

Q4 2012 Earnings Call

Company Participants

- Alberto Monteiro de Queiroz Netto, CFO, IRO
- Alexandre Yambanis, Pulp Business Unit Officer
- Carlos Anibal, Paper Business Unit Officer
- Ernesto Pousada, COO
- Unidentified Company Representative, Unknown
- Walter Schalka, CEO

Other Participants

- Alex Sciacio, Analyst
- Aristotle Isnogada, Analyst
- Celina Merrill, Analyst
- Juan Tavaréz, Analyst
- Lucas Ferreira, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Sarah Leshner, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

Presentation

Operator

(Interpreted) Good morning, ladies and gentlemen and welcome for waiting. Welcome to the conference call of Suzano Pulp and Paper to discuss the earnings are relative to the Fourth Quarter 2012. All participants are in listen-only mode during the conference introduction that will be made up by Mr. Walter Schalka, CEO of the Company.

Then will start to the Q&A session when further information will be provided. We would like to inform you that each participant can ask just one question. (Operator Instructions) Now we are going to turn it over to Mr. Walter Schalka, who will begin the conference call. Thank you.

Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Good morning, everyone. It is a great pleasure to be with you here today as my first presentation in the position of CEO of Suzano. I'd like to introduce myself. I'm

Walter Schalka. I'm 52 years old. I have a graduate degree in engineering, postgraduate degree in business administration with experience in other industries.

I worked for a long time in a packaging company, Dixie Toga, and then in the last seven years I was the CEO of Portugal [ph] Cimentos and now I'm very proud to be part of Suzano's team, a very strong team and that will certainly lead Suzano to a new level of results.

Before starting the presentation, I'd like to give a special thanks to the employees of Suzano and the Board of Directors, the chairman, Antonio Maciel Neto for the excellent contribution he gave to Suzano during the period he was here, leading Suzano to expressive growth and right now we all thank him and we know that in the future the Company will reap the fruits of the initiatives that were taken in the administration of Maciel. So Maciel, thank you very much.

Today we have our presentation in two parts. In the first part, we are going to report to you our earnings in the last quarter and consolidated results of the year of 2012.

In the second part of the presentation we are going to share with you the information and decisions that were made by the executive management and submitted to the Board of Directors and those approved and will be implemented in the year of 2013.

So without further ado, we are going to start with our earnings for 2012. When in the Fourth Quarter the Company had EBITDA of BRL404 million with growth of 21.9% compared to the Third Quarter of last year and EBITDA margin of 27.5%.

The Company attained the good result in the Fourth Quarter despite non-recurrent events that totaled approximately BRL14 million. So in fact, recurrently the result of the Company was BRL414 million and the results were obtained due to several factors.

First, operational stability that we had in the last quarter of the year, especially in the Mucuri operations which were very good in the quarter in terms of operational efficiency and that led to an increase in production, increase of sales of pulp in the period.

And for the fact that we didn't have any down time in the quarter and then we have a lower cash costs as we are going to show you later on. Another thing that is very relevant is the growth of paper sales in the domestic market that reached 71% in the last quarter.

As you are going to see in the presentation, this is a very important focus for the Company and it will continue to be so to increase our sales in Brazil and in Latin America.

Another point to add on to the shielding, our financial shielding process of the Company was the financing contracted from ECAs of BRL1.1 billion. These amounts are going to be obtained to conclude as the Maranhao project this year.

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Finally, as a very important highlight was the firm offer for the divesting the interest held by Suzano in the Capim Branco Energia consortium. The offer was made by CEMIG and we are exercising the right of preference of the other shareholders of Capim Branco. And the amount of that in this offer is BRL320 million. That will certainly contribute and accelerate the deleverage process of the Company.

In 2012, as a highlight we had an EBITDA of BRL1.272 million with an EBITDA margin of 24.5%, a reduction of margin compared to the previous year. But we have to remind you all and if this is in our release that non operating -- I'm sorry, nonrecurrent, non-cash earnings gives us an addition in the earnings from 2011 to 2012 from a [BRL140 million to BRL1.260 billion]. There was a growth of recurrent revenues from one year to the other.

And what happened throughout the year was first a gradual recovery in pulp and paper prices. The year started at low prices in both lines but prices increasingly went up and they continued to do so in the year of 2013.

We have recently announced and we are in the implementation in the increase of prices as of the first of March this year of plus \$20 per ton. Very important highlight for last year was the structuring of the comprehensive financial shielding package as you're going to see throughout the presentation.

We closed the quarter or the year in a very comfortable cash position BRL4.338 billion which really makes the Company able of coping with the Maranhao project. The downside is that we have an increase wood cost last year basically because of an increase of mix of our own wood and third-party wood especially in Bahia in Mucuri. That will continue to be so in the year of 2013 and '14 and that certainly affects the results of the Company for the year of 2012.

We also in the First Quarter of last year we had problem in the line 2, with the boiler of line 2 of Mucuri and that affected the volumes of last year as well as industrial costs in addition to an increase in the cost of raw materials and labor resulting from an increasing inflation.

And consolidated results was a net loss of over BRL182 million not failing to mention that we did have an exchange variation impact of the exchange rate went down by 8.9% within impact of BRL462 million with net debt.

That affected our results but again it does not have a cash effect, just the debt maturity and amortizations.

On the next slide, I think it's very important to highlight the stability of our pulp and paper volumes in the year of 2012 as compared to 2011. But it's also important to highlight the growth in volumes for the Fourth Quarter of last year reaching 404,000 [ph] tons in the sale of paper, a growth of 12.9% compared to the previous quarter.

