

Q1 2011 Earnings Call

Company Participants

- Alexandre Yambanis, Executive Officer
- Antonio Maciel Neto, CEO and IR Director
- Carlos Anibal, Executive Officer

Other Participants

- Andres Piedru, Analyst
- Carlos de Alba, Analyst
- Debbie Bobovnikova, Analyst
- Juan Tavarez, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper First Quarter '11 Earnings Conference Call. All participants are in a listen-only mode during the conference introduction that will be made by Mr. Antonio Maciel Neto, CEO and IR Director.

And later, we will conduct a Q&A session, when further information will be given.
(Operator Instructions) Now, I would like to pass over to Mr. Antonio Maciel Neto, who will begin the conference call. Please go ahead, sir.

Antonio Maciel Neto {BIO 19238431 <GO>}

Good morning, everyone. Thank you very much for joining us this morning for the presentation of Suzano's results in the First Quarter 2011. As usual, I am here in the San Paulo office and along with the key senior management of Suzano, and after my brief presentation, I will be happy to answer questions and we will have also our key managers and directors here to discuss and to answer the questions.

Going straight to the presentation, the slides, we are starting on page four. Here we have the main highlights of the quarter. Initially, talking about the marketing, in general. As usual, we normally take a look on the pulp for global markets, showing here the key numbers that -- for the period. So in the global market of pulp production, we had 11 million tons in the First Quarter of '11. This is only 1.4% higher than the Fourth Quarter of 2010, but it is important to highlight that this is a -- this number is a 9.1% higher than the First Quarter of '010.

Global inventories at 32 days, in March this year, show this is the latest number we have. This is -- this number is below the historical average of 33 days. This is for the whole market pulp. For hardwood, this number is around 40 days. It is still a comfortable number for the industry and there is nothing too high and it is not too low a level of inventories.

The pulp price list, it was stable during the First Quarter of '11 at \$850 per ton, so \$849 per ton, March. This is as usual that the CIF Europe. Everybody knows that we have increased our prices in April, by \$30. This has been fully implemented.

And about the sales, March pulp at 10.7 million tons, 1% lower level than compared to the Fourth Quarter of '010 and 6.1% higher than the First Quarter of '010, last year. Eucalyptus marked pulp at 3.6 million tons in the First Quarter of '11, very much aligned with the Fourth Quarter of last year and 1.3% higher than the First Quarter of '010.

Some highlights about Europe that is always the important reference for us, March pulp at 5.5 -- 4.5% higher than the Fourth Quarter, 4.3% higher than the same period last year. Eucalyptus, 11.6% higher than Fourth Quarter and 10.6% higher than the First Quarter last year. So here again, we see a -- eucalyptus moving with heavy oil presenting higher levels of volumes and sales than the average market points.

Shipments to China, that's always very important, compared with the Fourth Quarter '010, we had 4.5% reduction. However, we expensed 35.5% higher volumes in the First Quarter '11 compared with First Quarter '010. Eucalyptus at 2.7% higher than Fourth Quarter, is 5.1% higher than the First Quarter '010. So this is a very quick highlight about the situation of the global markets. As we have mentioned before, inventories are in a very good levels, that's stable, with a slight reduction in March.

Other factors important for when we prepare our forecasts about prices, is about the spread between hardwood and the softwood. And in the -- considering what has been announced during this month, we -- in spite of the price increase that we implemented at the beginning of April, we probably -- as we are now, we can see \$160 of the difference of the prices between -- in Europe between hardwood and softwood.

Demands, we are going to see that it is difficult to forecast what's going to happen on this demand. However, we don't see any big changes of the trends that we have seen so far. So inventories are at a good level, very big gaps between hardwood and softwood, \$160, one of the highest I have seen here in my five years in the industry. And demand is that it seems we will continue strong or at least at the same level that we have seen so far.

With that, we see our prices that we have today, we have been maintaining in the coming months or with -- depends on the demand. If we see a higher demand and lower levels of inventories, we will see price increases. So far, our perspective remains -- that the prices will remain the same for the coming months at least.

On the paper, normally we talk about the present and demand. First, so in printing and writing, we saw a 14.4% reduction in volume in the total industry when we compare First

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Quarter of '11 with the Fourth Quarter of '010. This is more than explained for seasonal facts, First Quarter of the year is always the lowest level of sales in the paper in Brazil. Our Fourth Quarter is always very strong because then we have a lot of activities, mainly preparing notebooks and books for the new season -- the new school season. And so this number is more -- is -- we don't see any big surprise on this number. Compared with last year, printing and writing industry in Brazil was 8% higher than last year.

On the paper boards, we saw a reduction in First Quarter versus Fourth Quarter of 14.5% and surprisingly we saw this 11.8% reduction in total market in the paper board. Paper board is fully linked to the packaging industry. In our case, we have a very high levels of market share in pharmaceuticals, in cosmetics and in food as well. And here what we have with two alternatives for -- to analyzing that.

One is that we are really seeing some reduction in the coming reduction in the economy in Brazil. That's where we are going to see softening in the economy and our customers that -- the utilization of packaging will be reduced because they are forecasting lower levels of sales in the future.

This is what we have -- this is what they are saying. What we have listened from our -- hearing from our customers is that both of them, they are saying that their sales are strong so far. It is maintaining them in two digits compared with last year, 8%, 9% is a very common number that they are comparing this year with the last year. But the preface that they are -- our direct, who -- for whom we sell directly, they say they have not received the orders in this period, which is a 10% lower levels of orders and this is why they have bottlenecks.

