into that country. We have a big decline in September following a recovery in August, after we saw a decline in July.

Could you talk a little bit as to why do you think we're seeing such volatility in the sales into China? And also in China, could you share with us your views as to what is the country doing in terms of expanding its pulp capacity as well as its forestry operations to increase the supply of wood internally in the country?

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

Alexandre, please could you start with the answer and I would like to complete after some words on the capacity?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes. With pleasure. Hi, well, starting with your first question, volatility in inputs. This is not due to demand at all, it's simply due to lack of supply. After a Second Quarter where China has bought well beyond its historical average and I would say they were restocking -- basically starting a restocking movement.

So -- and that was coupled with downtime taken across the wood by the paper industry. So if you put those two factors together, at the end of the Second Quarter, suppliers didn't have much pulp left to continue supply in China at that clip.

This being said, China would continue buying at that clip because at that time they did not restore their normal inventory levels. As a matter of fact, they are still trying to restore normal inventory levels.

And so that was a simple -- the fact of the matter was that simply there was no additional pulp to be shipped to China in the Third Quarter. Supply had taken downtime, had sold whatever they could to China, and there was no more availability.

And that created the impression that demand was volatile, but demand was not volatile, demand as a matter of fact is quite stable.

In terms of expanding forestry and pulp operations in China, the Chinese has very large forest plantations, I must say, in China, but 70% of those forest plantations are used for energy purposes, for simply -- for cooking and heating.

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So these are not cloned forests and forests suitable for pulp. They also have those, but in a far lesser extent. And don't forget China being a 1.3, 1.4 billion population country, although it's a large country, they have to first ensure that they have -- strategically, that they have enough food, so plantation of crops and vegetables take -- will always take a precedent to wood, to forestry destined for pulp.

This being said, there are some plantations in the south of China, but far from being enough to supply the projected expansion in paper in China. To give an idea, paper -- China today produces close to 90 million tons of paper, and they can easily -- if you take the average per capita consumption in China of around 40 kilograms per head, this is just a fraction I would say. So around 15% or less of what is consumed in North America or Europe.

So the potential for growth in terms of paper production in China is enormous and there is no way they will be able to supply that, not even a significant portion of that, just a fraction I would say with the Longwood plantations.

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

And you mentioned about the inventories. Could you mention what those inventories are at this moment, the pulp inventories in China and what has been the evolution today?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes. Well Chinese paper producers have been rebuilding their normal inventories, and to the best of our knowledge because there are no official data on inventories in China. You have official data on inputs, you have official data of -- basically on inputs and production, but you don't have official data in paper producers' inventories.

Our in-house intelligence, and we have an office in Shanghai, very competent office, tells us that inventories in China are right now reaching, let us say, a normal point. So that leads us to believe that the Chinese will continue buying at a normal clip.

There has been a structural increase. We don't believe that what they have bought in the Second Quarter represents the norm. What they have bought in the -- imported in the Third Quarter, 1.2 million tons a month, is maybe slightly below what they will continue buying going forward, but we believe they will continue buying their monthly needs.

And we don't believe they will be building excess inventories for the simple fact that there is very, very large new capacity coming on-stream in China next year. We calculate anything between two and three million tons of paper all categories included there, Printing and Writing, Tissue and so forth will come on-stream in China.

So even if there is a slight inventory buildup in the First Quarter so that will be used very easily through the second and Third Quarters in view of the new paper capacity that will come on-stream.

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

Thank you. My second question is, you have done a remarkable job in reducing your SG&A costs. Could you talk about where do you see those going forward? Have you reached a sustainable level? Is there more room to continue with taking cost out?

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

Okay, let me -- I'd let Ernesto Pousada, our COO, to talk a little bit about variable cost, and then Bernardo, our CFO, can talk a little bit about SG&A.