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I'd like to remind you that in the Fourth Quarter we didn't have any down time. Now what's more important to highlight here is the important growth of volume, the upper left corner of our slide in our domestic market. In 2011, we had 363 tons and we went to 412,000 tons in the domestic market.

As for paper, we also had substantial increase of sales in the domestic market along the year going from 803,000 to 895,000 with sales volume in the last quarter of the 367,000 tons. If we compare sales of the Fourth Quarter 2011 and 2012 we can see that there was a strong increase in sales for the domestic markets and an important drop in the foreign market.

As for the allocation of sales, in pulp we had a balance throughout the year of 2012 between Europe and Asia but that were more concentrated in the last quarter of 2012. In Asia accounting for 41% of total sales, in paper is the growth of sales in domestic markets reaching 71% of the total volume.

Resulting of all these numbers on the next slide we can see that the Company had net revenues of about BRL1.470 billion in the last quarter of the year and BRL5.2 billion in the consolidated of 2012 with a very good balance, both in the quarter and in the year between domestic sales and foreign sales, which gives a natural protection to any macroeconomic market oscillations that any region can have.

As for cash costs, the Company had substantial drop of BRL44 per ton with certain stability in the cost of wood for the Fourth Quarter, but with an important drop of inputs and fixed costs. As we had mentioned because of the absence of down times in the last quarter but also because of the stability of operations in Mucuri that contributed to an increase in volume and a drop in the unit fixed costs in pulp.

As for EBITDA, as we had previously mentioned we reached BRL404 million in the last quarter of the year and BRL1.272 billion with 24.5% of EBITDA margin throughout the year of 2012.

I think it's very important to mention to you and the lower right corner can show you the pulp price. We had an ascending price along the year with a few variations basically in the second and Third Quarters and certainly stability in the end of the Fourth Quarter.

This is a gradual process where we are enforcing the price increases that were announced by Suzano that were again reinforced due to the new increase in the First Quarter of this year.

The next slide shows our indebtedness that the Company had an important evolution in its level of indebtedness last year. First our net debt grew from September to the end of December from BRL6 billion to BRL6.381 billion. This is a result of EBITDA BRL404 million, and of CapEx of BRL672 million which is strongly influenced by the volumes of the investments in Maranhao and a variation of working capital of BRL110 million.

It's important to mention that the Company has a liquidity horizon that is very long, 60 months, very balanced debt profile in the short term we only have 15% of debt already considered anticipation of payments, pre-mains [ph] of the debentures of the third series that is to be paid out this year.

And you can see that the Company has an extremely robust cash in the end of the year. We had BRL4.338 billion which is sufficient to meet all of the investments of Maranhao for this year.

So we had a total gross that of BRL10.7 billion, BRL4.3 billion in cash and net debt of BRL6.38 billion. Net debt EBITDA ratio that we reached was 5 times and as a highlight we also have for this year funds from ECA and from the BNDES relative to the Maranhao project of about BRL2.5 billion.

So in addition to have robust cost in the end of the year we also had to receive BRL2.5 billion from BNDES and BRL320 million relative to Capim Branco.

The good news on the next graph is the fact that CapEx for expansion was BRL2.3 billion and this without changing the schedule for Maranhao. We still keep Maranhao within the deadlines and Maranhao should start up in the last quarter of this year as previously announced.

The project is progressing within budget. We have 9,000 people working on the project and we are confident that we are going to start up the plants in the last quarter of this year. I would also like to mention that this reduction of the CapEx investment last year will not have any impact on the deadlines and the startup of the Maranhao project.

The Maranhao project is huge. It is within the deadline and 2.5% above the budget overrun that is lower than the average of other projects that are going on in Brazil and that this is due to the significant increase in labor costs and installation costs.

The team has been working very hard to manage these costs so as to prevent major overruns. We are going to close 2.5% above the budget if everything goes according to plan. This is a very important project for the Company.

We are doing major efforts in this project and I would like to publicly thank the government of Maranhao and the efforts made by the state secretary and earmark [ph] to transform this project in a competitive project in operations and in logistics with the railways and ports and we are very happy to announce to you that this project when it starts working at the end of the year will have an appropriate ramp up and we will double the amount of pulp that we are selling to the market in going from 1.9 million tons per year to 3.4 million tons per year.

The project generally speaking is within the deadline, 77% of the physical construction has been completed. All of the processes for manufacturing and all of the acquisitions have been made. We are now focusing on electromechanical assemblies, 24% of them have

been completed according to the deadline but we are gearing efforts until the end of the year to start up the plans within the deadlines established. This picture was taken on February 28.

With this, we end the first part of the presentation that had to do with the year of 2012 and let's speak about the plan for 2013.

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The executive board met in the last few weeks to discuss the focus of the organization for 2013 and the executive board agreed that because of the debt of the Company today and given the relevance of the Maranhao project which is underway now, we should reduce of the number of priorities in the Company and focus on extracting value from the existing assets and especially focusing on completing the Maranhao project within the deadlines, within the appropriate budgets, and with the ramp-up that we need.

This will allow Suzano to reduce the number of activities of the Company and to prioritize and streamline the Company as a whole to focus on results. Within this general context of establishing a more conservative policy relative to indebtedness and to focus on results, we established three major pillars to work in the Company.

The first one is a structural competitiveness that is of the Company we will continue to invest in its competitive advantage and to maintain its long-term competitiveness. We are not going to take shortcuts in the Company to achieve short-term results by losing sight of the long-term.

We are determined that we have to be a benchmark company in the long term and we are going to continue to invest in our structural competitiveness as you will be able to see in the next slide. The second point and making an analogy with our industry, the Company in the last few years planted seeds and made trees grow in different areas of the Company.

