

## Y 2021 Earnings Call

### Company Participants

- Aires Galhardo, Executive Director of Pulp Operations
- Cristina Gil White, Executive Officer, Sustainability
- Fabio Almeida de Oliveira, Executive Officer, Paper and Packaging
- Leonardo Grimaldi, Executive Director of Commercial Pulp and People and Management
- Marcelo Feriozzi Bacci, Executive Director of Finance and Investor Relations
- Walter Schalka, Chief Executive Officer

### Other Participants

- Cadu Schmidt
- Caio Ribeiro
- Carlos De Alba
- Daniel Sasson
- Leonardo Correa
- Marcio Farid
- Rafael Barcellos
- Thiago Lofiego

### Presentation

#### Operator

Ladies and gentlemen, thank you for holding and welcome to Suzano's Conference Call to discuss the results for the Fourth Quarter of 2021. We would like to inform that all participants will be in a listen-only mode. During the presentation that will be addressed by the CEO, Mr. Walter Schalka and other executive officers.

After the company's remarks are completed, there will be a question-and-answer section when further instructions will be given. (Operator Instructions).

Before proceeding please be aware that any forward-looking statements are based on the beliefs and assumptions of Suzano's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

You should understand the general economic conditions, industry conditions, and other operating factors could also affect the future results of Suzano and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the floor over to the company's CEO, please Mr. Walter Schalka, you may proceed.

## **Walter Schalka** {BIO 2099929 <GO>}

Good morning everyone, it's a great pleasure to have you here with us to discuss the fourth quarter results and annual results of Suzano. I'm very pleased to have with us today, the major part of our part of our sea level and please if you want to have any kind of questions, please be prepared to give it to all of us. I would like to share with you that, I'm very proud of the results of 2021 of Suzano.

I would like to thank you publicly all of our 16,000 employees and our leadership that delivered that all time results, all time high results of our history, and not only that we are preparing the company for the future as well. We had extremely good volumes on unfold last year, the paper has the outstanding results as far as Fabio to share with us.

We were able to deliver almost BRL23.5 billion of EBITDA last year and that was extremely positive and could allow us to reduce our net debt from \$12.3 billion to \$10.4 billion, last year almost \$1.9 billion reduction. We did have impact on inflation and then our cash cost was impacted from our budget and from the previous year, but we are preparing the company for the future. We have extremely good position on liquidity at this point of time and our leverage right now is 2.4x net debt over EBITDA.

More important than the results that we had last year is that we are preparing the company for the next coming years. As you may know, we have five different strategic avenues and we and we are pursuing all of them. We are on the structural basis, continue to reduce our cost for the next coming years, we've had to fit in some of our plants with the new projects they had and in addition to that, we have extremely important development on the forest side on the reduction, on the average radius from the forest to the plant.

We are continuing to keep our relevance on the pulp market with our new projects we had. Aires going to share with us about this project -- information, about this project. We continue to have vertical integration as part of our strategy to fluff market have been performing extremely well, we have been working on the consumer goods that have been doing well and the paper, did our all-time results last year as Fabio going to share.

Our perception, and have we have been working, that this probability is critical for us. And then we have the new addressable markets for the future. We are delivering new opportunities, one example is the spin-off that last year had their IPO, we have extremely good acceptance of the market. And we continue to play a very important leading sustainability role for the future and carbon markets will become even more important for the future.

Now I'm going to pass to Christina, who is going to share our views about the ESG in the last year and for the coming years.

## **Cristina Gil White** {BIO 21253444 <GO>}

Thank you Walter. Good morning everybody. 2021 was a year of continuity and ambition elevation. On the environmental front we are again pioneers in unique and break through nature conservation goals. We established a biodiversity corridors goals and to our knowledge we are the only company with a target of such nature.

On the climate change front, which is so essential to our business strategy, we are raising our own bar. We adhered to the science based target initiative and the business ambition for 1.5 degrees. And very importantly, recognizing the imminence of climate change. We anticipated our carbon removal target from 2030 to 2025.

