

Q1 2009 Earnings Call

Company Participants

- Andre Dorf, IR Executive Officer
- Antonio Maciel Neto, CEO
- Bernardo Szpigel, CFO
- Carlos Anibal, Paper Business Unit Executive Officer

Other Participants

- Carlos Melville, Analyst
- Ivan Fadel, Analyst
- Juliana Chu, Analyst
- Teresa Mayo, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Suzano Pulp and Paper First Quarter '09 earnings conference call.

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

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

Today's speaker will be Mr. Antonio Maciel Neto, CEO.

We also would like to inform that statements during this conference may constitute forward-looking statements. Such statements are subject to know and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those set forth in the forward-looking statements.

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

Antonio Maciel Neto {BIO 16703850 <GO>}

Good morning, everyone. Thank you very much for joining us this morning. We have here most of our senior management team; Bernardo Szpigel, Andre Dorf, Carlos Anibal, Ernesto Pousada, and the Investor Relations team.

I will start as usual providing some highlights and deploying the key messages and some of all the key numbers for the quarter and just off to have a good time for Q&A. So I will start on page two, just mentioning the key message that we would like to underline today.

The first one is the signs of the recovery in the market. This is related to the markets where we play; the pulp, the global pulp market and the global paper market mainly in the Brazilian market.

So we have seen signs of good recovery. We don't know what's going to come next, different opinions in the marketplace today. However, so far, we haven't seen some price recovery, some projects [ph] recover with regard to pulp, and the paper in the Brazilian market, we had some volumes reduction in the last quarters, but now we see March a large recovery compared with last year and a good recovery compared to last February with 16.8% higher volume than last month.

The other three highlights that I'd like to talk today are mainly to differentiate Suzano from our peers in the local market and also in the global market, but I think the key differentiators that we have today is our strongest items as we see in our results.

The first one is related to our financial position. We are in a very strong financial position, a very good debt profile after the big devaluation of our current 3.7 ratio EBITDA, net debt to EBITDA, very good competitive debt cost. We have today, I think, that's outstanding compared to the current market situation -- outstanding position as with regard to the cost of our debt.

Very strong cash position; BRL2.1 billion. This is almost the same level that we finished last year, and while we experienced during the First Quarter '09 a debt reduction of BRL158 million. We paid this (inaudible) with despite of the credit crunch.

We had been out of the market and not getting any like additional debt, just moving forward our working capital using our long cash, and we have been successful because we have maintained the same cash, very strong cash that we had last year.

And also, we just received the confirmation of Fitch, the rating agency affirming our rating to AA minus which was the trend that we had before the credit crunch. So we have maintained our situation and we feel regard to our rating (inaudible).

The second is related to our liabilities but that is a good (inaudible) one is the operational performance. EBITDA margin at 33.5% is the average that we have had before and is very consistent what we have done before. So in spite the big difficulty in the marketplace now, as we speak, we have maintained our EBITDA at this level, 33.5%.

And also, in timing where most of the players or like the most of the industry and especially in the pulp and paper industry, the people who have stopped or delayed most of the investments had decided to maintain the key investment, a new brining the field (inaudible), we are maintaining the same timing and the same trend that we had before credit crunch.

So we are moving forward with these two investments believing that this is a good strategy for the future and whereas also to consolidating the very strong position in the global paper markets.

So moving to page three, so we are now going straight to the highlights of the First Quarter, most of you have already read the [results in this]. So I will be very quick on this.

First about the global hardwood inventories, we have experienced a reduction of six days, very strong. 45 days as we speak that's the normal [ph] that's close to what we had before the crash. So this is a clear sign that the relationship between (inaudible) and demand is now stop largely and giving us a good perspective cost wise.

Suzano's markets pulp and paper production achieved 647,000 tons and this is almost in line with the Fourth Quarter 2.1% higher than First Quarter '08. Record sales of 654,000 tons; 421 of pulp, 233 of paper. Prices, I think, this is a important highlight. Compared with the last quarter, we moved

forward again with our practically local markets average domestic price 2.4% higher. Net revenue of \$943 million.

Pulp production cash cost at BRL427 per ton. This is for a (inaudible) the low 200, the famous \$200 that we had pursued before (inaudible) at the end of the quarter. This is about \$190 as our cash cost products business probably one of the -- for sure, one of the lowest cash cost in the industry (inaudible).