And one of the alternatives we have to consider is that in the First Quarter of '010, at that time, the inventories were back to the levels -- at historical levels. Before that, we have seen very low levels of inventories, probably in the First Quarter '010, with the forecast at that time that the economy was going to return toward -- to move in a -- in the speed that happened after, because we had almost 80% growth in Brazil. They bought more for -- to have those higher levels of inventories. And now we are in the more normalized situation and then once we had -- once the reduction in the First Quarter of 2011, but a -- a normal increase in the purchase in the First Quarter of '010.

We are going to see, as we move forwards, Carlos Anibal has mentioned in the Portuguese call, that we -- so far we cannot see a trend and only at the end of this month, we are going to see what is true in this story for -- really we had only the inventory recomposition at that time. Or this -- that the economy is [softening towards] a mix, or a combination of the two facts.

In the print and write imports, we had this quarter, 30.4% versus 25.3% in the last quarter of '010. Here I need to tell this, we have mentioned in the press release yet that this is 100% explained by the coated paper. This is in the uncoated paper, that's the biggest transfer of our volumes, with the imports are stable. It has been stable during this -- have been stable during the last quarter. So important -- the same for the paper board.

So it is more than explained for the coated paper during this period. Carlos mentioned, also, this morning, that we have not yet the official numbers, but some information for the market that this number for April has -- is to be lower than we have seen, than we are going to have. 20 points in March, where we had the peak, and now it's going to be reduced. Not because we have any big changes in the exchange rate, but probably with the actions that the state government and federal government are taking to fight against the deviation of -- the optimization of the coated paper in the Brazilian.

The demands worldwide in print, writing, big numbers we have seen a lower demand in the west, in Europe, 3% to 4%, during this period. Good demand in Latin America, more than 10%, about 11% higher demand. And very strong demand in China compared with last year. So this is -- we put here demand reduction in May, market effective here is demand reduction in the US and in Europe. It's important to highlight too. Okay.

Moving to page six, we have some highlights about the pulp business unit. We have here, with us Alex Yambanis, who just came from Canada, arrived this morning and he is ready to answer questions here. So the numbers here, it's very easy to see. Volumes on the First Quarter of the 2011, 12% higher than First Quarter last year and 4.8% higher than the Fourth Quarter of last year. Destination of our market pulp in the quarter 35% to Europe, 35% to Asia, 10% to North America. Very -- it's here you have 80% of the destinations and 20% Brazil -- 19% Brazil, 1% South and Central America. So this is very much aligning with the forecasts and what we have mentioned here for this year.

Net price, First Quarter UELs at BRL1,188 and in dollars, \$711. It's very much, in dollars, very much aligned with the Fourth Quarter. And here, just to call your attention, here we have -- here we do not have the price increase that we have implemented in the beginning of April. Net revenue for our pulp business, BRL512 million, which is 14.3% higher than last -- in First Quarter of the last year, same period last year. And 2.2% higher than the Fourth Quarter '010. So this is the key highlights on the pulp business.

Paper business, here we have a -- the volumes that we have mentioned, that due to seasonal perspective, we have seen a reduction of 22.3%. However we have seen also a 4.2% reduction compared with First Quarter last year.

Just one comment here that we, in the case of the volumes that we are mentioning, we are considering here, now, the Conpacel, 50% that we have bought, but we have started our operations that we took over the operations all in February 1st. And in the pulp business, we are able to sell most profited production, but in the paper business, we have -- we took over February 1st, the inventories were in a very, very low levels when we started our operations there.

So we used the February month and the beginning of March to remove the production to inventories, to start normal sales. So very low levels of -- very low volume of Conpacel in those numbers and we are going to see this more as we move forward during the year. Sales destination of the paper, 58% in Brazil, probably with the volume of Conpacel, this number will move to 60% or higher. And as you see that we have reached 20% in South

and Central America, we achieved our target of having around 60% -- 80% in Latin America.

So this why it is very much aligned with our Suzano 2020, '24 plan. 11% to North America, 9% to Europe. Average net price is some -- in spite of the volume reduction, with the -- considering the mix that we had sold, we had a slightly improvements on the prices in the First Quarter '11 in reals. And the same in dollars, that some improvements in dollars as well, compared with Fourth Quarter last year and First Quarter of last year.

We have seen the prices of paper in Europe, and mainly in the west, moving up. And the consequence of the demand in the consequence of more discipline in the offer. And also, the valuation and the lower value of the dollar has opened a space for increase in dollars in those markets. Net revenue in the First Quarter '11 for the -- our paper business was 4.2% lower than First Quarter '010 and 21% lower level than the Fourth Quarter '010.

Going to the finance, we see here, on page 10, that the net revenue was -- the net revenue in the First Quarter '11 was BRL1.057 billion, the volume sold was 678,000 tons. Cash costs was without maintenance, BRL469. So this, we have -- we had some -- we had some differences here in the costs. You guys remember that we have mentioned that normalized, we are pursuing a cash cost between BRL450 to BRL460. This is the target we have for this year.

This month, we had another increase in the wood costs, coming from the higher share of participating wood suppliers. So this -- so we had, again, a more [key deposit] supplying wood and this causing some price increase. We had some employee downtime in one of our furnaces, as well. And this causes some higher costs because we were -- we needed to use more chemicals than normal. So we ended up with BRL469 which is at least BRL9 higher than the average number that we have been considering.

I'd like to mention up front that in the Second Quarter, our cash costs will be higher than this number. Much higher due to key -- at least two key factors. The first one is that we are going to have -- we are going to see another rise in the percentage of key deposit wood suppliers and this will be normalized as we -- for year-end. And we had a downtime in Mucuri in the line two. This was a normal downtime for maintenance, general maintenance, and during this -- all the downtime, we had more days that we expected for the downtime and we had some instability when we restarted the plant. Everything's okay now. We are moving forward. However, we lost some production in the season, which is going to cause some higher costs in the Second Quarter of the -- this year.