The management is going to focus on harvesting, on reaping the fruit, on extracting values from existing assets. This therefore makes us prioritize certain things in the Company and also very relevant is competitiveness through management.

We have a culture of transparency of pragmatism and of seeking results and we are going to work with disciplining prices in CapEx in managing the routine of the Company to maximize our productivity and to seek results for the Company.

Within this context and now speaking about structural competitiveness, I would like to highlight some of the relevant aspects which will continue to be the focus of the Company. I was very well impressed by the forestry technology that Suzano detained. We are going to continue to put a lot of effort in developing new clones.

We are going to work on [support a gin] and new forestry practices with a major objective in mind. We want to reduce the planted area and by reducing the planted area we reduce the capital employed by the Company. We also reduce the number of trees planted if so

the costs of reforming the forest also drops, the cost of harvesting drops as well significantly.

A very important aspect is that by doing this, we will also decrease the medium radius and decrease logistics costs and also our environmental footprint. Reducing our environmental footprint is extremely important. We are going to reduce the area required to have the sufficient amount of wood for our operations. This is going to reduce the total cost of the system and our environmental footprint.

As regards future regime, these plans will not be affected. We are working on approving GMOs in the deal commission and as soon as we receive the authorization to plant these trees on a commercial basis, that's what we are going to do.

Suzano has also been working very strongly to develop new clones, new material that is not genetically modified and we are going to be working even more on this as we regard this as a competitive advantage that cannot be replicated very easily by the market.

Also in regards to investments in the industrial areas, we are modernizing our lines. We want to be benchmark in cost and in comparison with the foreign market and with other players and we are going to implement an investment program in our lines to reduce our operating costs.

As regards the distribution of paper, we are going to seek greater outreach in terms of sales and logistics. We are going to focus on SPP activities and we are going to make SPP capture more value in the chain as a whole.

As regards to pulp, as soon as the Maranhao project comes online, we are going to balance the mix in tissue paper. We are going to strengthen our position in tissue paper and in different geographic regions worldwide.

Looking at the next slide in thinking about the focus on harvesting as I said before we are going to continue full speed at the Maranhao project, this is a very relevant project for us and it will use BRL2.3 billion in 2013.

We are going to make other investments in 2013 and we estimate BRL558 million in sustaining different operations and in increasing the planted area in the region of Mucuri in Bahia. We have also tested the wood and we have to work on the clones and on the hydrology of that place and we are going to make investments of BRL148 million in projects to improve our operations and solve these bottlenecks.

We are focusing very strongly on having the Maranhao project work on one side and also on improving the operations that we currently have. We are announcing a plan to invest BRL3 billion for 2013.

The next point is a decision that was made relative to Suzano Energia Renovavel and the Piaui project. We are going to suspend this project until the Company leverage falls

before 2.5 times net debt EBITDA and I would like also to say that the position of the board of the Company is to have maximum debt of 3.5 times.

To reach this target during the project, we have to begin the project with a maximum ceiling of 2.5 times and this is the reason why we are going to focus very strongly on deleveraging the Company. Of course we will have to review the macroeconomic conditions to assess whether they allow us to continue the project or not.

I would like to stop here for a while and publicly thank the government of Piauí. The government of Piauí had relevant efforts to attract Suzano Pulp and Paper. It spared no effort to make this investment a reality and right now it is an active participant and is working hard to turn this project into reality.

The Company is standing on being more conservative in terms of its indebtedness leads to a postponement of this project but we would really like to publicly thank the government of Piauí, this important stake in our federation. We know how important this project is and will be in Piauí.

We are very sorry we will have to postpone it but we want to make it very clear that this has nothing to do with the efforts of the government of Piauí.

On the other side, because we are having this interim suspension of the project, we will have to have a divestment of our operations there in different areas even in our operations of (inaudible) in the reduction of activity of the nursery there and right now it's very important to talk to you that the public prosecutor's office is discussing the realization or not of license permits for the state of Piauí. This is still an ongoing discussion.

The next point of our agenda is to accelerate the Company's deleverage which is the sale of non-strategic assets after Capim Branco, the Company will continue to try to sell its assets. We have surplus lands and forests in the state of São Paulo and the idea is really monetized these areas and forests. And we also have non-operating real estate properties that we are willing to sell.

We cannot really say exactly what date this is going to happen but the process to start the sale of these assets has started. In these areas of CapEx and divestments we would also like to announce the Company's decision to cancel its standby facility credit line. As you may very well know, the Company has a standby line of BRL2 billion that is available for the Company because of the robustness of the Company's cash, because we are going to have maturity of BRL1.6 billion this year.

And we have the operating generation of cash to offset that and giving the fact that we have BRL3 billion of investments for CapEx this year that we have BRL2.5 billion of ECA and the BNDES plus BRL300 million from Capim, all numbers show that we have a very large comfort margin and we do not need to use this standby credit lines.

So we are canceling it to avoid the costs on fees that we were paying because of this line. So the line will be in effect until April this year according to the agreement and then it will no longer be necessary for the Company.

Also, along the line of choosing the Company's priorities, incorporate programs we are reviewing all of the processes and programs. Some will be eliminated. Others are going to be simplified, but the idea is to reduce the total cost of the system of Suzano and therefore the SG&A of Suzano.

Now we are going to talk on the next page about the measures that we are taking from for our competitiveness. Basically, the most important thing is price discipline. Pulp prices along many years have been evolving very little compared it to other commodities.

We want a long time to evolve our geographic mix, reduce logistic costs, and improve the discounts that have been increasing over a long time. And with that, we can improve our net yields for pulp.

With that, we are going to be very strict in terms of offers to be made. We right now believe that that we won't seek the last ton of pulp to be sold but rather we are going to have lots of disciplined in our supply to be able to keep pulp levels at -- or pulp prices, sorry, at good levels.