SG&A expense experienced another reduction at this time, 27% lower than for our Fourth Quarter, very strong reactions for our team with regard to cost reduction.

EBITDA margin of 33.5%, BRL316 million as we mentioned before very strong operational results. Net income of BRL90 million now as we have the exchange rates (inaudible) we are back with some drop [ph] in the bottom line.

Our cash as we mentioned before, fair level of the end of the year and beyond this BRL150 million debt reduction without any new financial activities [ph].

Alexandre Yambanis appointed as our Pulp Business Unit Executive Officer. Most of you know very well Alex, one of the most experienced, probably one of the top guys in the worldwide pulp markets, very experienced. He is not today with us here because he's in Vancouver, Canada. They have -- he's participating in the Pulp Week there along with our key guys in the pulp -- our pulp business unit.

So we are going to cover with myself and Andre took over the paper business since Alexandre is in Canada, it's not possible to join us.

Page four, some highlights of the pulp business units. Global demand of pulp was up 9.4 million tons. This is a 9.1% in previous [ph] quarter, 9.1% lower than this quarter of '08, and in line with Fourth Quarter.

For eucalyptus pulp, we experienced 11.7% growth when compared with First Quarter '08 and 8% higher than the Fourth Quarter. So it's very interesting we will see that the global pulp market, the market experienced 9.1% reduction in total volume, but for eucalyptus hardwood pulp, we experienced 11.7% growth, that is it's about 20% higher if compared with (inaudible) what the average volumes for other types of pulp.

Downtimes, now it's around 2.7 million tons for the First Quarter of '09. We see more downtime coming. So this is one of the pieces of the explanation why we have reduction of the inventories worldwide (inaudible). Suzano's record pulp sales, first time ever 420,000 tons. This is 21% higher than last year same period and 20% [ph] higher of the last quarter.

[Destination throughout] Asia growing as our sales in Asia is growing as we have mentioned before. Now, it's 48% compared with 31% within Europe. Net price, again, a moderate drop in the prices. When we compare First Quarter '09 with Fourth Quarter '08 19% [ph] in dollars. In Brazilian reais that's interesting to see that it's 20% lower than First Quarter '08 and 20% lower than Fourth Quarter of '08 as well.

Net sales of very close to 400 million tons, BRL396 million, excuse me --- BRL390 million [ph]; this is 5.1% higher than the Fourth Quarter '08 and 2.6% lower than the First Quarter of '08. So you see that sales [without having] more volume and with the price, here we have, we express only 2.6% reduction [as fixed] cash cost.

On the other hand you see that the cash cost compared with the same period First Quarter of '09 with First Quarter '08, we have transpired (inaudible) 5.7%. So net sales 2.6% lower cash cost 5.7 lower. As compared with First Quarter '08 cash cost was 2.5%; BRL427 per ton, this is about \$219 [ph] per ton as I mentioned before.

Page five; here you will see some numbers. When you talk about the volumes, thousands of tons 421,000 tons [ph] compared with less [ph] years in period 348,000 tons. Pulp sales, you see that's in reais; the First Quarter '08 was BRL400 million, BRL397 million (inaudible) almost the same numbers we gave you in the [serious area] in reais.

Destinations of pulp sales in the First Quarter '09 you see now that is very strong position in Asia 48% maybe China basically [ph]; Europe 31%, North America 8%, and Brazil, 13%. Last quarter, Fourth Quarter '08, Asia was (inaudible) to 48% when we talk about Asia, Europe went 42% to 31% is actually the many changes we have regard to the destination of our pulp business.

Now in the Page six, some highlights about the paper business units. As I mentioned before, in January-February we compared with -- '09 compared with January-February '08, the market was 15% lower when compared to the same period. However, in March -- March versus March, it was 6.4%. So we came for 15% reduction in total volumes in the local market in January-February to 6.4% in March that's important to highlight that's in the uncoated business.

March versus March, we have 2.4% growth, same level of last year. Total growth in March compared to February was 17%. So lower reduction compared with last year, good recovery compared with (inaudible).