On social, we're cognizant of the role of that companies can play in equalizing society, and Suzano has given a central place to diversity and inclusion. In that sense we are aiming to have at least 50% of racial and or gender diversity in the final hiring stages aligned with our long-term commitments. I am very proud to share that diversity inclusion is a target for 100% of the people in leadership positions, impacting their variable compensation.

Again, this shows Suzano can be a trend setter. In our shared value approach and increasing scope of our community impact, we made very significant progress in the achievement of our long-term poverty reduction goals. In addition Suzano's programs and projects had the domino effect of doubling income generation.

Sustainable companies have good governance and progress on this front is a necessary lever in catalyzer for progress on risk on the environmental and social pillars. In that sense we gave formality to practices that were already occurring as you can see on the slide. Formal responsibility for ESG and risk management, mandatory periodic performance, evaluation for Board members and minimum attendance.

Finally I would like to highlight the celebration, the celebration worth the achievements of Suzano from last year. That signals how we have increased embeddedness of sustainability in our business strategy and operations as well as our evolution and transparency.

We raised \$3.1 billion in sustainability linked bonds and sustainability linked loans. This has been tied to greenhouse gas emissions intensity reduction, the reduction of our industrial water use and diversity and inclusion targets. Specifically increasing women in leadership positions. This now plays as of December of 2021 our debt linked to ESG at almost 40% of the company's total debt. Suzano also had in June, our first ESG call, a Quantum Leap to enhance engagement with our stakeholders.

And finally on the ESG indexes and ratings, I want to highlight and celebrate the Suzano reached an A minus in all three carbon disclosure project questionnaires water, climate

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and forests, we were coming from a B score. So that's on the sustainability front and now we're going to speak of our paper business, so over to you Fabio Almeida.

## Fabio Almeida de Oliveira {BIO 22179839 <GO>}

Thanks Cristina and good morning everyone. The paper impacted business unit has delivered a strong performance in the fourth quarter of 2021. Despite the operational constraints and inflationary headwinds, both in 2021, we had record EBITDA for the businesses yield. Demand for paper grade products has been strong in the domestic and international market served Suzano. Supported by solid demand, restrictions on the supply side with the logistics bottlenecks and the need to recomposed margins go to the raw materials, energy and logistics inflation. Our paper price have risen in all markets and across all papered grades. According to IBA, print and write demand in Brazil has grown 6% on the fourth quarter of 2021, when compared to the same period of 2020.

For the full year demand has grown 19%, boosted by the easing of endemic controls and the usage of offset paper for packaging purposes. Paperboard demand has shrunk 6.3% in the fourth quarter on a year-over-year basis, even the strong compared spirit of 2020 when the market was rebuilding even --.

For the year demand for paper board grew 10% above historical trend. We have also seen solid demand for paper products in Latin America, North America and Europe. On such context our Q4 sales volumes were 4.3% higher than 2020, and in line with the pre-pandemic levels.

Domestic sales represented 72% of our total sales in the quarter, a 5% increase compared to the same quarter of 2020. On a quarter-over-quarter basis our domestic sales improved 16% in volume due to a better seasonality and they continues strong demand for packaging papers. Our net price during the quarter was 4% higher than our average price in Q3, 2021 and 25% higher than Q4 2020.

During the period Suzano has successfully implement the previous announced price increases for product lines and markets. We have also announced new price increases during Q4, which will be implemented over the next months. As a result of strong volumes and prices revenue management and operational stability, our EBITDA has reached a new all-time high of BRL552 million in the quarter a 35% increase compared to the fourth for 2020 and a 44% increase on a year-over-year basis.

Looking ahead our major short-term challenges remain in minimizing the exogenous pressure of inflation and overcome with the continuous logistics disruptions. Regarding our continuous -- in operations efficiency, we are also strengthening our unique go-to-market strategy reaching to more customers with our e-commerce platform which already accounts for 24% of our total revenues and 64% when considered medium and small sized customers.