And for paper, our proposal is to reduce SKUs involved in distribution with the capturing of sales as we had mentioned and continuously grow in volumes in Brazil and South America. In the First Quarter of this year we announced in increasing price of 9.2% and we intend to implement the increases and working with coated and uncoated areas and also having increases for the price of paper.

Obviously, in the concept of reducing company leverage, we have to optimize our working capital. This is going to be the focus of the Company. We are going to work very deeply to try to reduce the Company's working capital and therefore releasing capital and reducing the capital invested as a whole.

As for productivity, the Company has been working along the year of 2012 with a productivity project that is going to be extended. It's a priority for the Company and by going deep into this project, we will certainly be able to capture better results and reduce costs in all company areas.

The results of a very important issue which is a new way to look into logistics which is to have integrated logistics, forest industrial and outbound. With that, given the importance of logistics in the Company, we can reduce the total cost of the system and that will certainly be one of the focuses of the Company.

With regards to people, the idea first is to strengthen our culture of meritocracy, having people engaged and motivated in our company and we are going to work a lot with people in the organization. More operations are now wise.

We are going to seek capacity building in several areas, I think in logistics, maintenance, [so our culture] this is all important and we have opportunities to reduce costs there. And also work with the mechanization which will certainly bring a reduction of costs to us.

We are going obviously to resize the teams and focus on priorities. We will continue to work with meritocracy as a core value of the Company. At this point, when the Company has a very conservative attitude, we will be very disciplined in approving CapEx. This goes for all levels of project within the Company because now we want to use the Maranhao project as a very important project for the Company and focus on it.

We are going to develop other projects to streamline the bottlenecks in the line whilst creating value and looking for profitability. The key message that we want to leave you with for 2013 and this is on the last slide of the presentation is that we are going to prioritize initiatives that ensure results in the long term but also ensure competitive advantage.

We are looking at the short term to maximize the Company's EBITDA with a lot of discipline in terms of CapEx, in terms of cost and we are going to be very strict in terms of prices on one hand but on the other hand, we are going to look at the longer term, looking at the future to ensure the competitiveness of the Company especially in forestry.

This is one of our most relevant competitive advantages. As the Company built value in the last few years and in our long-standing position in the forestry industry and we want to make that even more important for the Company. This is a very important competitive advantage for us.

I would now like to end my presentation and make myself available to take any questions you might have. Thank you very much.

Questions And Answers

Operator

(Interpreted) Ladies and gentlemen. we will now begin the Q&A session. (Operator Instructions) Our first question comes from Aristotle Isnogada [ph] from Brazil Hordao [ph].

Q - Aristotle Isnogada

(Interpreted) Good morning, to all. Thanks for the call. I have two questions. The first one has to do with the leverage and if Walter could you give us some more color about it, I would appreciate. Also in your presentation you talked about the sale of land and other assets, can you give us the magnitude of these divestments?

And my second question has to do with the initiatives that you mentioned to improve competitiveness and to improve operations. What are the impacts of that we can expect?

Should we think about cost reduction, an increase in sales and when do you expect to see the impact of these initiatives? Thank you very much.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Thank you very much for your question. Good morning. You actually asked three questions, but I'm going to take them. The first one has to do with the indebtedness. The Company is not comfortable with our current level of debt and we are taking action to correct that.

This will only take place more deeply as of the start up of the Maranhao project. That peak will be one day before we start up the Maranhao project. We still have BRL2.3 billion to invest this year in the Maranhao project with zero EBITDA until the start up. After it starts operating, the Company's EBITDA should grow in a relevant -- in a major way and the debt will be reduced.

We are also taking other measures and we are working to increase EBITDA on the asset base that we have and also we are working to reduce debt by selling the non operating assets. This amount does not include the BRL320 million from Capim Branco and we are not considering sale of other assets.

And about the value and the amount of this asset sale, it's difficult to say, but it should be in the region of BRL250 million which are these non operating assets that we are going to put up for sale.

And lastly, you asked about the magnitude of the impact that we expect to have from these initiatives and the reduction of costs, expenses and a potential increase in prices.

That is a very important question to consider here. The Company is not going to give any guidance on these figures. We don't want to frustrate you and your expectations and internally also we want to be conservative. We are working on these figures but we are not going to give any guidance about the targets that we want to achieve in terms of results.

The only thing that I would like to highlight here for your analysis is that Suzano does not see any difference in structural competitiveness relative to other players in pulp and paper in the market. So in the medium to long term, we see no reason why we shouldn't expect similar results to the other players.

We acknowledge that we are below those results. We are humble about it, but with determination we are going to steadfastly look for better results and there is no reason why we shouldn't expect these results per ton relative to other players in the market.

Q - Aristotle Isnogada

(Interpreted) Thank very much.

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Operator

(Interpreted) Our next question comes from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Good morning, everyone. Thanks for the call. I have two questions. The first I would like to understand the numbers on CapEx for 2013, BRL3 billion, but I would like to understand it more specifically about the Maranhao project if there was an adjustment, half of 2.5%.

It seems to me above the initial budget you have presented in the past, even thinking of the review of 2.5%. So if you have a breakdown of what has increased with the project, how much comes from exchange question mark how much comes from equipment or if you have an increase in forest investments just to try to understand a little this budget of BRL3 billion.

We had a slightly lower number four 2013. My second question is about the pulp prices. If you could please talk a bit about the acceptance of the latest increase you've announced and how did the demand in Asia and Europe has behaved in the month of February and March especially due to the new increase.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Thank you. This is Walter. I'm going to answer the first part of your question relative to CapEx and then Alexandre Yambanis is going to answer about pulp.

