

# Q2 2011 Earnings Call

## Company Participants

- Alexandre Yambanis, Executive Officer
- Antonio Maciel Neto, CEO, IR Director
- Bernardo Szpigel, CFO
- Carlos Anibal Almeida, Executive Officer
- Unidentified Company Representative, Unknown

## Other Participants

- Alexandre Miguel, Analyst
- Carlos de Alba, Analyst
- Deni Parsine, Analyst
- Josh Milberg, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper Second Quarter 2011 Earnings Conference Call. All participants are in a listen-only mode during the conference's introduction that will be made by Mr. Antonio Maciel Neto, CEO and IR Director.

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

### Antonio Maciel Neto {BIO 16703850 <GO>}

Thank you very much. First, I would like to thank everybody for participating in this call. We are going to talk about Second Quarter results for Suzano Pulp and Paper. As usual, we are here in the Sao Paulo's office, along with all the senior management for the Company. And we said to you how we will start with the brief presentation. And after that, we are going to have plenty of time for a Q&A session.

Moving straight to page number four, we will start talking about the pulp business unit. The highlight here is about the volume. We maintain our sales volume despite the maintenance downtime. So with that, we have reduced our inventories. We had a strong volume during the Second Quarter 2011.

First to highlight here is about the market pulp. Worldwide, we saw, during the Second Quarter, a decrease compared to the First Quarter of 1.9%. Compared with last year, we had in same quarter, we had 4.4% growth. Six months, now it's after Second Quarter is always good to take a look about the semester numbers. Market pulp as -- the total market pulp, we experienced an increase worldwide in 5.3%

Here we have -- looking at what has happened during the First Quarter, we see very strong growth of total market pulp in China, 29.6% higher volume then compared with same period of last year. Here more than explained for some replacement of dissolving pulp by short -- long fiber.

This is a soft wood to produce dissolving pulp. I think everybody knows about this. In the Second Quarter, we had a more normalized volumes. Probably, in the second semester, we are going to see the same numbers as compared with last year without this interruption for higher volumes of softer woods.

In the eucalyptus business, you can see that in same period, the semester's first six months, we had 2.6% higher volume. China, a little bit below last year, 1.2%. Very interesting numbers in Europe where we can see here 10.4% growth six months versus six months of last year.

Europe, where I said, we saw some recovery in the inventories. In China, there was a reduction, mainly in the Second Quarter, of 23.7% compared with the First Quarter. Suzano had a much smaller reduction in our shipments to China. So our market share in China increased a little bit.

Global inventories at 34 days. This is the last number we have. It's a very comfortable inventory. Suzano, if our downtimes and also the interruption production that we experienced during the quarter, our inventories are below these numbers. We are, now, with very low levels of inventory.

Pulp list price, CIF Europe at \$874 per ton, that's a very good price at the end of the quarter. The spread between softwood and hardwood price at \$150 per ton. And for sure we are going -- Alexander will have opportunity to talk about this as we move to the Q&A session.

Suzano Pulp business. You can see that, in the numbers, that we had is strong and robust top line wood price with volumes, compare the first six months of 2011, compared with last year, we had 7.4% in growth.

Suzano, as we have very good contracts in China, and we have the strong and good relationship with our customers, we were able to maintain our volumes and to keep -- we had some reduction as well but not in the same level that we had in China. So we were able to sell all the available pulp that we had during the Second Quarter.

Destination of our sales in the Second Quarter of 2011, 34% to Europe, 51% to Asia, 21% to Brazil, so this is -- we have seen some variation but not big variation on this destination. This is very well aligned with what we had explained (inaudible).

On page five, we have some pieces of information related to the paper business unit. Very strong sales volume, compared with the First Quarter, about 35% growth. More than explained by seasonal factors, and also, the introduction of full sales during the quarter of Conpacel/KSR acquisition.

Brazilian paper market, if we go straight to the last call, six months of 2011 compared with the same period of 2010, we see that -- in the grades where we play, the overall market experienced a reduction of 0.4%, very well aligned with last year. So this is not connected with the product growth, the number that normally we see. We had a little bit of a reduction compared with our expectations.

But this is more that explained by the number that we see below. Paperboard we saw 11.2% reduction of the volumes this year compared with last year. Last year, we saw a big increase in the inventories of paperboard at the beginning of the year because they were -- they came from very low levels at the end of 2009, beginning of 2010. Our customers experienced very good sales. And they bought a lot to recover the inventory levels.

This year, we have seen not a strong business on the paperboard. Additionally, we have a larger base that we had last year. Then at the end, we see this 11.2% reduction in the paperboard. Uncoated print and write, on the other hand, we saw 4.6% growth. And coated print and write very well aligned with what we had last year.