As an important milestone, sales of new products by Suzano grew about 10x when compared to full year 2021, with full year 2020. Aligned with our strategy to enlarge our

addressable market and offer more sustainable packaging solutions to more customers and end users.

Now, I will turn over to Leo, who will be presenting our pulp -- business results.

## Leonardo Grimaldi

Thanks Fabio. And good morning everyone. Let's please move to Page 6 of our presentation. The results of our pulp business were again strong in the fourth quarter 2021. Our robust sales volumes despite all logistic challenges. Price realization during the best quarters combined with strong sales performance during the year, made this reach the record EBITDA for our pulp business units since merger.

As you will note on the top graph, our sales performance totaled 2.7 million tons in the fourth Q '21, exceeding our sales volume in Q3 '21 and also in Q4 '20. I would like to emphasize that the great job of our sales and operational teams were determinants to reach such sales volumes. And as important maintaining our service levels to our customers despite all supply chain bottlenecks and our inventories which remain quite tight.

The fourth quarter was marked by significant tightening of the supply-demand balance, as a consequence of, not only supply chain constraints all over the world and of paper producer's local, Pink Leaf inventories. But also as a consequence of pulp demand which has exceeded our expectations across all paper grades in Europe and North America, and also in China, where demand for how hard wood pulp would hope from our customers has stopped to historic levels, but still not enough to rebuild their inventories, since the balance combined with inflation on input and manufacturing costs for pulp producers globally.

And even and even more intensely on higher cash cost mills have set a new threshold for marginal cost producers favoring the pricing momentum which we started to see in China and Southeast Asia during the second half of the first quarter.

According to Europe Pulp Association the pulp inventor is at European ports close a quarter at 1.1 million tons, 12% below the third '21 and more than 20% below historic monthly averages since 2018 and place challenges to paper and paperboard producers who are running at high operating rates.

In China according to STI consultants end of year pulp inventories at ports fell to 1.6 million tons, which is a 15% reduction compared to November. Almost 300,000 tons reduction in just one quarter and 12% reduction compared to the third '21. Our average price for export markets for the quarter has reached \$630 per ton, a 3% reduction versus our Q3 prices, which is a combination of stable prices in European Americas who is lowering invoice prices in Asia during the quarter.

Currency depreciation has brought a positive effect on our prices reais, which increased 3% during the quarter. Our consolidated 2021 price of \$613 per ton was 32% higher than

our 2020 price or 38% higher when we analyze in reais terms.

Now looking at our EBITDA performance, we have reached a new all-time high during the quarter, bringing our 2021 EBITDA to a record of BRL21.4 billion with a 62% EBITDA margin as mentioned favored by increasing prices and effects and solid sales volumes despite high production cost.

Now looking forward, I would like to bring your attention to the following -- through the following points, by analyzing the Brazilian exports and develop ministry statistics for hardwood pulp exports in 2021, it is possible to note that exports to China were reduced by almost 800,000 tons during the year, 800,000 tons which were mainly reverted to the European market.

Most of this reduction in shipments was concentrated in the third and fourth quarters for which the impact is yet not fully reflected in China's pulp availability and inventories. There is also a concentration of maintenance downtimes in the first quarter which added to all unplanned downtimes, some of which supply chain related impacting raw material raw materials should result in unexpected curtailments in which bleach chemical book that will exceed 1 million tons in just one quarter.

As a consequence of current price gaps between different regions of the world, we believe that most of these supply shock will continue to be felt in China. Additionally, price differentials which favored flex pulp and favor dissolving pulp should keep all flex capacity directed towards these rates.

As the supply curtailments, that I have mentioned should be even more intensified by the challenging logistics and are globally, we expect that the supply and demand fundamentals will continue to be quite favorable and supportive during the next month.

With that said, I would now like to invite Aires to present our cash cost performance for the quarter.

**Aires Galhardo** {BIO 17954886 <GO>}

Thank you Leo. Good morning everyone. Moving on to the Slide 7, the first part '21, cash cost performance. Both quarter-over-quarter and year-over-year continued to be impacted by commodity inflation especially --, which in turn may made FX input costs, and wood cost on harvesting and transportation --achieved.

