

Q1 2014 Earnings Call

Company Participants

- Carlos Aníbal Fernandes de Almeida, Executive Officer-Pulp and Paper Business Unit
- Ernesto Peres Pousada, Chief Operating Officer
- Marcelo Feriozzi Bacci, Chief Financial Officer and IR Director
- Unverified Participant
- Walter Schalka, Chief Executive Officer

Other Participants

- Alex Sciacio, Analyst
- Carlos F. De Alba, Analyst
- Juan G. Tavaréz, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Suzano Papel e Celulose conference call to discuss the first quarter of 2014 results. All participants will be in listen-only mode during the presentation to be made by Mr. Walter Schalka, CEO of the company. After that, we'll have a question-and-answer session when further instructions will be given. I would like to remind you that each participant would be allowed two questions only.

We would like to inform that certain statements in this presentation may be constitutions of projections and forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the expectations expressed not to materialize or the actual results to differ materially from those expected results.

These risks include changes in the future demand for the company's product, changes in factors that affect the domestic and international product prices, changes in cost structures, changes in the seasonality of markets, pricing actions by competitors, foreign currency fluctuations, changes in the political and economic environments in Brazil, in emerging markets and internationally.

Now, I would like to turn the floor to Mr. Walter, who will start the presentation. Thank you.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It's a pleasure to be with you for the presentation of the first quarter 2014 of Suzano Papel e Celulose. I would like to say that we have all the executive officers with me and at the end of the presentation, we will be available for any questions that you might have.

I believe this quarter is another quarter of the company's evolution. We had a significant evolution in almost all main parameters of the company. And I would like to highlight a few of them on slide number 2.

First, we have started in a very expedited way of the deleveraging process of the company. In December of last year, we had a rate of 5.2 times of net debt/adjusted EBITDA ratio and that has already dropped in this quarter for 4.8 times, that is thanks to an increase of EBITDA. We had an EBITDA of BRL 489 million adjusted in the first quarter of this year. And that's in response to an increase approximately 50% vis-à-vis the first quarter of 2013. And we had an EBITDA - adjusted EBITDA per ton of BRL 649 per ton.

Regarding what we had in the first quarter of last year, we had BRL 460 per ton. The EBITDA - adjusted EBITDA was 35%. I would like to highlight an increase of 7.1 percentage points vis-à-vis the first quarter of 2013.

And also, as we have said, before the ramp-up from Maranhão, the learning curve that we had in Maranhão is according to expected and we have grown in volumes on a monthly basis within the expectations we had. We still have logistics adjustments to be made in Maranhão that is being worked on and is evolving. Therefore, the sales volumes for Maranhão will be increasing a long time.

About paper, we had a production increase of 158,000 tons. That is thanks to production volume in Maranhão and we have a sales volume that was 5.4% higher than the first quarter of 2013. Obviously, as we already said before, we will have to build a pulp inventory in our factories, Maranhão, also in Itaquí and also in the terminals. And that inventory building has happened. So now, we are on a regular production pace, as well as sales pace.

About paper, we had an increase in sales that was very significant of 7.2% vis-à-vis the first quarter of 2013. That sales increase happened both in the domestic market as well as abroad. And that has brought us a net revenue with an increase of 19% vis-à-vis the first quarter of 2013. And I would like to highlight as well that we had an increase of the average price of 5.5% vis-à-vis 4Q 2013. It's important to mention that the sales volume, that is higher, is thanks to a reduction in the tax-exempt paper imports to the market, and a slight increase that we are seeing in the Brazilian market this year.

About net revenue, now turning to slide 5, we had an increase of 19% in net revenue vis-à-vis the first quarter of 2013, amounting BRL 1.4 billion. And we also had a cash cost, with

an increase of 3.8%, that is below inflation. This is a great achievement from all of us, the operating team of the company, that it's been able, even with the increasing price of wood that has increased BRL 34 per ton, we were able to have a lower increase than inflation, due to operational gains we are conducting in several plants.