The increase for '09 now in the total numbers, First Quarter '09 versus First Quarter '08, we have 12% contraction and 25% when compared to Fourth Quarter. Here we have different levels of business we have different business during this time of the year. Seasonal, we backed off of some sales to -- that we have bigger numbers in the end of the year. So lot of -- some impact of the total demand that we have seen in the market as well.

Another highlight here this is important about this, the imports' share. You remember that we experienced an excess of 50% of coated --- [double coated] paper in the local markets more than half of the market now is very high number 37%, much lower than what we saw (inaudible) 46% in the First Quarter '08 (inaudible).

In our business Suzano specifically in the segments where we play, the sales achieving 92,000 tons in Print & Write and 30,000 tons in paperboard.

Print & Write, Suzano performed 13% [ph] lower than First Quarter '08, domestic market less 10%. High growth in March 09, 23% versus February 09.

Paperboard, Suzano's performance 21% lower than First Quarter '08. Domestic market 19%. So prices, domestic prices, First Quarter '09, 2.4% higher price.

Exports papers 110,000 tons, 16% versus Fourth Quarter '08 and 11.3% for First Quarter '08 reduction in both cases. Average price in dollars, we have seen 8% reduction compared with Fourth Quarter '08 and 9% compared with First Quarter '08. In reais, this is the key highlight of this page is where you see that compared with Fourth Quarter we do have the (inaudible) 7% (inaudible).

Compared with the First Quarter last year we experienced 22% higher price mainly due to this exports we have exchange rate impact. But we have been very stable in the prices and we have talked it before how we partnered this business [if possible].

The lower levels of this business were less volatile environments where paper played and that was a just big reflection being (inaudible) have been much better. So in (inaudible) the market in the export market before when the real was at 1.5, BRL1.6 versus the dollar this March because of very high cost of the chemicals and (inaudible) and everything else.

We experienced a good, big reduction in [demand and export of ethanol]. Now we have better extenuate [ph], better costs, lower pulp price. So very important business and as we move forward we are going to see the increase of the export software of Suzano's paper because as we have a bit a reduction of the consumption, the local market -- regional market compared with last year.

We have been able to maintain, our strategy has been to maintain the price, sustain the price and now the excess of the production that we have compared with the (inaudible) market. We are going to send outside Brazil if exports well do we have good margins due to our operational platform.

Page 7, just a (inaudible) the numbers and the graphs. We see the First Quarter '09 the sales (inaudible) was 233,000 tons compared with the First Quarter of last year 270. When we go to revenue in millions of reais, we see that the First Quarter '08 we have the 562 and First Quarter '09 546 in line with last year in spite the big reduction of the paper business with more -- mainly explained by the 22% increase in the price pulp if you compare same period of First Quarter last year with this quarter.

Exports, Europe was the destination of 28% in the First Quarter of our paper exports when compared with 23% last quarter; North America 25 now, compared with 21% last month. In South America/Central America we had [39% now 30%]. So this is very balanced, very good effort in all the regional markets. Good production in the local market.

So page 8, just the final numbers in there. Like to call your attention before -- this compares with -- certainly here it is, we have the comparison for the Fourth Quarter and the First Quarter '08. And in the column where we have First Quarter '09, we see the volumes that we had mentioned before, the revenue, I call your attention to the EBITDA of BRL315 million [ph] with 33.5% EBITDA margin.

Very important to remember the exchange rates First Quarter '08. We were here talking an exchange rate of 1.74, now it's 2.32, that's too volatile as we speak reais up 2.12 to (inaudible). Our net debt that is BRL5.33 billion. This is going to give us the net debt to EBITDA next 12 months 3.7. That is the same number that we had [back in same level we had Fourth Quarter].

So just to complete this introduction of our meeting here today. We have this slide, saying, in summary good times are (inaudible) but we expect them to come back. For our side, we are working very hard in revenue management and moving more paper to exports, maintain our strong position in Asia and working very hard on cost reduction. All by measures of cost being the focus and being considered for further reductions.

The (inaudible) we have on this page, which mainly related to our differentiation with regard to our competitors, our peers in the local market and outside. Solid financial position, very consistent performance, a very solid to grow to strength.

We are moving, continue moving with our investment as we speak maintaining our (inaudible) both amounted last year in July. Okay, so having said that I will turn back the call to the operator to start the Q&A we will be more than happy to address your question. Thank you very much for all this.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Ivan Fadel with Credit Suisse.
Ivan, your line is open.