Some chemicals manage to surprise also took a toll again on our performance. As you can see the impact of commodity price alone accounted for 86% of total cash cost pressure in the last quarter and more than 6% on the 2021 performance.

It's also worth mentioning that the quarter-over-quarter cash cost increase up 5% was in line with our forecast. Our strategy in the energy market in the context of water crisis, late

last year resulted in a higher benefit on the cash cost compared to previous part, partially offsetting the exogenous headwind already mentioned.

For the coming quarter, commodity impacts continue to be challenged. Range recently reached the highest price levels since 2014 and so we'll continue to impact the input costs and fields. In such context we foresee focus cost X downtimes, moving North could achieve a high single digit or a low double-digit in the first part reaching its peak for 2022.

The first quarter, we will also be marked by a large number of this scheduled maintenance downtimes at Aracruz [ph], which will represent approximately --, the high specification impact on total cash production costs. Before turning to Marcelo Bacci, we will continue the presentation. I would like to emphasize that Suzano keeps focus on the modernization projects into its mills, to improve it even more, the structural compatibilities on the longer run.

Marcelo, the floor is yours.

### **Marcelo Feriozzi Bacci** {BIO 17648865 <GO>}

Thank you, Aires. And good morning everyone. Moving to Page 8, we showed that the Q4 was another period of very strong cash generation and as a consequence of further deleveraging of our company. We have now reached a nominal net debt of \$10.4 billion, which is \$1.8 billion below the number of one year ago. And that caused the leverage reduction from 4.2x to 2.4x during the year, which is very significant.

We have been able to reduce them by our net debt not only by \$1.8 billion, but by 1.8x EBITDA during the year, it's a remarkable performance. Our debt amortization schedule is a very light for the coming three years and we have now enhanced even more our liquidity position with the new revolving credit facility that was increased by from \$500 million to \$1.27 billion that we recently announced.

Moving to Page 9, we see our hedging portfolio. We've been taking advantage of the currency markets to improve continuously the quality of our portfolio. We now have an average for the normal portfolio of cash flow hedges. We have an or an average put of 5.49 and an average call of 6.47 covering 70% of the gap, the currency gap we have for the coming 18 months.

In addition to that, we have started building a longer book of hedges for the Cerrado project that were already has about \$500 million in Notional with an average put of 6.07 and an average call of 7.66, this portfolio gives us a lot of protection, very relevant protection against the potential appreciation of the currency.

Moving to Page 10, we show that we closed 2021 with a CapEx figure of BRL6.3 billion well in line with the guidance we've been given to the market. We reaffirm CapEx program of BRL13.6 billion for 2022 of which BRL7.3 billion are related to the Cerrado Project, and that is specifically the next topic that Aires will cover for us.

## Aires Galhardo {BIO 17954886 <GO>}

Thank you Marcelo. Although facing an adverse global scenario of COVID-19 pandemic and specific supply chain disruptions in the last decade. Cerrado Project is a difference as planned, being on time and on budget. This picture on the Slide 11 shows the new size, status in the end of fourth quarter '21.

As important milestones in the quarter, we can highlight the progress of 8% of sight work effort, which are crucial for the subsequent works in the rainy season. The conclusion of negotiations for our new chemical plant scenario, and the agreements with Rumo to transform the future pulp following us through Malha Norte through transport. Walter?

## Walter Schalka {BIO 2099929 <GO>}

Well, I would like to leave the major takeaways to you. There is in the last page of the presentation. I think that despite COVID situation, despite inflation and supply chain challenges that we had last year, we had one outstanding performance in every single part of our operations. Achieving record results and a very strong balance sheet for the future preparing for our major investment program that we have ahead of us. But we had as well a major improvement on ESG a major improvement on our value creation to our shareholders just remembering that we convert that to equity in \$1.8 billion as Marcelo mentioned, that means almost \$1.5 per share on conversion debt to equity.