CapEx, the BRL2.3 billion who we have forest investments, we have industrial investments and we have investments in railway and port. Perhaps in the comparison you are making your not considering the three lines of investments. At first, the objective of the Company were that investments in railway and ports were to be made up by third parties.

The Company later on decided it to invest some money there. It's doing so and therefore perhaps you didn't have that in your initial calculations. But the BRL2.3 billion comes from forest, industry and railway and ports.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Could you talk about the number of railway and ports?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) About BRL160 million.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Is that the total or is that just for 2013? Have you done anything in 2012?

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A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) This number is relative to 2013 and 2012, we invested approximately BRL20 million.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Okay. Thank you very much.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) I'm going to turn it over to Alexandre that is going to talk about pulp.

A - Alexandre Yambanis {BIO 16470785 <GO>}

(Interpreted) Hi Thiago. This is Alexandre. How are you? Well to answer your question, basically I would tell you the following. Pulp inventory levels are under control. They are in the hands of producers. They are at the ports, they are at our clients, that is in the whole of the market. So they are very much controlled. I had just heard news that world inventory levels in ports have dropped in the last month.

As for the demand of paper, we are going to a very active period both in Europe and China. China is resuming coated and uncoated paper finds which is very interesting so they are going I would say that China went from a period of stagnation with the change in administration, with serious problems in terms of production that made us believe that they were going to close down very pollutant pulp and paper industries that work with the biogas and everything.

So the prospect in China is after a few months as you may have noted of certain hesitation partially towards eucalyptus which is merely due to the fact that we increased the price with vocal at this and we implemented those prices in China as for hardwood producers to collect a little bit more time to go into the markets and that is supporting is the increasing prices.

So the purchase of eucalyptus in China was a bit lower but we really expect significant increase as of the First Quarter of this year. The same applies to Europe and the US where despite being more mature markets inventory position is very much in line and we are going into a very profitable phase I think in the management of paper going from March to May both in Europe and China.

So we are very optimistic. We are implementing our price increases, which was the most important factor. It's the final check that the market is reacting well. So what we see the First Quarter answering your question with lots of optimism.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Thank you very much, Walter. Thank you, Alexandre.

Operator

(Interpreted) Our next question comes from Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted) Good morning, everyone. I have a question to Carlos Anibal first. Carlos, if you could please explain who the decrease quarter on quarter of average prices. I understand that most of that is naturally explained by seasonality, but if you could elaborate on that and talk about price increases, how they are being implemented and if you view there is a room for improvement of margins in paper from now on. This is my first question. Thank you.

A - Carlos Anibal {BIO 19090865 <GO>}

(Interpreted) Hi Lucas. This is Carlos. I'm going to start with your second question as Walter mentioned, we announced in the months of February and March increases for cut size and paper cards. Prices are being implemented as our programming and certainly we are going to see in the next quarter and these prices reflected on average results.

Coated paper, we are also following the demand and we might have results further on in the Fourth Quarter compared to the Third Quarter we had a reduction of 1% in our global prices which can be basically attributed to our mix of products and channels.

We didn't have any negative variation, any reduction of price compared to what we did in the Third Quarter. So we really expect to in the Second Quarter to have average prices that are above the first and well above the Fourth Quarter of 2012.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted) Thank you, Carlos. My second question is about the Maranhao project. We are coming closer to start up and I would like to know if you have any idea of how much volume you are going to have for the project this year and if you could talk a bit about how long your ramp-up is going to be, if you have any initial expectations of how long it will take and how long it will take you to get to an ideal cash cost to the project.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well Ernesto Pousada is going to answer your question.

A - Ernesto Pousada {BIO 15951890 <GO>}

(Interpreted) Good morning, Lucas. In fact, we do not have a forecast for production. Now we are just finalizing the project this year and that will depend on when we are going to finish the project, what month. We should have some production, but nothing significant, nothing relevant. We have to build up inventories, transfer to terminals so we are not going to have a major impact in the generation of cash this year.

As for ramp-up, we expect to get to a cost of stability which I think is what you asked in about one year because the initial focus is to have a ramp-up in the volume of production. Then becomes stable, then start optimizing processes. So what the industry has been

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doing and what we expect to do is to have one year after start up stability of what we call our cash costs.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted) Okay. Thank you very much.

Operator

(Interpreted) Excuse me, our next question comes from Juan Tavaréz from Citigroup.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi, thanks. Just quickly on the pulp markets, I wanted to get your take on your comment on supply discipline. You mentioned that you will be disciplined on supply in order to keep pulp prices so can we read that as an indication that in the ramp-up of Maranhão we could expect a slower ramp-up phase in order for you to optimize your pricing levels or you are not expecting it directly actively managing utilization rates right now?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Juan, first of all, thank you very much for your question and I want to make it very clear. I come from an industry that is completely different from this one and I'm learning the pulp and paper industry, but what draws my attention to this industry is this almost obsessive pursuit of producing the last time with the objective of reducing the average production costs which is perfectly correct to within a market environment where do we have a suitable demand for your product.

Given the issue of supply that can happen with the incoming of El Dorado, with the start up of our production in Maranhão, with Montes del Plata in Uruguay, that can lead us to a process even with the growth of China and with a decreased sales in China it can lead us to some momentary turmoil of prices.

Suzano culture is and will be to be very strict in that discipline of implementing prices and it's necessary it is to limit supply. If this is not a decision that we have already made but it is a decision that is dynamic and that is going to be monitoring the market for the supply of pulp.