And that are starting from March on - with Maranhão taking part of the cost. The cost is already reflecting Maranhão's operation in the month of March. January and February were not accounted for, for Maranhão. So, I believe that was very positive. If we do not have that increase in the wood price, we would have a negative figure here for cash cost.

About cost, it also has increased 3.8% vis-à-vis the first quarter of 2013. And it corresponds to, as we have been said, in terms of cash cost, through the evolution on the operation management of industrial assets from our various plants.

I would like to highlight that the company is still working to bring down SG&A. Administrative expenses and sales expenses are dropping at quarter-on-quarter, on the year-to-date, or the last 12 months, through the first quarter of last year to this first quarter, 12.3%. That figure is already in 10.8%. So on quarter-on-quarter, these figures are dropping. And with an increase of volume in Maranhão, we expect that this downward trend will keep on happening for the next quarters.

And I would like to highlight the increase of the EBITDA per ton. You can see in the top right part of the chart on slide number 6. In the last 12 months, in March of 2013, the EBITDA per ton was BRL 424. And this figure is already reaching BRL 598 this year, with an increase of 41% of margin per ton. And we have already reached, in this quarter specifically, a margin of BRL 649 per ton. So this is the work that the team is doing to implement that margin per ton, and this work is paying off and it's showing on our results.

About investments, as all of you know, because we already have disclosed the part of investments of Maranhão, Maranhão's CapEx have been postponed. The payments of that have been postponed for 2014. And part of that was going to happen in the first quarter. It has been done. We had first quarter with BRL 686 million of CapEx, within our expectations for expansion and retrofitting. Over 80% corresponds to Maranhão and the figure now is going to come down. We will still keep our CapEx guidance for 2014 and that's going to be BRL 1.75 billion.

I now conclude earnings presentation. I would like to say that we understand that there is a gradual evolution in the company's results and we will look for growing results for the next quarters.

So now, I will open for a Q&A session and you can ask questions to any of the executive officers.

Q&A

Operator

Excuse me, ladies and gentlemen, now we are going to start the Q&A session. Our first question comes from Mr. Renato Antunes from Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good morning, everyone. Thank you for this opportunity. First, about costs. We clearly see an important development. And I would like to understand, what do you expect to be the cost equation from now on? We understand that we have energy and wood prices involved. For energy, the energy price is a little bit lower. But now, you have Maranhão in the equation. So what do you expect to see in terms of costs from now on, especially having Maranhão coming in?

And what is your cost performance that is expected? The second question is about the deleveraging. We are seeing that ratio and EBITDA dropping, but the net debt increasing a little bit. Can we expect to see the net debt dropping from now on? And what are the covenants of debt that you have for the middle of the year? That would be interesting to know as well. Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Renato, thank you very much for your questions. This is Walter. About costs, I would like to say that the company will keep on working on the cost reduction program that we're working on. Obviously, we did have the impact and will have an impact, as we already said, of wood in Mucuri, specifically. On the other hand, while Maranhão grows in terms of volume, that total volume will also be more significant in the total account and considering Maranhão has a better cash cost than the average of the company, so that's going to bring costs down.

So, considering Maranhão has had a cost performance within expected - with specific chemicals within our expectations as well, that amount will be positively impacted. You made another comment about energy. And in terms of energy, it's important to mention that when Maranhão grows in terms of volume, we start exporting a higher volume of energy as well. And we are probably reaching, in the second quarter of this year, the volume hedging of electric power than that what we have acquired in Suzano and what we are selling in Maranhão.

It's important to tell you that we do not have the ability to analyze the differences of the price of the market and that exists and that will exist a long time. But in terms of volume hedging, that should be reached now in the second quarter of this year.