In addition to that we have the Project Cerrado, that is on time on budget and they will deliver a major value creation to our shareholders as well. Then our perception is that we are addressing all the five different strategic avenues on a very positive way.

Before we start the Q&A session, I would like to invite everyone to be join us on March 30th, to our Annual Suzano Day, that is going to be in a few weeks from now on March 30th. The open invitation for you to join us on this session.

Now, let's go for the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) The first question comes from Rafael Barcellos with Santander.

### Q - Rafael Barcellos {BIO 20593721 <GO>}

Hello everyone. Thanks for taking my question. My first question is about pulp prices. I mean, could you please comment on the implementation of the US\$50 price hike and also for February orders? And other than that what do you expect in terms of demand



after the Chinese New Year? And my second question is about your strategic view on Suzano's operations. I mean, some printing and writing producers have been shifting production to packaging grades. So do you think Suzano could do something similar with its paper division? And other than that on the book division side, do you think to shift some hardwood pulp production to niche markets like a flux or even dissolving pulp and of course here I'm talking about the pulp news that you have higher cash cause, right? Thank you.

### A - Leonardo Grimaldi

Rafael, good morning. Thank you for your question. I'm going to start with the one related to pulp prices. Before coming into February because obviously as we're still in the middle of the month, we cannot disclose our effectiveness today. I would like to just reinforce what went on in January as we have closed this month. In January, we had maintained our prices stable in North America and the Americas and in Europe. And in China, our price increase of US\$30 was completely implemented with no discomfort whatsoever. As you know, we have announced now for February US\$50 increase for Asia -- all of the Asian market, US\$30 in Europe and US\$40 in North America. We are very confident of successful implementation due to all the S&D [ph] favorable scenario, which I have mentioned in my opening speech.

In terms of demand in China post Chinese New Year, we see the following. First of all, this is usually a big season for paper and board demand. A lot of activity, a lot of publishing and scholastic activity which demands paper and board products. We have seen that the paper and board stocks are decreasing. We still do not have the January numbers, but the December numbers was at the closing figures in China was that the final paper and board stocks were 6% lower than the third quarter '21. So the stocks are quite low of paper and boards as well. Our customers are reporting that downstream demand is quite healthy. We see that the COVID control actions in China are being more flexible and that the opening of other Southeastern Asian economies should support better demand and exports from China. Actually export from China of paper and board have been increasing directly in paper and board itself and also indirectly in finished products from China. And we have seen a positive demand so far. And just to recap, all consulting companies are seeing a positive year in China, tissue with a 4% growth and board with an impressive 7% growth compared to last year.

### A - Walter Schalka {BIO 2099929 <GO>}

Thank you very much Rafael for your question. I'm going to take the second question related our paper business for the future and the conversion of -- potential conversion of machines. We do believe that the printing and writing market will continue to have the secular decline in the coming years and this will create more balanced situation. We have right now a very tight market, global market at this point of time since we had a lot of conversions and we have some improvements on the demand as well. And we are very pleased that the market is very tight at this point of time. We are serving our customers and performing our agreements on a very proper way.

In other hand, we are not considering to convert any of our facilities or plants to other grades of paper. We have been growing in the fluff market. We are very pleased with the

development that we are doing. I would like just to remember you that four years ago, the fluff project was just a PowerPoint and right now, we are performing extremely well. We are working at full capacity. We have several customers on the -- all the continents right now with large customers moving from long fiber to short fiber or combined fibers as well that is very positive and we are discussing internally what would be the next step that we are going to do in fluff market. Thank you.

**Q - Rafael Barcellos** {BIO 20593721 <GO>}

Okay. Thank you.

## Operator

The next question comes from Daniel Sasson with Itau BBA.

**Q - Daniel Sasson** {BIO 19234542 <GO>}

Good morning, everyone. Thanks for opportunity. My first question is if you have any updates on the certification process of carbon credits. You mentioned last year that you had identified projects that could translate into close to 22 million tons of CO2, 65 equivalent credits or like to understand how these processes is developing. And my second question maybe to Aires if you could comment a bit on your view for your cash cost performance in 2022 versus your 4Q 21 level? Is there more pressure from raw materials coming from overall inflation that will pass through your results or do you think that most of that is behind and we could see relatively stable cash cost going forward? Thank you.