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay. Good morning. So actually we've gone through major efforts to reduce cost looking from both sides, working together with our suppliers to reduce the actual prices for the raw materials, and we worked very hard on the productivity side to increase and to gain more efficient processes in the Mucuri mill, especially improving the Line 2, but also Line 1 efficiency -- efficient processes to achieve this kind of reduction.

We see that we reduced it about 20% versus Third Quarter of last year, and we see there's still room for -- probably comparing to what we've seen so far to minor improvements versus the position we have right now.

But we were very confident that this is a very stable level that we're at and wish, like I said, that we still should see some improvement, especially given the situation that we have when you talk about exchange rates. If exchange rates continues -- if the real continues to evaluate, that should help us from the cost side as well.

And so I think moving forward, we're still probably going to see some minor improvements. But the majority of the jobs are going to be on productivity.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Hello, Carlos, this is Bernardo Szpigel. On SG&A, we have over the years put along a strong focus on reducing SG&A. We already experienced last year a strong currency. Now we are back with a strong currency. The view is that we'll continue to have one, with the change that we have a weaker pulp price.

So the need for increased productivity in SG&A is back with a much more -- a larger importance. So we are working on that. And we are sure that we have opportunities there.

We will focus very much on productivity on these -- on all of the processes in these areas, and we have already identified a number of possibilities that over the coming quarters will be implemented. So we -- in fact do expect a reduction on SG&A in the future.

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

Thank you, Bernardo. And my final question will be you mentioned in your press release that you have not yet seen the full benefit of the price increase announced and

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implemented in September, or maybe wasn't fully implemented in September.

Could you quantify a little bit how much of the increase announced for September did not -- was not reflected in the numbers in the Third Quarter, and therefore we should see it in the Fourth Quarter?

I think that the total price that you mentioned is \$466 per ton. So how much either on a percentage basis or on an absolute basis should we see reflected in October, the Fourth Quarter that we did not see in the Third Quarter?

A - Andre Dorf {BIO 15460232 <GO>}

Hi Carlos, this is Andre. Just a clarification here. The \$466 is on a net basis as opposed to the list price that we are always releasing as you've seen about of \$700 now. Yes. It is worth to mention that we had a very unique situation in the industry in the last seven months.

We had six price announcements over the last seven months, and specially during this season, in Europe and in the US. As you well mentioned, we had in the Third Quarter three consecutive price increases in July, August, and September. And we can observe that the September price increase was not fully captured in the Third Quarter.

So for the next one, for the Fourth Quarter, we should expect the benefits of the price -- the September price increase of \$50 per ton, CIF Europe. And the other two announcements to be -- one in October, and the other one to be effective as of November 1. So we should capture -- partially capture the November price increase in the Fourth Quarter as well.

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

Okay. Thank you very much, Andre.

Operator

Our next question comes from Juan Tavaréz from Citi. Please go ahead.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi, thank you. Most of my questions have been answered, but just quickly could you comment on paper prices, how you are expecting that to evolve?

And maybe if you can also comment on your view on substitution for pulp, given -- I know that November price increase narrows the gap between hardwood and softwood, but just to get your view on whether there is any more room for substitution, whether the paper producers are maxed out in what they can mix in, just to get your comments there. Thank you.

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

Hi Juan, this is Maciel. What we have seen is the one question of substitution. Let's talk about just in the beginning of short fiber, long fiber, softwood, hardwood, we have seen a trend of substitution, a lot of room to continue the substitution. Just to give an example, we produce here in Brazil, uncoated free sheet with 100% of eucalyptus.

Most -- eucalyptus pulp. Most of the producers in Europe and in North America, they use 40%, 25%, 70% of short fiber to produce uncoated free sheet. So we see some room for this substitution to continue.

The motivations for this substitution are very much related to two points. First is the gap, the price as you mentioned. Now we are shortening a little bit the gap, but still below the historical gap.

So as soon as we -- they see that this gap is always a good motivation for substitution. However, my opinion is that if you think long-term, the paper producers, they know that there is any big project going forward around the globe to produce to increase production of long fibers, so -- hardwood. So what we have seen is that we don't see new investments going to -- like long fiber.