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

Ivan we cannot hear you. We cannot hear you. Either your line is on mute or we cannot hear you.

Q - Ivan Fadel {BIO 4827533 <GO>}

Hello. Can you hear me?

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

Now we can hear you. We were not hearing you but now it is okay.

Q - Ivan Fadel {BIO 4827533 <GO>}

Sorry about that, I wasn't on mute but something happened I guess. So my first question would be regarding if you can give us more information about the Chinese demands have been in context with many sources and there are different views.

But my question is whether this strong buying activity from the Chinese market is sustainable probably until the end of this year, or how do you see that evolving towards the next year but specially because we have seen a lot that additional demand has come to the detriment of closures the domestic capacity and a good portion of that capacity is said to be potentially coming back if prices recover further probably going beyond 450.

So I would like your views on those trends. And my second question would be regarding paper demand domestically and as far as I know we haven't seen any impact of the government investments in educational books.

So I would like to know if you have quantified the potential impact of additional demand for encoded paper because of this program by the government and when we could see that impact in Suzano's results. Thank you.

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

Hey this is Maciel, with reference to Chinese demand I think we have three different aspects on this Ivan. This first one is on what you mentioned, the closures are happening, it's very real. We have seen a lot of small blank, small views, most of it is (inaudible) pulp production being shut up. They have a very high cost.

This is in excess -- I think this is higher than what you mentioned was, the analyst that we have got including some of the experts in China at our office where they have been in contact they say that the retail cost has gone up beyond \$500. So this is very real. The whole closures, that we are considering, probably they are just anticipating those closures could come due to environmental issues.

They are most of them burning coal, they have been challenged by the governors who are in the -- with regard to the environment. So the closures are real. We don't know today how much -- what's the percentage they will come back after -- if the prices reach \$1,200, but this will happen.

The second point is about the inventories. Now, the (inaudible) in September we saw the Chinese (inaudible) most of the warehouse were completely full and in some of the cases we see that the loads (inaudible) were available. But of now, we see at least on the ports [ph] the big reduction of the inventories [ph]. Most of them -- several of them the segments [ph] were used to produce the paper productions back in China.

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But they are (inaudible) because the Chinese when they most this big turmoil, big reduction in price, which was very, very low levels of EBITDA [ph] backing in at some levels. We don't know exactly (inaudible) 5%, but to a certain extent what they had before but it's true that they have with (inaudible).

[We didn't see what volume with] the demand after the actions of a lot of different event with announcements of investments in channel, we -- most of the industry we haven't seen some (inaudible) as well so compared with what we saw in October, so there is better demand most of the other areas commodity prices have turned (inaudible).

In short, we think that Chinese demand for us is coming off [ph] after mid-year; it's strong for April our customers are very strong in maintaining volumes that they have asked before. So we are (inaudible) China, we always will and is going to consist. I don't know with their new practice or new events will change this (inaudible) but for now, we are confident that this is going to make that. (Inaudible) I'll ask Carlos Anibal to talk a little bit more.

A - Carlos Anibal {BIO 19090865 <GO>}

Good morning, Ivan. Regarding the government project for the BRK [ph] legal information that is having available their construction would be around 120,000 tons compared to 100,000 tons last year, which means a 20% growth. We are going to see most of the sales taking place between the second and Third Quarter of this year.

Q - Ivan Fadel {BIO 4827533 <GO>}

Okay.

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

Okay, Ivan. Is that okay for you? I can't hear you again. No problem.

Operator

Your next question comes from the line of Carlos Melville [ph] with Morgan Stanley.

Q - Carlos Melville {BIO 6492438 <GO>}

Yes. Good morning. Thank you very much for taking the call. I just wanted to understand how likely that the price increases that are taking place in Europe will be sustainable.

My impression is of that (inaudible) of industry are improving at the margin because producers have been more disciplined and capacity or supply is coming down, however, demand remains quite weak and if pricing go up, what is the possibility that some of these share balance -- temporary share balance will be reversed and for supply increases again and given that we are still not in the high inventories (inaudible) 1.5 a standard deviation above average, what is the possibility that the positive momentum that we have seen in last few week starts to reverse?