About leveraging, to your second question, that should keep on this evolving process. We should be deleveraging a long time. Net debt has increased marginally in the first quarter due to amounts paid in Maranhão, also due to CapEx. That volume is going to drop from the second quarter on. And from on, we expect it to have a cash generation that is positive. Obviously, that is going to depend upon exchange rate issues, which impacts the general net debt of the company because we have an important debt in dollars.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

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Marcelo Bacci here. About the covenant, in this quarter, we did not have any covenants to reject. The second theory of the third debentures issuing that is currently in waiver of all covenants will be checked again now in the second quarter, the benchmark is 4 times net debt EBITDA ratio. And to break the covenant that - to characterize the breaks of the covenant, that should have to happen in two quarters in a row. We don't see that happening now. Also, the covenant of the new (16:03) with the ACA (16:06) is fine now, it's 7.25 and should reach 5.5 times at the end of the year. We don't see problems there. Thank you very much.

Operator

Excuse me. Our next question comes from Mr. Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. My first question is about the ramp up of Maranhão. Can you tell us what level of capacity you expect the mills to reach at the end of the second quarter? How much do you expect in terms of production for the second quarter?

And about CapEx, that's my second question. You come from BRL 1.750 billion and but I would like to know what is your sustaining CapEx. And can you give us a range for 2015? What can we expect? Thank you.

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

Good morning, Lucas. This is Ernesto Pousada and I will talk about Maranhão. As Walter had said, we are doing very well in terms of our production volume in Maranhão. And our expectation for this year is to produce 1 million - 1,100,000 tons in Maranhão.

And our expectation is to reach 100% of nominal capacity in the first quarter. So we expect that between July, August and even September, to be producing at our nominal capacity at Maranhão plant.

About CapEx and the revolver (17:44) the figures that we have disclosed of BRL 1.750 billion include and there have been no changes sustaining CapEx of BRL 1 billion and the remaining part of it is for expansion and retrofitting of our operations including the remaining amount of Maranhão that gradually, as soon as we meet our targets, we are going to release residual values that are remaining.

Operator

Our next question comes from Mr. Marcos Assumpção, Itaú BBA.

Q - Marcos Assumpção

Good morning, everyone. Congratulations on your results. My first question is for Carlos Anibal. Can you tell us a little bit more about pulp (18:38) global market? We've seen global shipments of pulp dropping 2%, that's hardwood and softwood. Can we say that

we are seeing a destocking movement? What explains that drop and how long that could take because then – and when can we see buyers coming back to the market?

A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

This is Carlos. Marcos, thank you very much. Well, in terms of the supply for pulp market, we have two capacities that will start working, should start working in the beginning of the year. They have not and we are not sure when they are going to come in, if it's in the first or second half of the year. We have longer period for downtime, and that is happening and especially in North America, they had a strong winter and strong adversities and logistics.

Also, between March and April, there were several delays of ships, especially from March to April, and that has decreased shipments in the first quarter. We understand that we still have, in the second quarter, some impact of the temporary closures of capacity in Asia. We see inventories at low levels in the consumers' hands. We have just received an information about a drop in inventories in the main China ports in April.

So in terms of supply, we still see a market that is very tight. Now about the demand, we have an improvement of macroeconomic conditions in the northern hemisphere, especially Europe, that should help. We understand that the new capacities are – that are going into China are taking and consuming pulp. We understand that we should have, in terms of new capacity, 3 million tons. Yes, the shipments for China have increased in the first quarter and we believe that this is not going to keep on increasing.

Another relevant piece of data is that import of hardwood in China have increased 17% in the first quarter vis-à-vis the same period of last year, proving that the demand by hardwood's still strong in China. We also see a higher demand in the second quarter that is very strong and (21:20) paper in northern hemisphere. In Europe, we see an order portfolio that is very good for uncoated paper. So the demand is good. When you say that we had a drop into 0.5% in the first quarter, that drop is on the report of the 20 largest producers. But if we analyze the 100 largest producers, that's up. Then it becomes 0.8%, which is really too little if we consider the market as a whole. So we do have a very favorable view in terms of that balance, between supply and demand, for pulp in this year.

Q - Marcos Assumpção

Second question now for Walter. Can you tell us the main factors that should have impacted your EBITDA per ton in April? And how do they compare to the first quarters of BRL 600 per ton?