We, as I mentioned before, we are going to pursue for coming quarters this range of BRL450 and BRL460 for our cash flow. EBITDA margin and EBITDA numbers and EBITDA margin, we had First Quarter '11, BRL349 million, 33% EBITDA margin compared with 32.4% last year, same period. Not considering all -- not consider the sales of some assets we had at that time. Because with that we had an EBITDA reported at 51.9%. To compare here, the key number, the more appropriate number is 32.4%. Last year, same period, compared with 33% First Quarter this year.

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Net income, this quarter, was BRL144 million. Last year, it was BRL123 million. So this net income, we have a lot of impacts, with all the data in the press release. If you -- some of the changes in the worst of the debt and the reduction of the EBITDA as well.

Page 11, we see here a -- our -- the key numbers of gross debt and in the left side, you see also in the bottom, the amortization schedule. So you see the amortization schedule that we are very much aligned and in good shape for the payments we need to have in the future. It is giving us a comfortable situation as we look for the future on our commitments and the obligations we have.

These numbers of 2016, onwards, is related to the senior notes that we have issued last year, in September, and so with that we have been able -- we have the cash to pay some of the debts that we are going to have this year and next year. And we feel much better profile of debt as we move in the coming months. Net debt to EBITDA, as we mentioned before, many times this year, within this call, that for our normal situation, without big investments on stream, we have our net EBITDA situation was eased and was, in the Fourth Quarter of '10, two times.

So this is what we have planned for the normal periods, without big investments. This is what really happened. In the First Quarter of '11, we bought -- we have -- we bought the Conpacel, 50% of the Conpacel from Fibria. We paid BRL1.5 billion for the Conpacel 50% mill. And also for the distribution company, KRS. And so we end the First Quarter of '11 at 3.39 times net debt to EBITDA.

Here we have some consideration, first of all, it's clear for all of you that here we have the payments for Conpacel and we do not have the still EBITDA. It's a very small piece of the EBITDA of the 50% of Conpacel was considered here. If you calculate the net debt to EBITDA in pro forma, using the EBITDA of the 50% of Conpacel, you are going to -- this number will be about 3. So you can see a reduction for 3.

And also if, here, you guys know that we have this -- we are issuing -- in the process of issuing is going to happen in the Second Quarter, this debenture, which is mandatory, it's going to have a cost of conversion. This will be mandatory to have -- to see the conversion at the end of the period, in three years.

So this debenture will be in our books then as equity. Or to become equity. This is not going to be debt. At least 90% of the value of the BRL1.2 billion. That's between 80% to 90%. This is going to be booked as a -- not as debt. So with that, we just apply here, this number would be 2.6, 2.7 times.

So our plan is, in the same way I mentioned about the cash point, that's going to be higher in the Second Quarter. It's for sure the net debt to EBITDA in the Second Quarter of 2011 will be in the lower levels, probably below three. Because we are going to see some of the EBITDA of Conpacel. But more important than that, that we are going to have the entry -- the BRL1.2 billion in cash in our cash and as well, with the possibility to use 80% to 90% of this number not as debt. So there are -- we are going to -- as we move

forward, to for the year-end, and we have (inaudible) in other projects, being implemented, we are going to see this number moving up again.

On June 8, we are going to have a conference call that we have already announced and we invite all of you for us to talk about CapEx. And in -- at that time, we are going to be able to give more detail and more information about how we are going to behave and how we are going to see these numbers as we see in -- during the year.

On page 12, we have here the numbers related to the investments. And here you can see already the big number here in expansion. But to -- out of this BRL1.6 billion, BRL1.5 billion related to the Conpacel acquisition, KSR as well. So this is the big number that we have in the investment. Again, for CapEx, we are going to have this conference call on June 8th and there we are going to have all the opportunity to have more data about all of these lines of the page 12.

Moving to page 13 this is my last slide. Is just to mention that the funding for the construction for Maranhao Unit is very much organized and very much aligned for us to develop this project Here you have some data you have seen before but just to mention that this funding is coming from BNDES who put BRL\$2.7 billion, mandatory convertible debentures in the value of BRL\$1.2 billion.

Request from foreign credit agents to finance the imported equipment is very much completed as well and we have cash flow generation to support the payments of this project. We have announced before that we have bought equipment from Metso and Siemens, from Metso the key basic equipment of the pulp mill and Siemens about other equipment turbo generators in May.

Just to highlight also some other competitive advantage starting with this plant will be able to produce in excess of 100 megawatts energy. This is the surplus for sale. This would be energy coming from biomass, renewable energy. We are foreseeing in the coming years very good incentives for this kind of energy production. The logistics are in very good shape. We have long term contracts mainly with Supali [ph] here.

And we have latest of the latest technology in this plant here we have a draft of the Maranhao just to have an idea how this will be. And again (inaudible) date we will give more information the CapEx.

We would like to have this opportunity here we have announced that this was the results of the First Quarter. We would be able to give some more guidance on these CapEx numbers however we still are working on this and we decided to postpone a little bit to give more information.

We have seen a lot of changes in the marketplace since the announcement of our investment of our investment of these two plants. That's happening in July 2008. We increased the capacities of our plants from 1.3 million tons that what we have announced before to 1.5 million tons.

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We have added the surplus of energy 100 megawatts per plant. We have seen some inflation in the CapEx a lot of cost increase on steel, mainly in steel and copper. We had in our plans but we anticipated the acquisition of Conpacel and we have seen a big change in the exchange rate.

On the other hand we have seen better technology. The numbers that we have seen of the ratios of utilization, the behavior of the clones that we are using in the North east, in the pilot plants in Europe.

We have good news also from the productivity side so we are working on this. We are working on the Suzano Renewable Energy company as well. At head office here today we passed. If you have any questions, he is going to be able to answer but is going to be able to answer.