**A - Leonardo Grimaldi**

Thank you, Daniel. I'm going to take the your first question related with the carbon global market. I think it's very clear to us that this is going to be the way of financing the decarbonization of the world. We are going to see through a cap and trade system worldwide that carbon price will go up on the next coming years, and this will rollout the companies that would be making additionalities in terms of reductions on their carbon emission or carbon sequestration that could be -- allow them to make some kind of monetization of these credits. We have been going through a certification of our credits in one side and waiting for the new law in Brazil that allow the negotiations of this. We hope that this is going to happen during this year and this would create a new opportunity to our shareholders to monetize this so important value on carbon credits in the coming years. Now I'm going to pass to Aires.

**A - Aires Galhardo** {BIO 17954886 <GO>}

Daniel, thank you for your question. We believe that we experience -- the experience in the cash cost a cycle momentum especially with the lag of cobalt price and probably our first quarter to be the worst of the cycle will be effect mainly by brands (inaudible) the highest levels from the last 10 years. We have a large number of the scheduled downtime in this field and we believe that's after first quarter especially in these fields. We'll experience some reflection to turn our cash cost to normal levels slowly, but we're not going to use (inaudible) of this year.

**Q - Daniel Sasson** {BIO 19234542 <GO>}

Okay. Thanks a lot.

## Operator

The next question comes from Leonardo Correa with Bank of BTG Pactual.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Good morning, everyone. Thank you. My first question is on the supply picture for pulp this year. There seems to be a big divide in the market on expectations. Some think there will be major over supply coming from all these divisions. And what we've been hearing at the margin has been several data points and news items, which have been corroborating a thesis of slower supply, a series of maintenance, stoppages, strikes. So I just wanted to hear from you what your expectations are for supply especially in the light of some of the issues, right, regarding logistics globally and supply chains. So want you to focus more on the supply picture.

And the second question is a bit more specific, so sorry about that, but for Bacci to help us out. I mean, looking through the cash flow numbers, right, Suzano has two cash flow drags, right, which aren't new, but could potentially be shifting over the next quarter, right? First on the derivatives right, Bacci, I mean, the company was criticized by the policy over the past years and of course things didn't play out accordingly given the currency movements -- the sharp currency movements and the losses. We're now at a level where, I mean, potentially the BRL could be appreciating going forward. There already is a pretty significant interest rate differential here in Brazil versus abroad. So how do you see these expenses, right, these derivative expenses going forward? I mean, do you see a potential reversal over the next quarters? And I'm also referring to the number specifically on leases, right, then I noticed that these numbers have been increasing over the past couple of quarters. So I just wanted to hear your thoughts on that as well. Thank you.

**A - Walter Schalka** {BIO 2099929 <GO>}

Hi, Leo. Good morning. Thank you for your question. I'm going to take the supply side part of it. Obviously, in the short-term, the SNG is very, very tight and supportive. But even looking at the full year 2022, which I think relates to your question, obviously, we will have to follow the dynamics and fundamentals and how they play out during the next month, but I would like to highlight two main points. First of all, all the project delays which were recently announced that is favorable. And when we couple that with the logistic constraints, we will see a reflection of a slower time to market of new pulp and this will make that the volumes that would be coming in will be more gradual and more balanced.

When we add to that or when we add on top of that, all the increasing unexpected down times as you properly laid down in your question some of which are supply chain related impacting raw material to coproducers and they're still going on. Our analysis of the supply and demand for FY '22 shows a much improved S&G scenario and actually most market consultancies have already revised their numbers and now are reporting operating rate for 2022, which vary between 90% and 92%. And as we all know, this indicates a quite healthy and supportive as S&G scenario.