The columns where -- when you see Second Quarter versus First Quarter, completely different numbers then we saw just a paperboard growth of 5.21%, and coated 12.9% reduction. Same compared with last year, so we see here a very volatile environment with different grades behaving in completely different perspectives.

If we continue the analysis and look at the imports numbers, we see that, in this quarter, in paperboard, very well aligned with last quarter, 6.8%, beginning of the year, 6.9% of paperboard market share to imported products. Coated, we saw here very big reductions from 70.8% in the First Quarter to 60.9% now in the Second Quarter. That's 10 percentage points reduction. And uncoated this 10.6% to 9.2%.

So we saw a reduction in imports. This is the mainly, we think in our analysis here that this reduction in the quarter is due to a lot of actions developed by governments, federal and in state level of Sao Paulo state. Where we saw a lot of actions against tax evasions.

So this here, we are -- what we have seen is only the authorities who are working and pushing forward their instruments actions to recover the tax that has not been paid. Here we don't see -- we have seen some notes about a possible change in the behavior of the government related to imports. A little bit more protectionism.

This is not the case here. What we have seen, finally, is that the authorities are working hard against tax evasion. What is the root cause of this unfair competition that we have seen related to coated paper. We are not pushing anything related to protectionism. We're just asking the government to ask our competitors to pay the same tax we pay according to the laws that we have in Brazil.

Worldwide we saw, in the Second Quarter, a reduction in print and write demand, anywhere between 2% to 3%. In the Second Quarter we had an increase in sales of 34.9%, compared with last year 11.9%. Semester versus semester 4.4%.

Destination of our paper, that's important to highlight here as well. We had 59% of our sales in Brazil versus 53% last year in the same period. It was a good increase in the domestic market as part of strategy that Carlos and the team are implementing this year. I think we can say that we had a robust top line, as well as, compared with (inaudible).

Page six, we have an opportunity to talk a little bit more about the consolidated results. The main comments here are related to the exchange rate. We had, in the Second Quarter of 2011, an average exchange rate of BRL1.6. But at the end of the month -- the quarter, this number were below BRL1.6 BRL1.57, BRL1.56. We suffered in our revenues, mainly the export revenues. We suffered from the exchange rate variation.

However, the big impact here that we have seen happened on the cost side. Both in cash cost and SG&A, we had numbers above what we have had during the last quarters and above our targets as well.

I have the opportunity now to comment on this (inaudible). Revenues, for the Second Quarter, BRL1.2 billion, net revenue volumes, I have mentioned before 766,000 tons. Cash cost, you can see on the top of the page, right side, our cash costs, ex-maintenance downtime went from BRL469 to BRL598 big movement.

In wood we had two effects that explain what happened here. One was a increase from 29% to 47%, with wood coming from our farmers our partners through third parties. So a big increase in third party supply of wood. Also, an increase in operational costs.

As we look forward, we are going to see a reduction on this number in the percentage of the third parties in the second semester. We are considering our plans about an average of 30% of third parties in the second semester. A little bit more through the quarter, 33%, 34% and lower numbers in the Fourth Quarter, about 26%, 27%. Average 30% compared with 47% in the First Quarter.

Chemicals and fixed costs. This more than explains the downtimes that we had in Mucuri. How long with Mucuri's production, that we experienced, unfortunately, during the Second Quarter, as well. Stability in the production in our key because of the big impact on the chemicals and the fixed costs.

So looking forward, we still have stability in Mucuri but not in the same levels we hoped through the quarter. We are taking all actions needed to recover the situation. So we don't see that these numbers will deteriorate farther than what we have here.

If we look forward, for the second semester, probably our cash costs will be in between this BRL469 from the First Quarter and the Second Quarter numbers that are very close. It will be below what we had in the Second Quarter, probably a little bit higher than the First Quarter.

If we look for more normalized numbers, for annual, and if we maintain the operational costs plus a 30% percent of third parties is supplying wood for us. We are going to have a cash cost below BRL500. This number is more likely BRL470, and probably below that.

For normalized perspective, we can see below BRL500 is a good perspective. For sure, we are going to work to reduce this further. This is where we are as we speak. The EBITDA numbers are BRL276 million.

Consequentially, we had very low levels of EBITDA, minus 22.5%. This is the lowest we have seen during the last years. Here, we have this combination of an exchange rate impact plus the instability in the production plus the planned downtime that we had.