But we are looking for investors to have a part in the Suzano Renewable Energy company. This is being completed as we speak now as well. And I think I hope that in June we are going to have a chance to talk a little bit more about that. Having said that, I ask the coordination of the call to take over and to start the q-and-a, please.

Questions And Answers

Operator

Thank you. Excuse me ladies and gentlemen we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Thiago Lofiego with Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Hi good afternoon gentlemen. I have two questions. The first one will be on your leverage levels. So adjusted for (inaudible) you are now three times net debt to EBITDA so very close to the theoretical limits that you established at 3.5 times in the previous conference call.

So considering that 2012 should be a heavy CapEx year how do you intend to assess your leverage in the next 12 months? You have the acquisition totally out of the table. Do you consider or are you willing to allow the leverage to exceed the 3.5 times or how are you thinking about this issue right now? That's my first question.

A - Antonio Maciel Neto {BIO 19238431 <GO>}

Okay, Thiago we have -- what we have for sure is that we are going to continue to pursue not to exceed -- we have the authorization from our Board not to exceed 3.5 times the net debt to EBITDA. This is what we have in a strong recommendation and we believe this is right thing to maintain our investment grade position that we have with some credit agents.

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What we are considering is we have a very heavy CapEx coming in 2011 and 2012. I have already mentioned this possibility that is very close to happen of investors putting some equity money in the Suzano Renewable Energy and so we have an (offer this) since the first day of the Company and this is moving forward. We have several candidates and we are working on this so in the renewable energy we are going to see some equity coming into the Company.

We have for the projects in Maranhao and (Phoenix) we have discussed the possibility of having third parties developing and investing some pieces of the plants. Different areas of the plants we can have third parties in the production and they put their CapEx.

This is going to reduce -- can reduce our CapEx in the beginning. The same way we have a third party taking care if not 30 to 50 years contract of logistics we can have this in other areas as well.

We -- the timing of the projects we have discussed as well and to see what's the if needed some postponing but we are still working in analyzing this alternatives. We have several alternatives that we are working and considering to make sure that we are going to maintain our investment grade position and we are going to move with the project.

Maranhao is very much aligned. We have all the financing and the alternatives in effect. We have earth moving being in place in Maranhao. We have -- I have visited the site three weeks ago.

We have in excess of 1,000 people working there, more than 250 very big tractors working that's we are moving in those directs. So having said that all the alternatives we have in front of us we are going to come back in June 8, 2011 to give you more details.

We are not considering to have any other equity infusion in the short term let's say probably for 2011, 2012 we are not foreseeing any equity infusion in the Company. So we are going to find other alternatives instead of equity infusion for this for this year.

If needed if you have somewhere external factory, if you have any good opportunities can be considered but is not in our plans to have equity infusion in the coming -- in 2011 and 2012. So we would need to find other alternatives to maintain. And we have a (milieu) of alternatives offer this year that we can use and move forward with the projects.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay that's great on the same subject -- on that same question would selling part of the Maranhao project an alternative or not?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

We are not considering parts off of the project now. We have (depart) investment that's in our plan now. We are going to work to have our own ports. This is an important CapEx. We

are going to give you the numbers on the June 8, 2011. This is one of the alternatives we can use but on the core Maranhao and Phoenix projects we are not considering to sell.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay thanks. My next second question is to Carlos Anibal on paper prices in the domestic market. So because of these higher imports on the products lines are you feeling any price pressure and if you could quantify that for me would be great. And also on the imported side you mentioned are feeling the (deep wood) pressure any different pressure (inaudible) but how are you talking then on the imported side itself?

A - Carlos Anibal {BIO 19090865 <GO>}

Thiago to answer your question I think we need to take into account the paper grades separately. Looking at colored paper did note an increase in imports in the First Quarter.

And we understand that this is not related to an increase in the (printers) activity and therefore being that the case that is that is stock building. So we already see a pressure on colored paper price in the mass market and we believe that this situation is going to remain along this quarter.

For uncolored free sheets and paper board the story is different. Okay we haven't seen any major change in import share. We did see realize a reduction of imports of uncolored free sheets in April. This is not official yet but we heard that information.

The prices in May and June will be determined mainly by the imported paper supply and its prices. We still do not have clear picture of what is going to happen in the uncolored free sheet and paper board in the Second Quarter.

But for colored paper again we do see price pressure and that will last at least in the next two months. We might see a reduction that in that pressure if the measures taken by the Governor of Sao Paulo and the Federal government in order to reduce the tax paper -- tax exempt paper misuse. We believe that will happen soon. And if that is the case certainly we going to see a reduction of imports of colored paper. And that might alleviate a little bit the price pressure.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay that's great Carlos, could you quantify the price decline on the uncoated side?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

We couldn't hear you. Can you repeat the question please?

Q - Thiago Lofiego {BIO 16359318 <GO>}

Could you quantify the pressure (inaudible; multiple speakers)

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A - Carlos Anibal {BIO 19090865 <GO>}

Thiago we still don't have a clear picture okay. I think it is too early to say that. That will depend on what's going to happen with coated paper prices in Europe and the amount of coated paper that you are going to see on the market in the next months.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay all right that's great thank you guys.

Operator

Excuse me our next question comes from Ms. Debbie Bobovnikova with JPMorgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi good morning I just wanted to understand better for the outlook for costs. So you said that basically Second Quarter we'll still see elevated costs because of maintenance down time and wood --- higher wood purchases from third parties.

Can you quantify how much of your wood you expect to purchase from third parties in the Second Quarter? How it compares to the First Quarter and what is your outlook for the rest of the year.