And is the production of long fiber is also -- is -- has been delivered from very old plants (inaudible). They have -- one or two years ago, they have presented a very nice, very interesting paper about this subject showing that about 40% of the long fiber production comes from plants with boilers with more than 40-years-old, and 20% of boilers with more than 50-years-old.

So they see -- and as we don't see new investments coming on-stream, those plants are becoming older, and the name of the presentation that appeared -- I don't remember where (inaudible) in Canada is the name of the presentation was, The Shortness of Long Fiber, this is what they present.

So we see some -- in short, we see some room for substitution, not only due the gap of the price, but also due to the shortage of production in long fiber as in coming years.

A - Andre Dorf {BIO 15460232 <GO>}

As for the paper prices that you asked before, so far this year we've been able to increase paper prices in the domestic market by 3.4%. This is year-to-date. On the other hand, we have lost some ground in the domestic market share.

So our strategy has been to focus more on results and returns rather than market share or volumes in any market. So as leaders of the Printing and Writing, and Paperboard markets in Brazil, we decided to sustain and preserve our prices and margins rather than go for the market share in the quarter.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay, so could we see lower paper volumes coming into the Fourth Quarter?

A - Andre Dorf {BIO 15460232 <GO>}

The Fourth Quarter is a seasonably good quarter historically, along with the Third Quarter.

This -- the Third Quarter already we presented an increase compared to the last quarter, the Second Quarter. We increased our domestic sales by 6%. And we expect this trend to continue in the Fourth Quarter.

Operator

(Operator Instructions) Due to time constraints we're asking all parties that have questions to limit themselves to two questions at this time. Our next question comes from Josh Milberg from Deutsche Bank.

Q - Josh Milberg {BIO 2004065 <GO>}

Good afternoon, everyone. My question relates a bit to your last response, but I was just hoping you could give some more perspective on the issue of paper imports. Assuming that the FX stays more or less where it is, do you see imports of uncoated printing and writing paper continuing to increase share of total domestic consumption next quarter and also into 2010? Thanks.

A - Andre Dorf {BIO 15460232 <GO>}

Hi Josh, this is Andre. Historically the uncoated imports were very low compared to the coated for instance. It ranges from 5% to 8% of the domestic market.

What we saw is a slight increase in the uncoated imports in the last quarter to serve the PNLV [ph], the National Textbook Program promoted by the government. And why is this true, because the -- this is very foreseeable type of paper purchase as opposed to the day-to-day purchases where the market prefers the local suppliers rather than the imports.

So it's very seasonal. We don't expect the uncoated imports to continue to grow in the coming months or quarters unless we have a dramatic change and a further appreciation of the real.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay, that's very clear, thanks.

Operator

Our next question comes from Gina Montone from Bradesco. Please go ahead.

Q - Raphael Biderman {BIO 1529743 <GO>}

This is Raphael Biderman. My question first is related to restart of capacity in China. You have committed a restart of capacity in Europe and Canada, but not specifically in China.

If you could develop a little more what are your views on that? And if this -- there is that story that non-wood producers in China, in theory, they wouldn't restart due to environmental issues, but maybe they're not so concerned with the environmental issues, if you have considered that, prior to the Olympic Games and you should shut down, you have not shutdown, so I believe it's just a question of price.

I have talked to Antonio about this in the past, so if you could -- if you see any new developments from our last conversation on this issue? And secondly your strategy has been in terms of acquisitions, not to make acquisitions on pulp, both to maintain this organic growth strategy, but I believe you had a strategy to make acquisitions of paper and if this strategy remains the same?

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

Raphael, this is Maciel. What we have seen in China is big, big volumes that are now in downtime meaning no-wood pulp.

And they have -- for one side they have this environmental situation where the government is pushing them a lot for -- to maintain the downtime, or changing in the emissions that they have. So this is one that is of the discussion.