The pulp industry has not been able to have a return on the capital investments by its shareholders in recent years and even those companies that have operations at lower costs are not having a return on capital invested either so Suzano because it is an important player in this industry has to be very strict in the pricing of its product.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay. Thank you.

Operator

(Interpreted) Our next question comes from Vincenzo Paternostro from Credit Suisse.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

(Interpreted) Good morning, everyone. Thanks for the question. I have two questions. The first is about the prices of pulp in the short term. How much do you think it's going to happen first if there is room for an increase of prices in the short term and how much do you estimate to be the bottom price given all of this capacity that is about to come into the market in coming years?

My second question is more related to your long-term strategy. Suzano's strategy has always been to focus on organic growth in pulp and biotechnology, renewable energies. I would like to understand if the canceling of projects can be understood as a change of strategy for the long-term or it's just a readjustment due to the leverage situation of the Company.

A - Alexandre Yambanis {BIO 16470785 <GO>}

(Interpreted) Good morning. This is Alexandre speaking. I'm going to take your first question about the short-term price. I'm not going to give you precise guidance on price because we don't do that but I'm going to give you some handles of the market to give you a good reference, a ballpark figure on how we see the market.

If you take the Second Quarter of last year where there were 1.200 million tons of pulp that had to do with the stoppage for maintenance, it's a significant tonnage and this will take place again this year even more.

There are certain ramp ups that were done in relation to bottlenecks. So you can take that as a ballpark figure. So 1.200 million [ph] tons. If you also take into account the conversions that are being made, theoretical conversions for soluble cellulose, soluble pulp, we have a list and this goes to 3 million tons of conversions.

This 3 million tons are beginning as we speak. Jari, West Afrique [ph] in the United States, 450,000 tons of hardwoods, so 900,000 tons there. This is fact. Not that the 3 million are not fact yet but they have not happened yet. So if you sum these two, you have over 2 billion tons. In the previous question I talked about the levels of pollution in China. They are unbearable now and this is in Beijing. It's not an industrial remote town.

In Beijing, people are unable to breathe so we are confident that the Chinese government, those 9 billion tons of paper and pulp that the Chinese government decided to close in 2011, they are closing that but they have to think in terms of a macro and micro economic assets for the regions. These capacities, these closures will be accelerated.

And this in addition to all of the startups of paper, plans, and tissue, plans in Asia and in China which are in line with the schedules. So the picture here is a very comfortable in terms of demand. I cannot give you a final figure about the deficit because this startup is gradual for pulp projects. They are all gradual and also the paper plants are also gradual.

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The shutdowns for maintenance are not gradual. The conversions are not gradual. So we expect a positive impact on prices in the next few months. So in summary, I will take that there is an upside to it that there is a positive bias to it and we do believe that there is room for price increases and the medium to -- in the short to medium term.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) This is Walter speaking. I would like to answer the second part of your question relative to the long-term plan for Suzano. Suzano created the 2024 plan and the cornerstone of that plan was the strengthening of our positioning in forestry, our forestry knowledge and our competitiveness in that area. This will continue. It will continue to be the focus of the Company. We will continue to work to seek these forestry advantages because this creates value.

FuturaGene is a biotechnology area. They will continue and the renewable energy projects in the Piaui projects they are temporarily suspended. We have canceled them specifically now because of our indebtedness level and we want to lower our debt. We are going to revisit these new projects as we receive cash from the Maranhao project, as EBITDA rose and the Company deleverages.

So we are going to review this in the future. The cornerstone now is to focus on our forestry competencies and these remain unchanged in the future.

You asked about organic growth or not. Now we are not focusing on M&A activities. We are rather focusing on extracting values from our asset base and on completing the Maranhao project with the quality, the cost and the appropriate ramp up.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

(Interpreted) And just a follow-up on the previous question, what about priorities relative to pulp and paper? Has this changed? Are you prioritizing pulp in future expansions?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) We have to extract a lot of value from the paper business so in previous calls in which I was not president had to do with the potential divestment of the paper business, but this is not going to happen. We are not interested in divesting anything in the paper business, the results of value to be extracted from it and we are going to continue to work very strongly in that direction.

Operator

(Interpreted) Our next question comes from Mr. Alex Sciacio from Santander.

Q - Alex Sciacio {BIO 16118415 <GO>}

(Interpreted) Thank you very much for the call. My first question, Walter, has to do with the CapEx. I wanted to confirm some figures. At APIMEC at the end of last year in that meeting, the Company talked about dispersing CapEx between Q4 and 2013, more than

BRL9 billion. So it would be BRL2.2 billion in 2013, but your budget today you were talking about BRL3 billion.

You have made some comments about investments in logistics in Maranhao, other investments to streamline bottlenecks and to ensure efficiency gain, is my take correct or are you going to make investments in maintenance or something that would be reviewed?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) There has been no review. This is Walter speaking. What happened is that that part of the disbursements that were supposed to take place in Q4 last year did not take place in Q4 last year. BRL672 million last quarter of what was invested were in the Maranhao project and part was in CapEx for sustaining.

So we postponed some payments from Q4 last year to Q1 this year and this is why you see this difference. There was no change in the concept underlined investments or increasing the investments neither in sustaining CapEx neither in Maranhao. We had 2.5 points above because of the project and also we are going to invest in railways and ports.

Q - Alex Sciacio {BIO 16118415 <GO>}

(Interpreted) And the second question, Walter, has to do with the initiatives that the Company's adopting to reduce costs and gain operating efficiency. You were very clear in terms of guidance of amounts, but can you give us a little bit more color in terms of how these initiatives are and as regards to their implementation of the Company customer?

Are these initiatives begin being in the mapping stage? Are you implementing already some of these initiatives? I just wanted to have an idea of when you expect these initiatives to mature and to have an impact on the Company's results.