And also if you as a result of the issues you saw in the First Quarter and now anticipating the maintenance in the Second Quarter if as a result of that you think there's upside now to your BRL450 to BRL460 target for the year for pulp cash costs at Mucuri?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

The --- we had about 25% to 26% of third party supply in the First Quarter. We are going to see in excess of 40% in the Second Quarter and this is going to come back later to between 20% to 30% in the coming quarters. So we are going to sell almost double third party suppliers in the Second Quarter.

On the downtime we experienced. This was a planned downtime. However, we had the restart wasn't as planned and we lost some production. We cannot Debbie, so far to tell what's going to be the higher cost because this is going to depend a lot about our performance if production performs chemical prices, consumptions and all that stuff that's going to happen during the quarter.

We have still more than half of quarter to go. But we know that this will be higher so we are just giving in anticipation a heads up that this is going to happen but we still cannot tell you exactly that.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

I'm sorry what was the First Quarter third party wood purchases, 25%, 26%, did I hear correctly?

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A - Antonio Maciel Neto {BIO 19238431 <GO>}

It was 26% in the First Quarter. It's going to be in excess of 40% to 42%, 45% in the Second Quarter.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Is there reason for this type of seasonality in wood purchases? And also what can we expect let's say on a normalized annual basis for the coming year?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

Yes we have during the crisis we had reduced the third party supply. Our, excuse me, in 2009 during the crisis we had this some reduction of the third party suppliers.

The contracts we have with them --- as we pay for the wood is we have some space and some flexibility when we take the wood. This flex doesn't cause any problem for our suppliers because the wood continues to increase and then after we pay more wood then before.

But we feel that their costs are much higher than our costs. So with that May 2009 we had utilization in also about the distance that we have reduced. We have some the age of forest and this is not a normal situation. This was caused by the actions mainly we have other factors as well.

But mainly due to the actions we took during the crisis in 2009 and this is causing now to have more of third party utilization in this. But we see as we move forward the year end a more normalized situation in 2012 also much better there in much stable supply of wood from the third parties.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Stable at say 30%, 20%?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

It's between 20% to 30%, it's is more towards 30% this is it. You understand that we have planned this before and the normalized situation will be 30%.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And how did this change between the Fourth Quarter and First Quarter because we already saw a steep increase in wood prices in the -- or wood costs in the First Quarter versus Fourth Quarter. Was that due to something else? Is that due to higher average distance as opposed to (inaudible)?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

But now we have a price increase as well. We have a seasonal price increases. Just hold on one second please Debbie. What you're saying? The question is about she mentioned

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that wood prices have increased in the First Quarter compared with last quarter which is the Fourth Quarter and we are saying that's going to continue to increase.

She's asking if this only happened due to these changes -- is only due to the percentage or we have a higher distance or have other factors. I'm saying that we price increases as well that happened during this period.

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Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And is that typically because that's a market that is not very public and it's hard for us to track. How should we think about wood price inflation in Brazil is it something that you set individually with farmers and there's an annual contract? Or is it all market based?

And if so, is there any -- how should we think about these prices? Is there any index that we can track? And I guess also longer term it seems like increasingly forestry players in Brazil are looking towards relying more on third wood purchases. And I just wonder what this means for long term inflation of wood costs.

A - Antonio Maciel Neto {BIO 19238431 <GO>}

This Debbie this is the contract normally most of the big number of the contracts we have is market price for Suzano. However, we have in the market some other competitors or other segments also that they have some of the old contracts. This has been changed now but in the old contracts we have indexation to inflation as well.

So we are going to see for a while coming years yet some relationship with the wood prices with inflation where when you have a contract. On the other hand we are going to see much more wood being supplied without contracts or contracts that's not following the inflation.

So you can see let's say at least for the two or three years coming -- coming years some relationship with the wood prices in the Bahia region. In the Bahia region we have some because we have more contracts than spot markets and those contracts in some -- not in our case but most of them they are some indexation with inflation. You are going to see inflation related costs for some years.

In Sao Paulo and other places these are much more spot marketing, we have much more suppliers working for construction, working for MDF, working for several other wood applications. Then we have Rio marketplace. And regions that we are by year sometimes more contract you have a lot of inflation related costs. So in short we are going to continue to see wood prices going up.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And the contracts have an annual reset usually or it's a monthly reset? How often do we see this spike (inaudible)?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

In this most of the contracts that I have seen they are annual re-price.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Then talking about the paper segment just to understand a little bit better about your strategy there because obviously the import pressure as long as the currency continues to be strong and global markets over supply probably continues to be a concern for Brazil.

So in terms of how you think about your competing in that kind of environment are you looking towards maybe shifting more volumes to exports to go around the higher pressure domestic market?

Are you thinking about maybe out pricing the imports and being a little bit more aggressive on price decline so as to at least be able to sell more of your capacity? Or maybe are you considering either building up inventories for some time or running your paper mills at below full capacity so basically try to match the domestic market in terms of demand?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

Debbie we consider the imports. Our long term strategy for the paper as we have announced in our Suzano 2024 plan is really to focus is to put a big attention to the Latin America markets.

Here with Conpacel now probably we are going to have 60% of our sales in Brazil, 20% in Latin America so in excess of 80% Latin America. Here we have much more better conditions to compete because we are fully integrated paper producer. So we have very good conditions to compete into places (inaudible).

The imports very much concentrate on the coated paper where we have a small -- we have a good participation but it's not the capacity that we have is not enough to supply all the market. We see this is very difficult for foreigners to understand this tax problem that we have with the ports here.

But the only think I can tell you that Sao Paulo State authorities and Federal government authorities tax office they are working very hard on this. This is now considered a key problem that we have in the country. This is something that's not acceptable.

So we are going to see some actions coming -- mentioned in the call in Portuguese call that we have information --- follow the market -- market information not official data yet that we probably are going to see some reduction in imports of coated paper in April not yet confirmed.