They have also one figure that some offer the customers. Our key clients told me there when I was in China some months ago with Alex was that they have -- as they changed to our fiber, they were extremely surprised at -- with the improvements in the quality and also in the energy consumption for -- to produce the paper -- one of our tissue supply where they for tissue production they have very high levels of energy to refine the pulp to get the tissue.

They said that they were extremely surprised that they didn't know about the energy consumption, but it is much low and better when they use it (inaudible) that they said with no-wood stoppage, they were -- the increase of the fiber chemical Suzano and they were very much impressed. We don't have numbers to give you, but they mentioned that.

So another point that you need to continue to mention is that the new machines that they are buying, they were -- when you have no wood, those machines, they were very low levels of efficiency and they were able to use.

Several of the new machines that's very big ones, one of our customers told me that with the new machines they can't use non-wood because the machine is not going to be to produce the efficiency in the cost of energy that they -- they say that the new machines, that they are clearly big ones that are very fast.

They will require much better quality on the fiber. So as you combine the emissions reduction methods in China, the quality of the process in the new machines that the -- that

are coming on-stream probably they will have some that's going to come back for emissions.

But for the big growth that we are foreseeing in China, as they implement the production, the new machines probably non-wood, they will be -- they will have hard time to get back at full volume of the full production that they had before.

So -- as we have seen the levels, before we talked of one year ago, we have seen what we discussed the year before. We mentioned that eucalyptus was going to grow in China. It is growing at 70% this year.

So it's -- we didn't expect that it was going to be so big the increase that we had. We thought that it was going to be much more -- didn't know what we had because so -- as we move forward with -- we don't see that non-wood is going to be a big player or at least will impact the volumes that we are shipping to China as we are playing for next year.

Q - Raphael Biderman {BIO 1529743 <GO>}

Antonio, I remember these comments of yours on terms of quality, but I was also wondering if -- from the time to know what surprised me was the restart of pulp capacity around the world.

And I was wondering if you have seen in terms -- any new developments in terms of new pulp, non-wood pulp capacity current year. I remember you mentioned that there are so many it's very hard to monitor even for the association there.

But if you have seen any more kinds of evolution on that, considering that in Europe there was a big -- an European a big restart trend because of prices, no? So maybe if just prices goes up, even though it's not the most efficient thing to do, some of the non-wood would really do restart.

And my concern is more in terms of not your demand -- I think it is guaranteed, but in terms of the speed of the growth of pulp prices.

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

(Inaudible) in China. We have seen -- we don't have in our database any big projects on non-woods around the globe. And in China as well, probably some is (inaudible).

So we -- everything that we monitor with a supplier and the association, we haven't seen any big investment coming on note.

What -- and also these -- the downtime that -- as I mentioned before in the west, in Canada and Europe is also very much related also with what's going to happen next year with the success that they are enjoying now and they're just waiting for -- to see what's going to happen.

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In China, it's very difficult to know what's happening. I think that's non-wood in terms they have -- as we speak we are not talking about the 20,000 supply. So the 20,000-25,000, it's a very small one, and I don't know with the big ones that we have now what's the price they need to continue to survive.

And the most -- another I think very interesting position for the long-term as you compare the paper business in China, we have learned very much in the last trip to China that we were considered why there's still business coming from China.

They were so strong in Europe and the West during the crisis, hitting the depression very much and causing big stoppage, it was like 50%-40% downtimes around the globe because nobody was able to compete with them.

And in the paper business, we didn't have the same situation, and as they have big capacity, but why they were not so big on the demand in the west and Europe first.

One thing that they lent is very interesting, but nobody told me in this way, but the point of getting together the pieces of information, you see that the paper business in China today is very, very much -- they finish it, they completed the process of privatization of the paper industry.

Today the largest piece of the industry, almost all the industry belongs to entrepreneurs, business people, and that they run by themselves looking for profits, and doing a -- let's say business lodged [ph] to decide what they do.