The net activity is coming from course pressure that we discussed before. Very soon, we are going to talk a little bit about the SG&A. I'll ask Bernardo to give you some perspectives on the SG&A as well. We had very numbers in the Second Quarter. We have a perspective to have these reduced for better numbers as we move forward.

Net income in the quarter was BRL104 million. For the first six months, we had exactly the same number, BRL247 million as net income. Page seven, the key piece of information is related to the issuance of this mandatory convertible debenture . We have completed this process during the Second Quarter. We have, in our cash, BRL1.2 billion off of this operation.

We have been talking about this since last quarter of last year. We have already announced that we have completed this operation. With that, and some other operations with the banks for a working capital perspective, you can see, in the bottom of the page on the left side, the profile of the amortizations that we'll go through.

We have a very good debt profile. It's good to remind everybody that we have, now in cash, around BRL3 billion. We have this profile of debt to be based on this. It's a very robust financial situation. As we look at these numbers, we are in a very good situation.

If we see farther deterioration in the financial markets or some other difficulties in the banks or other difficulties in getting money in the market, we have, here, an excess of two years that we can move with the money and the cash that we have in-house.

Net debt EBITDA, mainly due to the issuance of these mandatory convertible debenture we saw a reduction of net debt EBITDA to 3 times, compared with 3.3 debt we had in the First Quarter of 2011.

Page eight, here is some more information about our CapEx. As we entering big numbers in the CapEx for the coming years, in our calls here, we are going to use more and more to pass on information for the analysts about how we are moving forward.

You'll see that, in the Second Quarter, our expenditures to investments was in excess of BRL418 million. During the first six months, we have already explained about the BRL2.2 billion. That's important always to underline that BRL1.5 billion came from the Conpacel case acquisition.

So this is moving as planned. Remember that, in the First Quarter, we are now postponing our projects. In fact, my own the project, the original start-up date was in November of 2013. We anticipated this start up for February. Then, we moved it back to November. Also, we postponed, about one-year, the Piaui project.

We were noticing some deterioration in the marks. We didn't know this big change in the financial market situation would happen. However, I think we had the right move postponing the projects and working harder to complete the mandatory debenture operations. All their action in working capital field.

Now, we are in the situation where it's a very volatile market but we have a very good capital structure for the coming 12 to 18 months. We have our work capital in place and a good cash and very strong position. A very robust financial position, as Suzano has always tried to perform.

On page nine, is my last page here. We have some highlights. In the pulp and paper volumes, we had very strong volumes very good top line. Our teams are working very close to serving the customers better than we can.

Improving the revenue management. Improving our sales in the domestic markets. We saw good news coming from the imports that we have seen, first time, it's a very important and significant reduction in imports. We believe it's coming from the authorities actions against the tax evasion.

Also, as I just commented, from the financial perspective, all indicators are okay. Net EBITDA at BRL3 billion in cash. We good views as the exchange rate improves the levels of debt, as well. From the project's perspective, we are moving according to the timing and the budgets that we have.

The bad news, for the quarter, is mainly related with costs. The exchange rate has been bad news for the operations as well. As I mentioned, this Second Quarter cash cost is very close to BRL600, it's not going to continue as our perspectives to have this below BRL500 with the changes and explanations that I've mentioned before. Before moving to the Q&A section, I'll ask Bernardo Szpigel, our CFO, to comment on the SG&A and what we will see coming next month.

## **Bernardo Szpigel** {BIO 2080745 <GO>}

Good morning. I'll talk about the level of our SG&A. Starting with general and administrative expenses. We are currently running at the level, on an annualized base, of BRL340 million per year,

which is equivalent to BRL85 million per quarter. This is up from where we were about a year ago by BRL60 million per year.

There are two main reasons for this increase in the level of these expenditures. First, is the result of acquisition of Conpacel. When we acquired Conpacel, the administrative costs of Conpacel, before the acquisition, were treated as fixed costs in our operations. They are now recognized as general and administrative expenses. So they have moved from fixed costs to SG&A.

Also, with the acquisition of Conpacel now, we have 100% of those costs. Before, we only had 50%. This represents BRL30 million per year. We have these 2 movements moving. We now have 50%, and they have moved from fixed costs to G&A. That explains about BRL30 million of the BRL340 million.

Then, there's another component of BRL30 million, on an annualized basis, which is the result of our growth projects. Suzano Renewable Energy, FuturaGene and also the projects in Maranhao and Piaui.

Part of the expenditures, from an accounting point of view, they are not treated as CapEx. They go as additional G&A. For example, all of the training of people that will be operating the plant, are treated, in an accounting basis, as general and administrative.