So far our strategy is to continue running our mills at the capacity that we have supplying with the mix that we have work very hard on the productivity and so far we have been able to compete.

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If the exchange rate goes below \$1.60 then with the problems probably in the coated paper like Chinese they have now a lot of restriction in Europe in the West as well. If we start looking at this then we are going probably to take some of the other at least the actions that you have mentioned.

So far our strategy is to continue to compete, to reduce costs, to focus on the -- now we have a much better channels of distribution with the additional of the KSR company the distribution company the largest we bought along with Conpacel, this company from Fibria this is the largest distributor of paper in Brazil.

They have 19 warehouses and branches in Brazil, in excess of 150 people in the sales. We have a much better distribution process now. This is what you are working, so far we don't have any big actions being taken to reduce production or change our strategy in the paper. This can change as we move forward.

If we have seen the exchange rate changed last week last two weeks. We had \$1.56 fifteen days ago we are at \$1.63. Yesterday I don't know I haven't seen it today. So this is big big big changes happening and we are going to take actions if --

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

I'm sorry what are those actions just could you elaborate a little bit on the Plan B in case you do see the currency continuing to strengthen and continued imports into the country.

A - Antonio Maciel Neto {BIO 19238431 <GO>}

The only actions we have we in front of us that we have being implemented in the revenue management two big actions, revenue management try to adopt the mix to be closer to the key customers, to expand and to have more volumes in Latin America where we can be able to work.

We have priced our exports. We have increased our prices on the exports in excess of 18% last year. So and from the cost side we have worked there as well. We don't have any other actions beyond that for the paper business.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

So maybe shift some volumes out of Brazil and into other regions in Latin America?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

It depends today we still have better margins in spite the exchange rate in the situation we still have better margins in Brazil. So this is going to depend how deep will be the impact of the imports. And with the changes in the exchange rate this is causing some losses for the importers as well. So this is a situation that we need to follow carefully as we move forward yes.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And just one last question if I may. Yesterday Fibria mentioned that during the implementation of the price increase of pulp in China that was announced for April they saw very strong resistance from buyers there. I'm just wondering if you saw anything similar, if you saw any weakness in your shipments to China as result of the latest hike in pulp prices.

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes Debbie this is Alex Yambanis, hi. No in fact we had a smooth implementation of our prices in China and this is mainly due to the fact that the majority the vast majority of our sales into China are performed through long term contracts. So no our customers honored the price increase and we sailed through price smoothly.

A - Antonio Maciel Neto {BIO 19238431 <GO>}

We have a different position in China from most of the competitors. When we launched line two in Mucuri there was a big shortage of fibre in China so we were able to sign contracts with the key suppliers so our relationship is more -- in China it is 80% to 90% almost 100% of our sales in China is through contracts and is different prospects when we would sell to traders.

So we don't know about our competitors but for us customers never like price increases, however, this was we were able to implement the price at this time. The big gap that we see today in hardwood and softwood mainly in China it's in excess of \$150 now going to June 1, 2011 we are going to see \$160 if we do not move our price --- dollars is the spread between these two numbers.

They understand this. The Chinese understand this. The language that they talk is inventories. The gap between hardwood and softwood and utilization ratios so this was more than time to have the price increase implemented.

Operator

Excuse me our next question comes from Mr. Carlos de Alba with Morgan Stanley.

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

Yes good morning. Good afternoon just following on the price outlook for the next few months. You mentioned that you see the prices remaining roughly stable at current levels but on the other hand you mentioned a spread of around \$160 if the latest increases in softwood stick. It is way above historical average. And with inventories for both hardwood and softwood gradually around average levels why could not hardwood prices go up in the summer on the back of the maintenance down times?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes hi this is Alex Yambanis we're not saying that prices can't go higher. We're saying that we see at least the stability in prices with a positive buyer. So in the next coming months we see the market as being positive especially due to the new paper machine coming on

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stream around the world. Again there are in the next three years considering 2011 to 2013, 11 million tons of new paper capacity between printing, writing and tissue starting up worldwide.

So the medium long term we have very positive buyers and even in the short term the depending on demand will behave short term inventory movements and even there is a positive aspect that's coming into play with the devaluation of the Renmimbi, the RMB as you know closed yesterday at RMB6.47 to the dollar which is an all-time low, if you wish.

The Renmimbi was showing great resistance to break RMB6.50 and it broke RMB6.50 to RMB6.47 and that will make imported pulp relatively cheaper into China, China being the major worldwide market for market pulp.

This could give us a boost in the next coming months. As a rule of thumb every 5%, sorry, every 5% valuation of a Renmimbi would represent around 3% less production costs for a paper maker in China producing its paper from imported pulp. So that's a positive aspect and we, as I said at the beginning, we have a positive bias in the months to come.

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

But you're not planning on implementing an oil price increase in the coming months?

A - Alexandre Yambanis {BIO 16470785 <GO>}

We don't give any guidance on our prices unfortunately.

A - Antonio Maciel Neto {BIO 19238431 <GO>}

The point is it's too early to decide. We need to see the demand number, however, the bias is positive.

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

All right and then coming back to the third-party wood topic, I mean, the Brazilian producers are among the lowest cost producers in the world but the ROE historically has not been that attractive.

So is there any way in which you could perhaps use more third-party woods, sacrificing some margins but at the same time reducing your asset base so that your asset number goes up and your ROE goes up, and then the investor will be happier with the measurements in the industry?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

In our case, our strategy is to have about 70% of our production in and to buy 30% from [30 bags]. You have several reasons for that. And we see when we handle our forests, our Eucalyptus plantations we have much more space for productivity gains. So having (inaudible) this will be much more complex to capture the gains of productivity.