A - Unidentified Company Representative

(Interpreted) Thank you very much for your question. I just wanted to say the following. Part of these initiatives were already in place under our productivity project. We are deepening these measures basically that's what we are doing. Additional measures will begin to be implemented now but they allow for gradual gains. We will not see the results of right away. We will see improvements quarter on quarter.

I would also like to say that the cost of wood in 2013 and 2014 will be higher. We don't want to give you any misleading information. We want to make it clear that we expect would costs to be higher in this two years because of the increase in average distance and because we have a greater mix.

In our mix, we have a greater amount of third-party wood. This is going to remain for a long term. But the gains, the in terms of cost reductions and expense reductions, they will take place gradually quarter on quarter, month to month based on the measures that we have been implementing.

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Operator

(Interpreted) Our next question comes from Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted) Well good morning. Thanks for the opportunity. Walter I would like to approach this last point you mentioned about the cost of wood in 2013, 2014. Could you show us a more detailed guidance with regard to increasing prices and when you would have the ideal mix and what this mix would be? Would that be four 2016, 2017? I'm talking about the existing operations and not Maranhao yet.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well Marcelo, I think this question is very important. In the years of 2013 and 2014 will have to buy would've from third parties, about 40% to 45% of wood from third parties and that is not the Company's ideal structure.

We want to have a more relevant share of 70%/30% so we are going to have an impact basically in the operation of Mucuri this year. As of 2015 this is going to go down and 2017 we are going to go back as -- 2016 sorry, we are going back to the 70%/30%.

It's also important to mention Marcelo that the Company is taking all of the measures to adjust the situation. Given the issue that we commented here of supply, if we have to make an adjustment in supply we will and with that, we can accelerate the anticipation of higher utilization of our own woods for the coming years.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted) Now my other question is about wood for Maranhao. With regard to your mix, how many years you are going to work with the mix of the third-party and own woods, when you are going to stabilize levels? And as for the quality of wood in Maranhao, from what we have read some wood has the high tenor of lignin, so I would like to understand a bit more about the issue of woods in Maranhao.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) I'm going to ask Ernesto to answer your question, Marcelo.

A - Ernesto Pousada {BIO 15951890 <GO>}

(Interpreted) Marcelo, starting from the end of your question, those wood especially the woods of the first years has a higher tenor of lignin. But the industrial project already comprises that, the sizes of boilers and everything and lignin contact has a benefit in the excess of energy and the availability of energy for sale is particularly given from this lignin. We tested the wood. Our suppliers did so too. So we really do not foresee problems with that.

Along the years, with the new clones in the new seeds, we really expect the content of lignin to go down and with that we are going to increase in the use of our equipment to

have a better gains in the production of pulp, but we really do not foresee any problems with that.

As for the product mix, well basically in the first two years it's going to be a mix that is based on our own woods from the area that we bought from [Valley Fair good]. So we are going to use the whole of that wood in the first two years and then with the coming of Valley Floreste [ph] where Valley is implementing Eucalyptus we are going to increase with third parties woods. We are probably going to get to a level of 50-50 especially because of this wood comes from Valley Floreste.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted) I'm sorry and to normalize the wood makes, what would be the ratio in what year or as of what year?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Marcelo, could you please repeat your question?

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted) I'm talking about your mix for owned and third-party woods. What level is it going to be considered normalized? Is it 50-50, 70-30? And as of what year?

A - Unidentified Company Representative

(Interpreted) We are going to have 70-30, but that will take some years. In fact, we have an agreement with Valley for two cycles of planting. If so that would be 14 years for us to reach normalization, but we do want to reach 70-30.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted) Okay. Thank you very much.

Operator

(Interpreted) Our next question comes from Mr. Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(Interpreted) Good morning, to all. My first question has to do with the paper markets. The you come from another industry and industry that is a very region based and is more, has a very concentrated business. How do you see the pricing strategy of Suzano and other paper players in the domestic market?

In paperboard and in printing you have a dominant share and also relating to the strategy that you just announced of having more focus in accelerating the deleveraging of the Company, have you assessed the possibility of bringing in a partner for the Maranhao project? Do you think this make sense? This was a strategy that the Company thought about and analyze to last year.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Thank you very much for your question Marcos. I think that the first question has a correlation. I think that there is a correlation between the markets although the industries are different.

I see a potential to create significant value in the paper business where the level of concentration is greater than the level of the concentration of the industry where I come from.

And because of the fragmentation of sales and the possibility of meeting the needs of printing shops and clients, we envision a possibility of creating value by tapping on the opportunities that the value chain provide us with. When discussing with Carlos and Ebo [ph] and his team, we listed a series of opportunities that we have in the paper business and these opportunities will be tapped right away.

I envision many opportunities to create a lot of value in this area. This is one of the reasons why the Company think said that in the paper business it can create greater EBITDA than we have today in the paper business. There is a great opportunity to tap.

And as regards to your second question, the question has to do with changes in the shareholding structure and the capital structure in some areas of the Company. We are not working with this in mind now. We are not focusing on bringing in a partner to deleverage the Company.

If you analyze the margin per ton that our competitors have in paper and in pulp alike the margin per ton of Suzano today you will see that there is the potential to increase our EBITDA based on the asset base that we have today. When we add Maranhao, our idea is to grow EBITDA even more and deleverage the Company. So as of next year, our CapEx will drop substantially as the Maranhao project comes closer to completion. We might have something to pay in the beginning of the year but the significant total amount will have been paid.

So Capim and other non operating assets that will be showed, an increase in EBITDA with our current asset base plus the EBITDA from Maranhao they will deleverage the Company and looking for a partner who will become unnecessary. And the Company will also gain flexibility in the future which will be greater as in all flexibility, often times it's lost when partners are brought into the Company.