So this represents another BRL30 million per year. Therefore, we are moving from a level of BRL280 million to BRL340 million. The BRL280 million, in fact, are up from where we were about a year ago. We were running, at the time, at BRL250 million per year. We had also an increase in costs of something like 10% to 12% on a comparable basis plus these two other effects of Conpacel and the new projects.

The Conpacel related component is a new level that we will maintain, as a result, of the larger levels and, also, the fact that we have moved from costs to G&A. The additional costs related to new projects, these are transitory. They will remain for some time as we build these new projects. Then, they will be reduced and will disappear.

These levels are high, BRL340 million. We are already working on the reduction of these levels. We are very confident that we can obtain, at least, some 10% reduction on the total BRL340 million. Bringing these levels close to BRL300 million, after the implementation of these measures.

This is the explanation about G&A. On sales expenses, we are running, currently, at BRL240 million per year. Which is very much in line with what we had before. By the fact that we had new volumes from Conpacel and KSR. It's very much in line with what we have before that. This is the points that I would like to make about SG&A.

### **Antonio Maciel Neto** {BIO 16703850 <GO>}

So having said that, we see the situation where we have costs impacting, dramatically, the results. We have some measures that we are taking. Actions, more and more, because Suzano has always tried to put a low cost producer as our key driver as the way we develop our business here.

We had the combinations of cost mainly here. A big impact for the operation province. In fact, along with the planned downtime that we had before. So we are going to work on this and to continue to move. We hope we see this top line actions moving and working as well. So with that, I fall back to the coordination of the call. We are here ready to answer the questions.

## **Questions And Answers**

## Operator

(Operator Instructions) The first question comes from Carlos de Alba of Morgan Stanley, please go ahead.

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

Yes. Good morning everyone and thank you for taking my call. I just wanted to see if you can comment on how you see the financing of the new projects in Maranhao as well as in Suzano. Given that your net debt, right now, despite the reduction, is still at three times your EBITDA. Fall prices have been coming down. They may continue to be pressuring in the coming months.

So your EBITDA may not increase significantly? Or may decline? I wonder if you can talk about the liquidity and the financing of the projects coming in the next few quarters? Then, if we can, just provide us an update on your latest use on the pulp market? On the one hand, your inventories are relatively comfortable, but, the Chinese are coming in and out of the market. Prices have been coming down. If you can give us any update, that would be appreciated, thank you.

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

Well I think -- this is Maciel, we have a two or three fold question. One is about the financing of the project. The financier of the project is something that is resolved as we announced the last quarter. So we are very comfortable with the finance structure that we put in place to finance Maranhao project.

We had the debenture the convertible debenture that you mentioned before. We have all the contracts signed with BNDES. And we have very good development, as well, with (inaudible). Those entities that will finance the largest part of the imported equipment that we are going to have.

So to finance the project in Maranhao, we just started moving after a very strong, good structure, with a very competitive cost and with very good projects. This is one-fold. The second aspect is about net debt EBITDA. The second question, so as you know, we have our target not to move beyond 3.5. We are three.

What we have mentioned, before, is that we have a lot of capital structure actions to improve the situation and to avoid going beyond 3.5. Those are related with, let's say, first capitalization of the Suzano renewable energy.

I said that we were very close next time. We were but we decided not to move with the proposal that we had. We are going to continue working on this capitalization. We have alternatives in front of us. We are going to decide how we are going to move on this.

So during the second semester, we are going to continue to work in this we would give good help on this (inaudible). We have some assets that we are selling. We have a proposal for all the assets, but not in the prices or positions that we would like to sell. Probably, we are going to see farther deterioration in the environment. If this crisis continues, that is a good probability that is going to happen.

We see some more difficulty on the sales of the assets. We are moving. We have banks and we have consultants engaged on these sales. Also, we are going to continue to work. We have all the structures, sales, working capital, actions, a lot of other actions to continue to move.

If we do not achieve our targets on sales of assets, and to maintain these aspects, most likely -- this is not our decision this will be board of director's decision -- we can consider postponing, further, the profit.

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We are in the Maranhao project, this time, as much as we see advances in the projects, it will be more cost ridden. We are not saying that we are going to stop Maranhao work. We are going to continue. Now, we have our plan, and we always mention here in our (inaudible), it's very important to have the plan. But more important than the plan, is to have the flexibility in the speed on the adaptation for the external environment.

In short, we have the money in conditions and the contracts to finance our project and to move forward according to timing and according to the budget. However, if we see a big threat or problems on the net debt EBITDA, and we do not deliver what we have planned, and considering the changes in the environment, because we are depending, a lot, on the sales of assets.