A - Walter Schalka {BIO 2099929 <GO>}

Marcos, we do not provide guidance about the second quarter. But what I can tell you is a analysis of what's happening in the company. The results of vendors that we have right now are Mucuri's (22:40) wood, with an additional cost due to the radius, or the distance which we are moving it, and that would be there.

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And second, we have the energy of Suzano, a unit that was already contracted at the market. Now, we are 100% from April 1 in the free market, acquiring electric power at high cost. Then on the other side, we are selling electric power in Maranhão, that is growing on a monthly basis. So these are the main issues that we have.

The main positive drivers that we are having are the evolution, in general, of all company's activities that is going throughout that structural competitive gain. We are dropping prices in harvesting, logistics, distribution, operating efficiency gain of 0.1 (23:41), also the reduction of specific consumptions. And the evolution that we have had in the distribution program of paper that have a better quality and the geographic mix of both, but also we have had a positive development.

So, the whole set of actions that the company is taking is bringing results. We will keep on following that program for a long time, something that is already embedded in the company. Specific programs on one side, and structural competitiveness and operating efficiency gain on the other side. And all of these will be continuous programs in the company.

Q - Marcos Assumpção

Walter, just a final follow-up about CapEx. For the second quarter, can we expect a drop vis-à-vis the first quarter due to investments to conclude Maranhão Project?

A - Walter Schalka {BIO 2099929 <GO>}

Yeah, the significant drop you see there. As we have said during the presentation, over 80% of the expansion and retrofitting, the amount that we had just shown in the last chart of the presentation, are dedicated Maranhão Project.

Therefore, the remaining amount to be paid in Maranhão are lower. So naturally, we will have, in the second quarter, a significant CapEx drop for expansion and retrofitting. And therefore, in the total CapEx as well.

Q - Marcos Assumpção

Okay. Thank you very much.

Operator

Excuse me. Our next question comes from Vincenzo Paternostro from Credit Suisse.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

Good morning, everyone. My first question actually is about, I read in the release that Maranhão maintenance is going to happen in the third quarter of 2014. And I had understood that, this year, you would not have maintenance because that is a new plant. I would like you to make that point clear. And if it is true, if that maintenance is going to happen, is it - I want to know if it's (25:57) already included in the sustaining CapEx of that BRL 1.750 billion? So that is my first question.

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My second question is, I would like to understand if, in the cash costs that you showed, that chemicals have represented a reduction of BRL 22 per ton of cash cost, it already has to do with the fact that you are selling energy to your chemical suppliers in Maranhão, or if that was just a lower price due to the international market?

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

Vicenzo, good morning. This is Ernesto Pousada. About your first question, regarding Maranhão downtime. Yes, we are going to have downtime in September for a maintenance downtime, that is a mandatory stoppage because the boiler will then be running for one year, and considering the Brazilian legislation, we have to stop and inspect the boilers. The CapEx is in minimum, but it's already included in those BRL 1.750 billion. But most of the parts still has mechanical warranty. So it's a very low CapEx there. But we will stop in September.

About your second question, about the reduction of chemicals and inputs, there is part of that, that is energy but not as relevant. What we are looking for is a very good operating performance. Therefore, specific consumption in the plants can be improved vis-à-vis what we had last year. So that is a factor that impacts the chemicals, that a small part of it is energy.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

A question about the downtime. That volume for the year of 1 million and 1.1 million, you already consider that stoppage (28:09)?

A - Operator

Yes. It's considered in there, in that figure already.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Okay. Thank you very much.

Operator

Excuse me. Your next question comes from Mr. Alex Sciacio from Santander.

Q - Alex Sciacio {BIO 16118415 <GO>}

Good morning, everyone. Congratulations on the result. The first question was, again, about costs. Can you give us more visibility on that? That would be interesting.

But first, about the impact that Maranhão had in the first quarter. Walter, as you've said in your presentation, the profits for January and February were capitalized, and I would like to understand, in terms of revenue, if there was an impact, if that increase in volume for pulp in the first quarter was due to Maranhão? And do we have a positive impact of margin coming from Maranhão in the first quarter?