That will be my first question and then second question would be can you give us an update in terms of your growth plans and what of the projects high priority and you can give us a reference for an updated reference for the CapEx that we should be using for each one of these projects? Thank you.

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

Better talk about -- I think, essentially we have about the Chinese market (inaudible) again. We have the demand [been view] -- paper demand in view of this now. We have seen some reduction in our customers. Paper producers, they have informed about 10%, 15%, 10% reduction.

So it's true; demand of most of our -- Print & Write mainly the customers they are with us the addition in demand is very factual point is with small reduction 2% reduction. So we had (inaudible). However, this (inaudible) is different. So very well off, well, shortage of 15, 20% depends on -- this segment depends on the capturing (inaudible) the fact that they approach.

So demand here is still demand is down. However, the offer, we have the combination of (inaudible) we will mention. Maybe, most of vendors shut down have been the biggest part of the explanation about the situation.

And in some of the shut downs, we're more disciplined and in some cases, what all you (inaudible) because if you have a cash cost, if you want \$560 and you have price about 400, 480 and 450 or 480 list price that which has to solve this (inaudible), you have no way to stop and not to produce it. This was the key driver for the inventories reduction that we have.

And if that debt loss what's going to come next? We see debt -- we don't know what the trigger price that we have today, because we have big reduction in chemicals for our different things, the exchange rates (inaudible).

But we think that this is not cash cost up to \$500, it's going to maintain most of the shutdowns, they are going to maintain the impacts and the new (inaudible) property level to see some re-start jump up the price and go beyond the best score, beyond \$500. This is our opinion.

So we see that it's a small but good movement of turning the trains [ph] of reduction to additional \$20 cuts we are implementing as we speak. This won't be any (inaudible) we have reached the bottom of the bucket [ph] and now we see some recovery there.

A - Andre Dorf {BIO 15460232 <GO>}

Regarding the comeback decision, this is Andre speaking. We announced last year a good growth cycle in (inaudible) three new mills, one in Maranhao, one in Piaui and another to be defined either Maranhao, Piaui or other location and the bottleneck of (inaudible) existing facility.

We confirmed, the two mills we are running, one in Maranhao, and one in Piaui and we are currently investing in the forestry base for those mills. And we're going to have another discussion/decision regarding the two projects the Mucuri, the bottleneck and the third new line during the second half of this year.

We announced one year ago, a level of the tax for the new lines of approximately \$1.8 billion. At that time, we had the raw materials, the metals, with their all time high prices and also with an unfavorable currency exchange rate. So we expect this to be lower considering that we have between 60 and 70% of the CapEx denominated in reais.

And we are going to disclose another figure or other projections as soon as we have a clear vision. I just like to remember you that, the CapEx for industrial facilities takes place only two years before this start up. So for the year that it's going to start up in 13, we are going to buy the equipment and start spending the money to the industrial part of the CapEx only in 2011.

Q - Carlos Melville {BIO 6492438 <GO>}

Okay. And how much are you planning in the forest for those two clients?

A - Andre Dorf {BIO 15460232 <GO>}

We're spending approximately \$100 million per year.

Q - Carlos Melville {BIO 6492438 <GO>}

Okay. And what is your CapEx for this year then? You can give us any guidance, please?

A - Andre Dorf {BIO 15460232 <GO>}

The CapEx for the existing mills and forestry base which we call sustain CapEx is around BRL350 million.

Q - Carlos Melville {BIO 6492438 <GO>}

Okay, excellent. And one final question on my end. Could you explain what happened to your tax rate this quarter? I saw that that increased and just want to see -- do you see that as a sustainable event and if you can explain what caused the movement in the First Quarter?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Carlos, this is Bernardo Szpigel. The explanation goes as follows. The basis for determination of the income tax is the parent company in Brazil. When you transfer products to our subsidiaries abroad, we determine income tax and we register this as an expense. On a consolidated basis, until we sell it to the final customer, this income tax is on a consolidated basis is eliminated temporarily until we finally sell it to the end user.

Now what happened was that product that we transferred in previous quarters, we had inventories and there was a very large drop in prices in the markets. So we have to recognize a loss in our inventories at the subsidiaries. The income tax we can now -- we have now to -- that we have already registered in the parent company now goes to the consolidated pages [ph] because we're not going to recover that.