We can consider further postponing this project of BRL3 billion plus. It's a project for 50, 60, 70 years. If we need another some three months, four months, six months, one year, it's not going to be a change. However, if we decide to move something we are going to have to incur some cost debt. We will try to avoid as much as we can.

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

All right thank you.

**Operator**

And next --

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

Well Alexandre is going to talk a little about the pulp perspective. For sure, other analysts would like to hear the same.

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Yes, hello Carlos how are you? This is Alex. Just to put things into a wider perspective, the pulp market, as we had foreseen for some months now, has presented some weakening behavior in the end of the Second Quarter and in the Third Quarter. That had been foreseen for several reasons. The main one's are, number one, the 4 million tons restarts that have happened in the Northern Hemisphere.

Further to the 2008, 2009 crisis, so, this capacity has restarted and, of course, has been trying to find room in the marketplace. The second issue, is that, the Chilean producers are not producing full blast, as compared to last year, when they had the unfortunate event, namely, the earthquake hitting Chili.

Third, some Asian producers, notably Richaw [ph] from April to March end, has reached its learning curve and is producing at full capacity. It has been, of course, selling its pulp into China. So all that means that the industry is producing full blast.

There is, as we had forecast, there would have been a supply mini-shock in the market that would result in some price flexibilizations. Which has happened with a price announcement in the month of July. The price decrease announcements in the month of July.

Quite honestly, I don't see that as a structural problem in the market. I don't consider that to be the prelude of debacle as we have in the past three years. Solely, a temporary and transitory adjustment, due to supply and demand dynamics, such as the one's I mentioned. Going forward, paper capacities that had been announced are starting up on track. We haven't heard, to the best of our knowledge, nobody has postponed paper capacity start-ups.



The investments are proceeding as scheduled. Therefore, this gives us reasons to believe that the Fourth Quarter will be better than the Third Quarter, with prices improving gradually into 2012. We should have a very good year with no new capacities coming.

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

All right. Thank you Alex. So going forward, do you see a tight market in 2012 because of more paper capacities coming on line? You don't have any new supply of pulp hitting the market, perhaps late in the Fourth Quarter.

What happens, as we go forward in 2013 and 2014, when at least, on paper, some new pulp business will come into the market. So far, everyone has shown a willingness to produce as much as they can. Without, perhaps, looking at the impact of those actions in the pulp prices.

Do you think that this is showing a lack of supply discipline in the industry? Would you be concerned about that?

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

Carlos, not necessarily. This is simply due to the fact that, yes, there's going to be quite a significant supply increase, due to all the projects that have been confirmed. Some of them, like ours, being built as we speak.

This being said, unless some unexpected event occurs, in the macroeconomic scene, that will yield cancellations of paper projects. I believe, if that happens, we will also see cancellations of pulp projects. Nevertheless, if there are cancellations of paper projects, then we could face an imbalance in terms of supply and demand.

If that doesn't happen, I am very confident, that with the new paper capacity coming on stream, notably in Asia, you have some 8.5 million tons, between printing and writing and tissue capacity, announced for Asia alone.

If that comes on stream, as forecast, as we have no reasons to believe, as we speak, that it won't, we think that the new capacity will be gradually absorbed. With some consequences in prices. We don't see anything dramatic that would impair our investments.

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

All right, Alex, thank you very much.

**A - Alexandre Yambanis** {BIO 16470785 <GO>}

You're welcome.

**Operator**

The next question comes from Josh Milberg of Deutsche Bank. Please, go ahead.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Good afternoon, everyone. My first question is on this possibility, you mentioned, of postponement on Maranhao. You mentioned that this would have a cost. I was just hoping if you could comment on the magnitude of the cost and what penalties are considered in your contracts with the main equipment suppliers for postponements or even an outright cancellation?

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

We don't have this number in our hands now. We haven't considered this so far. We are moving forward. This is very new. For now, we are not considering that. We are moving normally. As we progress, we are going to see some costs.

We have activities onsite we have an excess of 1,000 people working. This is going to stay there. The next step is to put the infrastructure to have the streets, apartments that we are working. That's still something that we can develop and maintain to keep.

The key point is that we have already started some equipment being built. Some is still being bought by our suppliers. So we are still in the process that, if we needed, we are going to see. We just like to underline that. We would like not to do that. We'd like to move forward. We see good perspectives on this project. The timing is okay.

As we move, and we see the actions that we had planned and all the assets and the capitalization of a renewable energy company, if we see any problems there we are going to take the actions and then we are going to announce and to mention it. Unfortunately, I don't have these numbers to disclose to you.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Okay, but, is there a sort of point of no return or is there -- you suggested a possibility, really, of some kind of postponement. Are you thinking more of just several months? Is there still the possibility that you could end up postponing the project for another year, let's say?