And we see, you remember when we announced our 2024 plan that productivity in the forest is our key leverage for the future. We are going to see -- Suzano is going to compete better and experience a lot of growth coming from our productivity in the forest business.

So we would like to maintain this 70% at least as we form, despite the fact that we are using a lot of capital -- we are carrying this in our balance sheet but we see a lot of gains that is on the productivity side than we projects [ph]. We have seen also that wood prices as we see a lot of energy projects around the world want to use the biomass we are seeing some other utilization of wood in the future.

So mainly in the energy side different forms of energy. Probably the scenario worldwide is for biomass material that is a wood will be in a higher price than if we maintain with our own properties. So we have this balance of 70% that we will likely maintain during the coming years.

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

And is it possible that instead of perhaps a hybrid strategy is not only in the -- not buying the wood from third parties but leasing the land so that you keep on maximizing the forest productivity but without owning the land and carry that in your balance sheet? Is that feasible?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

Yes. This is feasible and this is the strategy that we are considering for a lot of actions and for the future. So leasing land is included in our prospective for the future. You see our Maranhao project we did this with Vale [ph].

In fact, this is a contract where they are going to, for two cycles, they are going to supply. They are carrying on their balance sheet about 50,000 hectares of planted eucalyptus that they have. Then we are going to have supply [ph].

Their project started the institutional project, value for the staff from an environment prospective mainly to the environment built in a belt, greenbelt there in Paras [ph] so we were able to negotiate a contract with them that's mostly likely in the cost base plus so we don't have impacts of inflation or our market perspective this is a price based on cost and we feel Vale is as a big supplier, let's say big partner.

We are also using our genetic material in our plans as we move forward with the plantation so we can capture a contract where we keep supporting field gains and to pay the cost-related price. This is something that we have a real example in the Maranhao project. And as we move to order everything including Vale, we are considering, we are, in fact, doing some leasing of land as well, this is prefer.

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

Then on the Maranhao, Phoenix projects could you comment on what is the normalized price or long-term price of pulp that we will have to see for the price to just meet your cost of capital, meaning generating an MPV of zero? Is that something around the \$700 per ton or could it be lower than that?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

Now we talk here only in -- when you talk about the pulp in the future we are just talking in the hard currency, in reals. We just use the hard currency here. That's in the range of BRL\$1200 to BRL\$1300 is what we have utilized in the base case, in our models here for the future. That's closer than let's say BRL1250, BRL1300 is the number for the quarter that we have used.

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

But with this range of BRL1200 to BRL1300 reals per ton you do generate a positive MPV in these projects, right?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

Yes for sure. As Bernardo has always mentioned, our process here we have our weighted average cost that's WAC plus two is the threshold for the approval of our projects here. This is going to generate margins.

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

Then your final question, could you comment a little bit on what is the revenue stream in reals or in dollars that you expect to generate from the 100 megawatt excess energy that Maranhao will have? And did you need this revenue stream for the project to have a positive MPV? Or can it be approved even if you don't get these revenues from sales, energy sales?

A - Antonio Maciel Neto {BIO 19238431 <GO>}

In the Maranhao this was proven -- we took a close look on the project. And so we are analyzing a projection of the project separately and we decide to move on the Maranhao project. Phoenix project will be decided in the future when we buy the industrial.

Most likely we are going to have the same so this is going to be considerate. If you have substantial changes in the scenario in the future we can change for the Maranhao project we have so far. We are not prepared to disclose all the numbers on the energy as we discuss now.

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

All right. Thank you very much.

Operator

And our next question comes from Mr. Andres Piedru [ph] with Itau BBA.

Q - Andres Piedru

Good afternoon. Just two quick questions on pulp I'd like to know what is your view on the outlook for Chinese pulp demand and if you see any risk given a potential deceleration in economic activity in the country? Thank you very much.

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes, hi, this is Alex Yambanis. Well your first question, the outlook for pulp demand in China is very positive due to the fact that out of the 11 million tons of new paper capacity, being around 8 million tons reading and writing and 3.2 million tons of tissue the majority of that will come on stream in China. Just to give an idea as we speak they are building 40 new tissue machines in China, which will be demanding high quality pulp and consistent high quality fiber like eucalyptus.

So we see that China just in 2011 we are foreseeing 3.5 million tons of new capacity coming on stream. All these are new modern machines, modern machinery that will require a steady stream of imported eucalyptus to function adequately in terms of the hardwood that they need in the furnace.

So we're very -- how can I say, we're taking a very positive view not only for 2011 but also in the medium, longer term until the end of 2013 at the very least when it comes to China.

When it comes to macro economic considerations in China inflation has receded although very marginally in April from 5.4% in March to 5.3% in April and this is due to the fact that interest rates have gone up and also the compulsory deposit from banks have increased more than two, three times.

This is a double-edged sword in our opinion because it is reinforcing the RMB and the RMB it's not causing a recession number one. China's growth is still forecast to grow at a very hefty number in 2011 and the latest number I have seen, however, between 8% and 9.5%, which is the envy of the world.

This being said the Renminbi again has broken the resistant level of RMB6.50 to RMB6.47 yesterday as we speak. And my guess is that the Chinese are being very smart by doing that. You may contend this will affect exports. Well surprising export growth as a participation to GDP in China is only 0.2%, 0.2%. And this is down from 2.6% only four to five years ago.

So the Chinese have been developing the domestic market. The production of final goods, of finished goods in China has been growing at a very hefty pace based on imported commodities, of course, so the domestic market is booming and ready to absorb all these domestic goods.

What I'm trying to say is that the impact on less exports due to the valuation of the RMB in China will be very marginal since the GDP won't be affected, literally just 0.2% and these are Chinese statistics.

So we see all this as good things for the continuation of imported pulp into China. So number one in essence, the new paper machines number two and the structural macroeconomic changes that China is undergoing will have, in our view, a positive impact in the years to come for pulp.