In the fuel industry, they have a very strong presence of the state yet. They are -- state-owned -- probably 80% of the capacity is state owned. And they behave -- they have different behaviors, one will problems with the state-owner companies. They were looking and pursuing jobs and maintaining their capacity.

And on the other hand the paper people who had their privatizations were looking for the profits and the possibility to pay their bills.

As you see that we saw -- and everybody knows that weekly price increases in the paper business in India and Asia is mainly the challenges here. It's a good move and today it's is a good move and -- but today it is very good for them to serve in the local market.

And as I've certainly mentioned, the consumption today in China per capita is extremely low, so they have a lot of room to continue to invest in the -- to produce paper to the maximum.

So in short, I know that there was -- there were big, big downtimes in the non-wood plant. People talk about two million, three million tons of capacity, annual capacity. And but so far we haven't seen these people coming back and it's very, very hard to predict. My take is that the biggest part of this production will not come back, but let's see. We don't know.

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A - Unidentified Company Representative

If I may just complement with one -- to give you a sense of the trend. There was over 25 million tons of capacity years ago in China.

Now that capacity is down to less than 10 million. We don't have precise figures, but this is what we hear each time we go to China. So a big reduction due to environmental reasons.

So if anything the trend is a decreasing one, not an increasing one. So it will -- that trend will follow a decreasing one.

At what pace only God knows, but China is committing more and more to environmental targets. So I can say without a shred of a doubt that this trend is a decreasing one. That serves as a -- at least to give a direction of things.

Q - Raphael Biderman {BIO 1529743 <GO>}

Okay

A - Unidentified Company Representative

And Raphael regarding your question about M&A, you're right, we will analyze every opportunity that comes ahead, we have always done that.

And it's less likely that we do some things in the pulp space, once we have our organic growth avenue with the two projects in Maranhao and Piaui that are very, very competitive.

Operator

(Operator Instructions) This is the final reminder. And because of time constraints we are asking all participants to have one question and only one follow-up when they enter the question queue.

(Operator Instructions) There are no further questions. So this concludes the question and answer session. At this time, I'll turn the floor back to over to Mr. Antonio Maciel Neto for any closing remarks.

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

Okay. Thank you very much for coming to participation in this conference call. Feel free to call-up and to continue in the conversations.

As we move forward we see for the pulp business volumes demand this -- what we have are -- now are better and the prices we feel so stable, a better price. So we see -- let's say a better business in the pulp from both sides in the volumes and the price we have.

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In the paper for sure we're going to see a higher volume in the industry as we move forward. The prices will be challenging to maintain our import price, but -- in Brazil but -- we have to see price increase in the West and some of the Europe, and some [of the great].

So volumes will be higher. Price is a question mark but we don't see big, big changes for the worst thing in the pulp -- the paper business as well.

Costs, we are going to continue pursuing our cost reductions in the variable cost and the SG&A as well. We are pursuing operational excellence in everything we do. As Bernardo mentioned we still see opportunities to continue working, to continue reducing cost to face the new reality of demand.

Our solid finance position will continue. Under Bernardo's leadership we are going to continue to maintain our very conservative and evolutionary position in the finance side of our business.

In the growth side, as we mentioned before, we are continuing to grow. We have -- when we see our Greenfields coming on-stream, you guys will confirm our strategy and that this is Suzano's position of always thinking long-term, having long-term as a very strong priority for us.

And so as the next one, we are going to see the pulp production that's coming from the new Greenfields sites, with all the new technology, with the improvements that we have from the forestry business, and also with the logistic position that we have already worked on and have all the contracts signed.

We are going to work in the very low operational cost that -- which will guarantee our competitiveness in the long-term. So this is where we are on our strategy in the implementation of our strengths. Thank you very much for the attention.

Operator

Thank you. This concludes today's presentation. You may now disconnect your lines at this time. And have a great day.

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