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

No. There is no return point to be, let's say, middle of 2012, when we will have 6,000 to 7,000 people in the site in the construction. Always, we can release and stop even though we have 6,000 people working. But then, the cost will be extremely higher than where we're at now.

So if needed, it will be the timing for us too. We had this discussion before about some asset sales and some other actions related to working capital and other actions that we would develop to improve our leverage perspective. Again, we don't have any problem to finance the project and to move forward. We have a leverage problem that we would like to avoid at this point.

So in the coming months we are going to see what's going to happen and then we'll decide. So some people asked me before, during the conference, are you guys going to raise money or have a capital increase?

No. We don't have this in our plans as we speak. If needed, we are going to postpone the projects. We are not going to go to the market to have a capital increase. The costs would be much higher than just to postpone it, wait some months, and then get back on track with our plans according to the 2024 plan.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Okay, some time ago you had indicated the possibility of selling a stake in Maranhao would be lowdown on your list of alternatives. Is that still the case?

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

This is in the least. We have here plenty of actions to improve our capital structure and leverage. We have all the assets that we can see. We see these projects as a very profitable and very aligned with our long-term strategies. So this is at the end of the list.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Okay great. Then, just if I may, just very quickly, on your third party wood. You mentioned that you expected to go 30% in the second half. Is that 30% level also what we should expect for 2012 and beyond?

Can you also just talk, very briefly, on how third party wood is priced? How that price has evolved over the last year? To what degree that third party wood prices are fixed in the contracts that you have with the suppliers? Are they set in the open market?

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

I'll ask Bernardo to answer the question about the evolution of how we developed that. But just to mention, in the second part of 2011, we are going to see this level of 30% is our target. However, in 2012, we do not see the numbers right now. Next call, we are going to see a higher level than 30%.

So we are going to have more data during the second semester. We are going through the inventories. We are going to see all this production interruptions and what do we have for wood. But for sure, this is going to be higher than we had to speak in the Second Quarter of almost 50%, we have reduction of 30% but next year, we are going to have a higher level that we are going to talk about next quarter. Bernardo, could you explain a little bit on the way we price the third party woods?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Yes. Woods from third parties are priced, we have contracts for each supplier. They plant the orders and they are harvested on the seventh year. At the time of harvesting, there is a price that is set, mostly annually. This price takes into account -- there are two references, one is market levels at the time and also a reference to price indexes in terms of different price indexes to be used as a reference.

Currently, these prices are running close to BRL80 per cubic meter. The evolution, if you look at this over years, has been very much in line with the inflation.

**Q - Josh Milberg** {BIO 2004065 <GO>}

Okay, that's very helpful thank you.

**Operator**

The next question comes from Thiago Lofiego of Bank of America. Please, go ahead.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Thank you for the call. Just a follow-up question from the Portuguese call. Could you give us your outlook for domestic paper consumption in Brazil for the second half? If you think the relatively lower imports flow into Brazil is enough to prevent further paper price pressures in the domestic market? That would be the first question.

**A - Carlos Anibal Almeida** {BIO 19090865 <GO>}

Hi Thiago, Carlos speaking. Regarding our price, the current macroeconomic scenario that might affect supply and demand, there are certain -- that have regarding the global economy. No. The currency developments make it harder to come up with any kind of projection or forecast for the second half. Okay, what I can say is, if you have a stronger real, certainly, you're going to have more pressure on the price and vice versa.

In terms of tonnage and volume, we can say the following, 2010, second half compared to the first half, the growth was 17%, 2009 it was 30%. What is going to happen in the Second Quarter of this

year? That depends on the market economic development. So it's harder, for the time being, to make any projections or any forecasts of the demand development.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Okay thanks. If you look at your July and August sales, do you have any indications of how the quarter is going? In terms of your order book for the very short term how it's looking? Is it going, accordingly, to your expectations or not?

**A - Carlos Anibal Almeida** {BIO 19090865 <GO>}

July was in line with our expectation. Some grades perform better. Others were not so good as we were expecting. On average, it was okay. The good news is, in terms of imports, we had the same percentage that we had in the Second Quarter which are lower than the ones that it had in the First Quarter.

So I believe that we're going to have -- we won't see any growth in the imports in this Third Quarter, we might see some reduction. That might mean --

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Okay.