Operator

(Interpreted) The next question comes from Ms. Celina Merrill from Credit Suisse.

Q - Celina Merrill {BIO 6748233 <GO>}

Hi. Good morning and thank you for taking the questions. I had some questions on the cash flow and the debt side. One is can you give me your tightest covenants right now that you have on your debt outstanding?

And secondly, can you talk a little bit more about what your plans are for the BRL1.6 billion of debt that is coming due this year? I understand your CapEx plans are mostly funded with your expert credit lines in BNDES but what is your plan for the other payments that you have coming due in 2013 specifically this debt piece? Thank you.

A - Alberto Monteiro de Queiroz Netto {BIO 5193422 <GO>}

(Interpreted) Good morning, Celina. This is Alberto speaking from the point of view of the covenants, the financial covenants that is the most important who was of the third issue of debentures and there was no convergence last year and we decided not to pay the AVC requested in the meeting and we are going to pay this debenture in April, 2013 for BRL587 million since this covenants will no longer be in place we have that the tranche of the third issue in dollars there was a waiver until April 2014 and the ECAs.

ECAs are operations that have to do with equipment basically linked with the Maranhao project and the covenants are very high which is just natural for this type of transaction. We asked them level of leverage that we will not pursue but it's in the region of 7 times and that's because of the dynamics of the ECA is because they work with long-term projects. So the covenants are no big issue for us now.

As regards to short-term debt as Walter said, the Company had liability last year and we lengthened the operations to five, eight years and this included almost all the operations. So the Brazilian market was very liquid and the rates were very competitive in Brazil relative to the foreign markets. BRL1.6 billion is mostly money from the BNDES having to do with line 1 in Mucuri and this is why they were not renegotiated as that.

Today, with our cash position of BRL4.3 billion, the Company has liquidity horizon at 16 months. That is we will only have to negotiate with banks after five years. So the Company is in a comfortable situation. This does not mean that in the short term the Company will not be looking for to reduce the cost of current operations and to lengthen the terms, but we have no problems regarding the debt. We are in a healthy situation.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay. Thank you.

Operator

(Interpreted) Our next question comes from Mrs. Sarah Leshner from HSBC.

Q - Sarah Leshner {BIO 15039127 <GO>}

Hello. I just had a quick question about your ratings. I imagine that you are in pretty frequent communication with the rating agencies and I know that at least one of them has you on negative watch it I'm just wondering what patients you've gotten from them regarding their expectations or their patients let's say as you work to reduce or leverage and implications that that may have on your ratings. Thanks.

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A - Alberto Monteiro de Queiroz Netto {BIO 5193422 <GO>}

(Interpreted) This is Alberto speaking. Yes. We work very closely with rating companies. We update them very often and obviously 2013 as Walter said is our peak leverage. The Company has been working to invest and to mitigate this leverage level.

We have a binding proposal for Capim so we would be below five and we are going to look at land and other assets but with the rating company, what we have said is that they of course have their expectations relative to leverage between [5.5 to 6.5] and the Company is going to pursue lower leverage levels with the same profiles.

With this profile, and to within know what the rating companies expect is that as of the Company start deleveraging after Q4 we are going to look for improved ratings not only the ratings, but financial agents, major Brazilian banks, major foreign banks are confident in the Company and the Company also has the confidence of the variable income agents. There was a growth by 60% after the offer.

The bond also reflects fixed income agents. Our bonds were traded at 95% of face value and now it's 105% of the face value so this reflects improvement of the risk perception with our sound position and after we deliver the project that will allow us to deleverage in addition to the improvements in the economic situation of the Company we will be able to get better ratings.

Q - Sarah Leshner {BIO 15039127 <GO>}

Thank you.

Operator

(Interpreted) Our next question comes from Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) I just wanted to confirm a number that Walter said about the sale of non-core assets for BRL150 million. I would like to understand if you have a figure for the sale of land or if this figure has to do only with property?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well Thiago, this is Walter. This number includes also lands and forests that we have in access in the state of Sao Paulo and also real property that is not in operation. So it's just a whole set of assets that will get to this amount. I don't want to give you any guidances about this amount or say that we are going to complete the sale of all these assets, but this is what we are trying to do and we estimate the amount at this level.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Walter, selling land to funds that you are part of the structured then paying a yield for these funds for you to work with the supply of wood, is it something that you're

considering and then perhaps you could go up the amount of BRL150 million? Or you're not considering that?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well thanks for your question. This is an important question. We will only consider that if the cost of capital required by the funds is suitable. We do not need funds right now. That is we do not have to improve our balance sheet in terms of reducing indebtedness and having higher costs of capital in the future.

So if the cost of capital is suitable, then of course the alternative will be considered. Otherwise, we are not interested in it.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Okay. Thank you very much.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) You're welcome.

Operator

(Interpreted) Well we are now closing the Q&A session. I would like to turn the call over to Mr. Schalka for his final considerations.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well I would like to thank you very much for joining us. Remember that our investors relations team is available for you if you have any more questions or you need further clarification, we are really open and transparent in our -- dealing with the markets.

Again, I would like to reinforce the motivation of the team, the executive boards of Suzano Pulp and Paper to make 2013 an even better year for results EBITDA, to close the project of Maranhao at the right time and cost with the right ramp up, and year-on-year to continue turning Suzano into a better company and really a landmark in the industries where it operates. This is the decision and motivation of our team. Thank you very much for joining us.

Operator

(Interpreted) Suzano Pulp and Paper conference call is now closed. We thank you very much for joining us and have an excellent afternoon.

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