Q - Carlos Melville {BIO 6492438 <GO>}

Okay. So now you're going to make -- okay, I see, you're going to make a loss and you don't expect to recover that and so it goes on to tax [ph]. Okay fair enough. Thank you very much.

A - Bernardo Szpigel {BIO 2080745 <GO>}

The important thing is to remember is that none of this, given our current condition has any cash effect, because we're not, given our --- all of our tax conditions and losses you look at carry forward or still -- or carry forward losses, do not put us in a position to correct anything.

Q - Carlos Melville {BIO 6492438 <GO>}

Thank you.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Yes, sure. Bye.

Operator

Your next question comes from the line of Teresa Mayo [ph] with Citigroup.

Q - Teresa Mayo

Hi. Good morning, a couple of questions. Most of my questions have been answered but if you could touch a little bit first on the short term on the (inaudible) have you seen any freezing of (inaudible) in Brazil and globally? Then if we could talk a little bit about long term and on Suzano (inaudible) how is your view on acquisitions right now, are you looking for things in Brazil, part of Brazil?

And also, share liquidity, when I represent the Citi (inaudible) if everything goes as it has been announced, they will have (inaudible) do you have any plans throughout the rest -- basic condition [ph]? Thank you.

A - Bernardo Szpigel {BIO 2080745 <GO>}

Good morning, this is Bernardo Szpigel. I will answer your first question about credit conditions. In fact, we had a First Quarter which was I would say it was better than people consider [ph] given the credit conditions in general which is of course is a number one worry of almost everybody.

What happened to us, is that we did not have any difference [ph] that needed in which we had to incur an increase in our bad debts position. We did have a worsening of the credit conditions given our let's say our late payment conditions.

All of them were negotiated but after passing through a quick let's say at the beginning of March, since then they have improved in general. So what you expect to our original position at the beginning of the year.

So as you know right now, there is no need to increase our bad debts and this applies both to our local or domestic market and to our export market. This is the current biggest condition that we had at the beginning for the First Quarter and is prevailing now into the month of April as well.

A - Andre Dorf {BIO 15460232 <GO>}

Hi. This is Andre. Regarding M&A activity we are and always have been paying attention to M&A opportunities both in the domestic market and in other economies in other markets as well.

As Maciel mentioned we have a very solid financial position and consistent operating performance as well and what we have seen is that a huge change in the market conditions and in the profile of our main competitors in Brazil and abroad.

So we are paying attention to acquisition opportunities or any other types of deals that might add value to our shareholders. There is nothing concrete at the moment but we have been actively paying attention to them.

In respect to liquidity in the stock market, our liquidity has grown in the last few months. We have seen much more higher presence from international investors and local portfolio managers as well.

So I think this will come naturally, we don't envision any new equity issuance or anything that represent dilution to anyone at the moment unless we have something concrete to do with the money. We don't need the money right now so we don't see the need for an equity issuance or substantially increase liquidity at the moment.

Q - Teresa Mayo

Okay. Thank you very much.

A - Andre Dorf {BIO 15460232 <GO>}

Thank you.

Operator

(Operator Instructions) At this time there are no questions in queue. Actually, no, you do have a question. Hold one moment for your question. Your next question comes from the line of Ivan Fadel with Credit Suisse.

Q - Ivan Fadel {BIO 4827533 <GO>}

Hi, just a follow-up. I am sorry I think you couldn't hear me after the conclusion of my answer. But just to clarify, the potential impact of the additional increment coming from governmental investments in educational books. You said 120,000 tons, this would be -- what would be the incremental demand from Suzano, or I mean from additional sales from Suzano because of this investment? Is this correct?

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

No. The total consumption of the government program will be 120,000 tons compared with the 100,000 tons last year. So we will be taking part of that.

Q - Ivan Fadel {BIO 4827533 <GO>}

So does the 120 will be total demand because of the government investments and how much of that do you believe you would be able to capture?

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

Ivan, we don't have to specify the number, okay?

A - Bernardo Szpigel {BIO 2080745 <GO>}

That was to -- I was looking forward to it.

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

Okay.

Q - Ivan Fadel {BIO 4827533 <GO>}

All right, it's good for now. Thank you very much.

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

Sure. Thank you, Ivan. Thank you very much.

Operator

The next question comes from the line of Juliana Chu of BES Securities.