**A - Carlos Anibal Almeida** {BIO 19090865 <GO>}

Less pressure on our prices. Depending, again, on what's going to happen with the currency.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Okay great. Thank you, Carlos. My second question is to Maciel. Some of your Chilean competitors are commenting on industrial CapEx for their extension plans at \$1,200 to \$1,400 per ton. Do you think this is a reasonable number or range? Or, do you think they are maybe being a little bit optimistic about the assumptions? What do you think about these numbers? Are they feasible?

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

I think these numbers are feasible. It depends, a lot, on the scope of the project. We have seen, in our case, it depends, a lot, on how much you are going to generate off of energy. In our case, we have plenty to have an excess of 100 megawatts of energy available to sell to the grids.

It depends on where they are and it depends, from the scope, what they have inside the sight [ph] and out of the fences. In some cases, they have some chemical plants or other stuff that's not captured there.

Probably, Ernesto can comment, a little bit, on this. We have -- Bernardo is coming here, we have IE [ph] that's our favorite theme here when we talk to government, we have here, in Brazil, about 17% of tax that we pay up front.

During the year, we recover about 6% to 7%. We have about 10% or 11% of tax that normally, outside of Brazil, there are no tax on investments. So Bernardo, that a very good points. So we have some difference. Then, it depends on the scope and the size of the plant.

**A - Unidentified Company Representative**

I think green field or brown field --

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

Green field and brown field as well. I think what Thiago is saying about the new project, they have Uruguay and Guaiba [ph] that they are (inaudible). For the time being, I think that they are a little bit optimistic. It depends on the type because in Brazil they are going to incur the same tax that we have.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Okay, that's clear, okay, thank you Maciel.

**Operator**

The next question comes from Alexandre Miguel of Itau BBA, please, go ahead.

**Q - Alexandre Miguel** {BIO 20048366 <GO>}

Hi. Good afternoon, everyone. My first question is related to any potential outsourcing initiatives that you mentioned in the previous CapEx call Maciel regarding the Maranhao project. Can you provide any update on that?

Have you been discussing alternatives of outsourcing and reduce the CapEx for the Maranhao project, if you comment on initiatives? Expectations of how much the CapEx could be reduced would be excellent.

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

So far, this is more cash related. We have some actions that we are taking. I think without digging back to the CapEx now. All the chemical plants are being outsourced. We are studying this waste treatment process.

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

Water --

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

Water treatment, affluence process that we are working as well. So we have some other aspects. We don't see any big impact on the total as you book at that. Some of this is being considered. Even though we have some advancement on the supplies.

Now we are in the final stages of negotiations. Probably, next quarter we are going to have something additional to mention. This will help as well. We are not going to see a big transformation in the CapEx number coming from that. Who would like to comment on this Ernesto [ph].

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

No, as I think as what Marciel mentioned, I think we're studying, additionally, to what we have in the region or in the base case. We're studying the water treatment and the fluent treatment. Like was mentioned, this may not have an impact in that. It will potentially offset some cash disbursement. Not necessarily the debt. So I think it's not significant at this point in time.

**Q - Alexandre Miguel** {BIO 20048366 <GO>}

Okay. Thank you. My first question is related to if you have had any recent discussions with the rating companies over potential changes in your rating? Given the worst global scenarios, and also, for the worst outlook for pulp in the short-term?

**A - Bernardo Szpigel** {BIO 2080745 <GO>}

We are constantly reviewing our figures, together, with the rating agencies. So far, no indication of any change. We tried to make clear to them what is our view of the market. What are our plans. So this is going on and there has been no change, no indication of a change on that.

**Q - Alexandre Miguel** {BIO 20048366 <GO>}

Okay. Thank you Bernardo.

## Operator

The next question comes from Deni Parsine [ph] of Deutsche Bank, please go ahead.

**Q - Deni Parsine**

Good morning, thanks very much for the call. I was wondering if you could just update us on what the second half CapEx number is expected to be? Whether or not, given you mentioned a potential flexibility in the timing of the project, how much of that CapEx is baked in unstoppable maintenance CapEx and how much would be flexible in a worst case scenario if we see pulp prices decline significantly, the demand decline, finance markets freeze up?

Let's just say that we have an unfolding of the crisis, in a very negative manner. Not that that necessarily would be my base case.

But let's just say, in a worst case scenario, what is the second half expected CapEx number? How low could it go in a crisis? What is your expected net debt to EBITDA, in your base case, figure for the end of the year? Thank you.

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

Well we disclosed in our CapEx plans for this year, at that we mentioned the number of BRL3.5 billion, including BRL1.5 billion for the acquisition for Conpacel and KSR. You see, in our page eight, that we have expenditures that we faced in the first half of the year was about BRL2.2 billion. So according to the base plan, that we had before the crisis, was to spend another BRL1.3 billion in the second half of this year.