And I would like to understand what is the dynamics in terms of paper cost. I know you don't disclose figures, but we saw the paper growing up in the quarter comparison and the consolidated cost of the company was stable. So is it possible to think that the paper division is having a cost performance really favorable. I would like to understand how is that dynamic.

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Alex. This is Walter. Thank you for your questions. Let me talk a little bit about the Maranhão. Maranhão's impact in the total results of the quarter is low. We had a growing volume of production. But the important part of those volumes remains in the inventories in the first quarter, because we had to build inventory in the port, in our own plant and also in the terminals. So we had little volume impact both in January and February and marginally in March as well. The impact was not relevant. In fact, this starts to be higher now in April from - after April.

About your second question on paper, yes, Papel is bringing an efficiency performance that is very good and that is reducing the impact of paper cost in the total volume. Pulp has increased 3.8% of cash cost and costs also increased 3.8% vis-à-vis the first quarter of 2013. So the paper unit had a very positive efficiency.

Q - Alex Sciacio {BIO 16118415 <GO>}

Okay. My second question for Carlos Aníbal. Carlos, can you tell us how the domestic market of paper is now for the second quarter? We saw that the first quarter was very strong in terms of volumes. Can you let us know what is your expectation for the second quarter? Was there any impact or the demand because of the World Cup? And also, about pulp, you had a very high share of sales in the domestic market as the total volume of pulp, which was 23% higher than what Suzano usually sells in the domestic market. Was that something specific and why then the domestic market was higher at this period?

A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

Okay. Alex, this is Carlos. Thank you for your question. Let me start by paper, yes, we did have a strong end of performance in the first quarter. It is difficult to say that we had any anticipation. The market has grown 1% to 3%, vis-à-vis the first quarter of last year. But the first quarter of last year, it already had increased 3.5%, so actually, it was a significant growth especially in printing and writing paper.

Our April volume was very close to March and close to April of last year. We still don't have the market data. And we expect to have a second quarter that is going to follow the seasonality of the domestic market, an increase of volume vis-à-vis the first one. We still have that expectation that for 2014, the market will grow close to the GDP growth with a few factors that might help us; the main one, a government, a stronger government program; and we also have in the election years, as we had said before, more paper consumption uncoated and coated.

For pulp, that increase in the domestic market was not specific in terms of the profile of our portfolio and the demand for the first quarter is nothing different from what we have

been doing before.

Q - Alex Sciacio {BIO 16118415 <GO>}

Thank you very much.

Operator

Excuse me. Our next question is from Mr. Carlos De Alba from Morgan Stanley.

Q - Carlos F. De Alba {BIO 15072819 <GO>}

Yes, good morning. Thank you very much. First question is, could you comment how much was the amount of expenses or cost of Maranhão that were capitalized for January and February? And second, going forward, and I understand without giving a specific guidance, how should we think about the increase in wood cost because of the distance from the higher radius? And also with the impact that you showed in the bridge on the fix cost coming from Maranhão of \$11?

Going forward, these \$34 on wood and \$11 fixed cost on Maranhão, should they continue to be there? Or these now has factored in most of the increase that you were expecting to see because of these two issues into your cost - into cash cost for pulp? Thank you.

A - Operator

Carlos, good morning. Thank you for your questions. We'll address both of them. First, the amount that have been capitalized for the project in January and February, we don't have those figures right now. But we don't see any problems in disclosing in that. So our area is going to publish that exact figure because I would not like to give you a number that is not correct.

The second question about cash cost. In the next quarters, the recurring, the situation of having wood cash cost or wood cost above the cost that we had, they are growing and that is impacting Mucuri.

On the other hand, Maranhão that has lower cash cost, the structural cash cost of the company. And when Maranhão's volumes start growing, considering the specific consumptions for Maranhão is doing very well, that will reduce the cash cost.

We are not providing guidance to the market on how the average cash cost will be vis-à-vis positive and negative effects that this (36:01). But it's also important to say that we have a dilution on fixed cost in Maranhão.