Q - Andres Piedru

Perfect. And if I may ask another question, I'd like to know if you can provide a little color on the trend you're observing in global pulp inventories in general?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Well global pulp inventories close at 32 days, as you know, in the month of March and that is composed by 24 days for softwood and 40 days for hardwood. We know for a fact that the hardwood inventories are in part in the hands of traders.

And this is maybe causing some of your colleagues asked, mentioned that one of our competitors declare that they felt some difficulties in implementing the April price and this is probably due to the fact that traders are holding somehow higher inventories when it comes to softwood for sure. But also some hardwood inventories.

So the softwood inventory levels are, I would say, lower than the trend and this is allowing softwood producers to be very aggressive in pricing, and so they should. When it comes to hardwood, however, we are slightly, very marginally above the trend. But my expectation is that in the coming months those inventories will trend lower. Maybe they will plus-minus, give and take plus-minus 5%.

They may even increase a little bit in April but in the next coming months they will trend lower, number one, due to pent up demand in China and number two due to maintenance shutdowns, for example, in Brazil and Chile that are taking place and also in the Northern Hemisphere taking advantage of the springtime in the Northern Hemisphere you'll have, for example, less aspen capacity and less maple capacity coming to the market.

So all that is good stuff. I'm sure that contribute for the decreasing of hardwood inventories, which are slightly on the high side as we speak.

Q - Andres Piedru

Okay. Thank you very much.

A - Alexandre Yambanis {BIO 16470785 <GO>}

You're welcome.

Operator

Our next question comes from Mr. Juan Tavarez with Citi.

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Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi. Great. Thank you. My first question is just to reconcile some data I've seen out of Brazil in terms of Brazil exports for pulp and your comments that you didn't see much pressure in your pricing for China.

Because the data I've seen shows Brazil exports in April for pulp towards China went down close to 25%. So that seems like that was a tough pricing negotiation for the Brazilians in my view at least. But are you suggesting that you didn't see any price pressure and I guess in other words you sacrificed a big chunk of volumes to see easy implementation?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes once again it's a mixed bag when it comes to China and the attitude of buyers in the month of April. We have implemented our prices with practically no resistance.

When I say practically obviously when we announce a price increase even in a very tight market you need some negotiation for it to be implemented. This being said, as I mentioned in the previous question, we know for a fact that traders are holding some inventories in China and that encompass as well, which is quite exceptional.

Traders usually hold softwood inventories as opposed to hardwood. Now they're holding some hardwood inventories and why is that so? This is very transitory. They bought big time in March in anticipation to the April price increase. So they got higher inventories in March anticipating price increases.

And to be frank with you, the traders are also seeing, I would say, a supply-demand tight scenario going forward. So they have built some inventories to make a buck, to make some profits out of it. It is quite normal to see that some of our competitors must face some difficulties in implementing the April price increase.

This being said, I believe it has been implemented in the whole market otherwise we wouldn't have been able to implement ourselves. But I cannot comment on what happened with our competitors.

Q - Juan Tavaréz {BIO 15083199 <GO>}

So would you say that you sacrificed some volumes though in order to implement these prices?

A - Alexandre Yambanis {BIO 16470785 <GO>}

No, no, we didn't sacrifice volumes at all.

Q - Juan Tavaréz {BIO 15083199 <GO>}

And maybe if you can comment on the other region you're seeing demand in Europe and demand in the US for April and so far in May?

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A - Alexandre Yambanis {BIO 16470785 <GO>}

Well demand in Europe adjusted between February and the month of May these are the very strong months for paper demand in Europe. And we have implemented our prices in Europe also quite, I wouldn't say easily, but we have implemented them.

Customers understand that we needed that price increase because we've all reversed when it comes to Europe. The very strong euro benefits our price customers and the very strong Real represents a very big hurdle for us since our costs are in reals.

And I guess our customers understand that and understand that we need a higher dollar revenue in order to compensate this double, want if wish of the real and the euro. So we have implemented our prices in Europe as well.

And when it comes to North America we are not a significant factor as of yet in North America and with our reduced tonnages, which are normal, which our regular tonnages are quite reduced in North America as compared to our major eucalyptus competitors we have also implemented our price.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay, perfect. Thank you very much.

A - Alexandre Yambanis {BIO 16470785 <GO>}

You're welcome.

Operator

Excuse me. This concludes today's question-and-answer session. I would like to pass over to Mr. Antonio Maciel for his closing statements.

A - Antonio Maciel Neto {BIO 19238431 <GO>}

Okay thank you very much. This was a little bit longer than what we had planned before. But it's very good for us because we have a lot of questions, interest in a Suzano perspective. Thank you very much for that. As we move forward we see the demand that is okay for our business and though we don't see any big offer coming before 2013.

So compact the scenario we're working out with very high levels of capacity utilization in excess of 90% for eucalyptus and with very low levels of inventory. So this is a good scenario for the future owned, in the near term future at least on the pulp business. Brazilian markets we see growth.

We are seeing Brazil is probably is going to grow 4% to 5% this year, can be 6%, the paper business is going to follow. We have imports, however, we don't see any offer. We don't have any new machines being built. So this is something that's going to maintain our capacity utilization in a very high level as well.

On the flip side here we have cost pressures. This is the wood cost pressures comes through, we have CapEx with higher levels of costs that we have seen as well, and we have the exchange rate pressuring the margins and the exports and in the local markets as well.

So this is the balance of what we have, that we are seeing for the coming months. So this is the scenario that we are working and I will be very happy if you guys can attend the call that we are going to have on June 8th to talk about CapEx. Thank you very much.

Operator

The Suzano Pulp and Paper conference call is now over. Thank you very much for your participation and have a nice day. Thank you.

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