As I mentioned before, we have financing for that. This is the level. This is the plan as we have announced before. What we have, at that time, we mentioned it was to sustain. Investment this year was going to about BRL500 million because we had some other stuff.

But in the First Quarter or first semester we ended up with BRL200 million. Most likely we are going to have this same number for the second part. So here we'll have BRL100 million plus. This is already in the plan. So with that, we have BRL1.2 billion.

In this BRL1.2 billion, modern half of this is the Maranhao project. It's about BRL800 million that we still have for Maranhao in the second half. Almost BRL900 million, out of the BRL1.2 billion, is the Maranhao project expenditure for the second half of the year.

So with that we see that more than half of this, if we decide to postpone, we are going to see some cost but not a possible action or no stop point. The key point is if we decide, the big number, that if we decide to postpone to protect the leverage it will be Maranhao for some postponing. As I mentioned, it's not in the plan right now. It's an action that can depend on the general environment.

**Q - Deni Parsine**

Thank you. And the leverage number that you expect?

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

Our target is always not to move. Even though this fazes off a big investment our targets continue to be not to go beyond 3.5.

**Q - Deni Parsine**

So you don't have an actual target of where you'll think you'll end up at the end of the year?

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

We don't have a guidance now on this.

**Q - Deni Parsine**

Okay. Did you provide guidance -- and I'm sorry if you already did and I don't have the number -- did you provide guidance for what you expect the real to be at the end of the year and what you expect international pulp prices to be at the end of the year?

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

We don't have this guidance and we are looking forward for some guidance as well. You need to have some or thank you very much.

**Q - Deni Parsine**

Okay. Thanks very much good luck.

**Operator**

The next question comes from Marcos Assumpcao of Itau BBA, please, go ahead.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Hi. Good morning everybody. Just a quick question on paper prices in the domestic market. I heard Carlos comment a little bit on the performance of coated printing and writing which suffered a big decline during the quarter. Probably pressure by import competition. How do you expect that to evolve in the second half of the year?

On cardboard, we saw reduced demand in the first half of the year, probably because of a destocking process. If you consider any possibility of price increases again in the second half of the year as real demand gets closer to operating demand? Thank you.

**A - Carlos Anibal Almeida** {BIO 19090865 <GO>}

Hey it's Carlos. Regarding coated paper, we understand the following. In the First Quarter of this year we have imports amounting almost 150,000 tons. Which is a number that was much higher than the average that we had in the last year. That number was certainly not related to demand.

So we had to build a big inventory build throughout the chain, okay. That paper that was imported was not sold in the First Quarter. The paper was moved probably [ph] in the Second Quarter, and that's why we saw that price reduction. We expect, that in the Third Quarter, we're going to see numbers pretty close to the ones that we had last year for the imports. A number between 25,000, 30,000 tons a month.

Regarding paperboard, for the time being we don't see any space for a price increase. We haven't seen any change in the imports. The demand would not support a price increase in the second half.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Okay. Thank you very much Carlos.

**A - Carlos Anibal Almeida** {BIO 19090865 <GO>}

Okay.

## Operator

The Q&A session is now over. I'd like to pass the call over to Mr. Antonio Maciel for his last statements.

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

Okay. Thank you, everybody, again, for their participation. The call is a pleasure and an honor to have. If you spend some time looking at your Second Quarter results, my highlights, just to close the session is that from the revenue side we had a very strong semester, looking forward with some more difficulties in the Third Quarter in both markets.

However, we feel very strong the position on products and relationships with customers and contracts. We feel this is a big value in the Company.

From the cost side, we had this bad news in the Second Quarter. We are going to continue to see pressures on the costs in real base. However, we are taking a lot of actions that we are going to see better numbers as we move forward.

Most importantly, as we move forward in more long-term, is the financial situation and how robust is our cash and our perspective for the coming, let's say, 24 to 36 months, where we see a very strong variables position.

We have a long journey in front of us. Throughout the Suzano plan 2024, its 2011 and 2012 are challenging years. At the beginning of the projects, where we put a lot of money, and we still don't have the revenue. We have seen, before many times here at Suzano, we see deleveraging very quickly, a very steep (inaudible) in the right direction.

So what the challenge we have here is to continue to looking for the external environment. See the chances we have to continue with our projects and to take actions and flexibility to protect the cash and to protect the robustness of the financials of the Company. At the same time, looking forward with the projects that are in the base of our strategy. Thank you very much.

## Operator

The Suzano Pulp and Paper Conference Call is now over. We thank you for your participation and have a nice day.

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