Q - Carlos F. De Alba {BIO 15072819 <GO>}

All right. Thank you.

A - Operator

Whenever we have growing volumes then Maranhão fixed cost is going to decrease and that is going to have a positive impact in the cash cost of Maranhão. Therefore, in the global cash cost of the company.

Q - Carlos F. De Alba {BIO 15072819 <GO>}

Thank you.

Operator

Excuse me. Our next question is from Mr. Juan Tavaréz, Citigroup.

Q - Juan G. Tavaréz {BIO 15083199 <GO>}

Hi. Thank you. Good morning, everyone. Just my first question on the paper business, if you could give us a sense of pricing into the next few quarters. I noticed price has increased quarter-over-quarter for the first quarter. I'm curious if there's any more implementation or execution in the next few quarters.

And if you can give us a sense there in the paper market as well in terms of your own volume growth should – I know you mentioned you expect the market to grow kind of in line with GDP with some benefits from the election year and whatnot. But I'm curious if we should also see some market share gains as you also mentioned, less import pressure into Brazil. So, if you could give us a sense there on the paper market in both pricing and their volume dynamics.

And on pulp, I'm curious if you've already seen pressure into the second quarter on your net prices. I know there hasn't been any announcement of the list price hike but we're seeing index price – the index kind of turn downwards. So I'm curious if you're already seeing this impact in your net prices into this quarter, or if you're seeing the trend (37:41) dynamic for your sales mix for pulp.

A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

Juan, good morning. This is Carlos. About the domestic market for paper, we have implemented the increases that we announced in the first quarter, both for uncoated paper as well as for coated paper. We don't have any increase, at least for now, to be announced along the second quarter.

Eventually, we might have some residual increase from those announced increases from the first quarter that will impact positively the price in the second quarter. Those residual increments will depend upon the mix of products and channels that we have in the second quarter. We do have an expectation of market share gain, especially, and fundamentally, on coated paper. The import of coated paper have dropped last year 12% vis-à-vis the prior year. In the first quarter, the year-to-date was minus 13%. And data of all those (38:56) imports show an accumulated, or a year-to-date drop, of 20% on coated paper imports.

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We can explain part of that drop to measures taken by state governments, and federal governments as well, to combat the tax-exempt paper matter, and one of the measures that have had most impact was the implementation of a different package for the tax exempt paper. So when that deviation is forbidden and imports have started to drop, naturally, we have room to improve our market share for coated paper.

So in summary, for now, we don't have any price announcements to be done for the second quarter. Those will depend on supply-demand on international prices, as well as on the effectiveness of actions that the government is taking to avoid that deviation of tax-exempt paper.

About pulp, we haven't seen any changes in net prices along April. Once again, the first quarter had a stability in prices, a little bit of a higher pressure in China at the end of the first quarter, a little bit of pressure also in China in April, but we understand that the market fundamentals are supporting us and the stability of price scenario for the next month.

Q - Juan G. Tavaréz {BIO 15083199 <GO>}

Okay. Thank you very much.

Operator

Excuse me. Your next question is from Mr. Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, everyone. I have two questions. First about energy cost side, I know you have talked about that in the call, but I got disconnected. What was the additional (41:07) quarter? And do you expect more pressure on the energy cost in the next quarters? I know you're working on prices not volumes. And how is that equation going now for the second quarter?

And my second question about the paper market, Carlos Aníbal already talked a little bit about it. But what is the visibility that you have for demand for the third quarter? Do you see any impact coming to the market? Is it stronger or weaker than you expected before?

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Thiago. This is Walter; about the energy cost, we did have an impact of BRL 50 million energy cost in the first quarter. We understand that the figure should be similar in the second quarter. Obviously, we have that disclaimer. It's going to depend on the price differences within the sub-markets that have been changing on a weekly basis. So this is the figure we think that we're going to have, in terms of energy difference. And despite of the volumetric hedging that we have, we're acquiring energy in Suzano and selling energy in Maranhão.