Q - Juliana Chu {BIO 1551904 <GO>}

Hi. Good morning gentlemen. I just [come back to acknowledge that you have given us an] idea regarding the inventories level by the end of the quarter, the First Quarter, for pulp and paper segment and if you believe that's possible to return to normal levels for the pulp inventories during the Second Quarter? Thank you.

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

We usually say that our regular inventory levels range between 35 to 40 days. We were above this levels last quarter -- in the Fourth Quarter of last year, but because of the high volumes that we have sold in the First Quarter, and the downtime that we took in our Mucuri mills, we are approaching the inventory levels that our the regular one, and the desired ones.

Q - Juliana Chu {BIO 1551904 <GO>}

But that would be for the pulp segment, and how about the paper segment?

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

Regarding the paper, we have a seasonal effect in the paper sales. Usually, the First Quarter of the year is -- has lower volume -- sales volume in the domestic market. So we carry higher inventories and this occurs every year.

So we build up inventories for the following quarters sales. So we were in the First Quarter above our average, our yearly average because of the seasonal effect, but we expect to come close to the regular in the coming months.

Q - Juliana Chu {BIO 1551904 <GO>}

Okay. Thank you very much.

Operator

The next question comes from the line of Carlos Melville [ph] with Morgan Stanley.

Q - Carlos Melville {BIO 6492438 <GO>}

And thank you again. Just wanted to see if you can give us an update on your guidance for pulp and paper volumes during the year and also if you can make any comment on where you see prices in for paper moving in the second half of the year and -- or in the Second Quarter domestically and internationally? Thank you very much.

A - Andre Dorf {BIO 15460232 <GO>}

Carlos, this is Andre. We usually don't provide guidance to the market -- volume guidance. What we usually say is that we have 1.1 million tons of paper capacity and we have been able to place this paper production in our main markets, and we should be able to sell this volume this year as well in both domestic and exports and the same thing to pulp. We have 1.7 million tons of pulp capacity that we should be able to place in the market during this year.

Q - Carlos Melville {BIO 6492438 <GO>}

And any comments on where you see paper prices moving?

A - Carlos Anibal {BIO 19090865 <GO>}

Carlos, this is Carlos Anibal speaking. Paper price in export markets, they continue under pressure. They depend on the region and grade. (Inaudible) we might see a small drop in our prices coming from a different product mix in the Second Quarter.

Q - Carlos Melville {BIO 6492438 <GO>}

Okay. Thank you very much, Carlos.

A - Carlos Anibal {BIO 19090865 <GO>}

Welcome.

Operator

(Operator Instructions) This concludes the question and answer section. At this time, I would like to turn the floor back to Mr. Antonio Maciel Neto for closing remarks.

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

Okay. Thank you very much for the attendance today. We will continue here as usual. I am very happy on answering your questions and providing the clarifications required.

I just -- to conclude in saying that going back to my key points (inaudible) show some recovery levels, recovery signs. We have seen difficulties that we will see exports foreign growing in the Second Quarter. I think very good business compared considering the March that we have [special look] in the foreign markets.

We will continue to be working very hard on this differentiation particularly in [shape those] that we have today. So I think that the financial position that level has arrived into the market and it has developed or has performed is unique and has been very different from most of our peers are we are going to continue working to maintain the situation.

Two very conservative in cash managements. A very good attention to our -- additions with our customers, working very close to our suppliers to reduce cost and the leverage of the position that we have today. So you are going to see as we move forward, a continuous updation to our financial position.

From the operating side, you have seen cash cost reduction; we're going to see more of that. We're going to continue working very good to the suppliers, continue working the productivity as we mentioned before in the other calls and the discussions that we had before. So performance operation is still a big, big updation priority for us.

And our growth [ph] projects, we absolutely [will work] both business. We are also (inaudible) projects in Maranhao and Piaui and this -- we are going to continue working, working very hard, we want to reduce the cost but maintain, sustain the operations we're having, [most probably into new] forest space and to continue -- to provide to our investors a long-term return [ph] and a long term perspective of our results.

So sustainable results, growth, this is what we have pursued and this is what we are going to continue to work on. Thank you very much for your attention.

Operator

Thank you. This does conclude today's presentation. You may now disconnect your line at this time. Have a nice day.

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