A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

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Good morning, Thiago. This is Carlos. About your question on the domestic market of paper. Right now, we have a low visibility along our working chain. We have had - because Suzano - volumes in April that were very close to the ones of March and April of last year, we also have an expectation that is very reasonable for May, and low visibility of what could happen in June.

When we talk to our direct customers and the consumption industry especially, the scenarios we hear is of very little predictability. We believe, not differently from prior years, that the second quarter - second quarter in terms of demand is going to be stronger than the first one.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Carlos, that lower visibility is something common, regular or do you see it especially this year? And why do you say you have that lower visibility?

A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

I believe that the major reason that we are seeing in our change is how much the World Cup is going to impact the month of June. We see that things are not clear, especially for the industry, of what's going to happen in that month. So, it's a very specific event. It's because we have that event happening in June. But the increase of volume, the sale promotions, I think we are already capturing an expectation of a higher paper volume, both coated and uncoated. This, with higher level of activity, especially for services. I believe part of that, we are already foreseeing and capturing. But the trend is that, it's going to be lower. I think it's going to be very strong in June for uncoated paper, A4 paper. That is very strong in services spectrum.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much.

Operator

Excuse me. Our next question is from Mr. Marcos Assumpção, Itaú BBVA.

Q - Marcos Assumpção

Carlos, another question about the paper market. We have seen a small increase of the import level in the first quarter vis-a-vis the fourth quarter prior year. Can you explain to us what was the main reason for that? Was it the exchange rate? Is that an ongoing trend?

A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

For us, Thiago (sic) [Marcos] (45:13). This is related to the implementation of the labeling process of the tax exempt paper. Remember, the labeling was approved by October 1 that is, and the theory of that was just prior to the new legislation. And there was a strong inventory building along the chain. So everyone built inventory because they didn't know what was going to happen in the last quarter. Therefore, imports were down a lot, and we have imports representing not more than 12% of the domestic demand.

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We understand that there has been, along the first quarter, a reorganization movement of inventories have all changed. It was a very good news that imports, too, have dropped 12% vis-à-vis the first quarter of last year. The year-to-date up to April, we already have a drop of 20% in April of this year. Vis-à-vis April of last year specifically for coated paper, we are talking about a drop of 40%. So we are very optimistic about the effectiveness and the efficacy of actions taken by the government, especially the fact that now it is mandatory to have a special package for the tax exempt paper.

Q - Marcos Assumpção

Now, about liability management, another question. We've seen other Brazilian companies doing efficiencies abroad, taking advantage of low interest rates abroad. Is it part of the strategy and the objective of the company to do something stronger with liability management in the short term?

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Marcus, this is Marcelo. Right now, we do not foresee an opportunity for this. Because when you work on the bond market, for instance, to re-buy your bonds, issuing a new one. You have to do it at market value with some premium and we understand that, today, this operation would not make sense unless we had a specific need for a rollover. And considering we are very healthy, right now we do not foresee that stability. But we are constantly monitoring the market. Thank you very much.

Operator

Excuse me. We'll now conclude the Q&A session. I would like to turn the floor to the company for their final remarks.

A - Unverified Participant

We would like to thank you all for your participation in this call and say that the company is very determined to continue with the program to reduce leveraging. We are aiming structure competitiveness by the means of the investments and its operational efficiency gain, and we are running that in all areas of the company.

In the first quarter of this year, we also submitted through (48:46) the approval of FutureGen to the (48:51) GMO. So we'll still be working on that route aiming for structural competitiveness and accompanied by the means of successive approximations and the very motivated team will keep on working in our evolution process in the next quarters. It is very difficult to know what the exchange rate situation will be but it has an important impact in our results for long time. And the team is determined that no matter what the exchange rate is, we'll keep on working on that evolution process as well as on a gradual added-value creation for our shareholders.

Thank you all and have a nice day.

Operator

The conference call for Suzano Papel e Celulose is concluded. Thank you for your participation. Have a nice day.

FINAL

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