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On top of that, there are three points that we always like to add, which are not factored into all of this forecast -- for most of these forecasts, which are hardwood is gaining share on top of softwood and most recently also gaining share from recycled fibers and recycled grades. The price gap between the solving pulp and fluff will obviously make flex capacity be utilized and disgraced. And last but not least, several ongoing projects with owners to develop sustainable alternatives to single use plastics or other either less sustainable materials and this will all add and increase the demand of hardwood and of bleach chemical pulp as well.

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

Hello. This is Marcelo speaking. On the derivative side you know that we have a policy that is well known by the market and that we've been applying consistently over the years. We now have a portfolio of about US\$4 billion of cash flow hedges covering the next 18 months. And as I showed and the numbers is protecting us very well from a potential appreciation of the currency. We don't take any bets or any views on the currency. We just apply consistently the policy and of course if the real continues to appreciate, we will have reasonable protection. Because at the end of the day, a more appreciated currency is negative for the company and the the function of the hedging portfolio is to give a protection, which is always going to be partial against that.

On the leases side, the number of lease payments is increasing over time for two reasons. One is that we are improving and increasing the size of our forestry base and part of that is on lease length and also we've been increasing the number of ships that we or vessels that we lease for our own use as dedicated vessels. So this is improving the quality of our operations, both on the forestry and on the shipping side, and of course the cost for that is in the form of lease payments that is increasing over time.

### **Q - Leonardo Correa {BIO 16441222 <GO>}**

Perfect. Thank you.

### **Operator**

The next question comes from Thiago Lofiego with Bradesco BBI.

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

Thank you. Good morning, everyone. A couple questions here. The first one to Grimaldi. Grimaldi if you could comment specifically on the dissolving wood pulp market? So you mentioned the spreads are pretty high versus hard wood pulp and other pulp grades. So do you see any swing mills that have not yet shifted to the dissolving pulp market that might shift in the near-term? That's more of a general question. And within that same question, specifically about Brazil, do you think this nearly likely to shift to dissolving wood pulp in the near-term? Just would like to hear your views there. The second question to Bacci. Bacci the receivables -- accounts receivables were pretty high in the fourth quarter. So should we expect that access to be fully reversed now in the first quarter just to understand the dynamics there? Thank you.

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## A - Leonardo Grimaldi

So hi, Thiago. Good morning and thank you for your question. On the dissolving side, what we see is the following. There is close to seven 7 million, 7.5 million tons capacity of dissolving pulp in the world of which roughly 28%, 30% is flex capacity. This time is this big gap in prices that exceed US\$303. We believe obviously we're not completely sure of that because we cannot -- we don't have that in terms of what our competition is doing, but we believe that most of this flex capacity is being used as dissolving pulp, not as paper grade pulp. Regarding your question on Brazil, we unfortunately cannot answer that. All our information is public information, which is exactly the same one that you have. So I will not be able to help you much in that sense.

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

Thiago, on the receivables side, we have as with all the turmoil on the logistics, we had an abnormal concentration of sales at the end of the quarter and that created a situation where the normal sale receivables that we do was delayed. So at this point, we have done that already, but that caused an increase -- temporary increase of receivables at the end of quarter.

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

Okay. Thank you, Grimaldi and thank you, Bacci.

## Operator

The next question comes from Carlos De Alba with Morgan Stanley.

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

Yes. Good morning, everyone. Thank you very much for the presentation. So a few questions on my end. Also looking at the results, SG&A increased more than what we were expecting, but also looking at the prior quarters, it was also higher year-over-year and quarter-on-quarter. So what should we expect there in terms of going forward the level of -- a normalized level of results? And then coming back to the market, paper prices increased in the fourth quarter as was said before. Do you expect this increases to be implemented in the coming quarters? I think I understood that. So could you maybe give us more color as to why the lag between announcement and the price implementation? And you could remind us of the level of prices for what products you increase those. And then finally, sorry for squeezing a third quarter there, Bacci, is there any pattern or concentration of capital spending in a particular semester or quarter in the year, that will be quite useful. Thank you.

## A - Walter Schalka {BIO 2099929 <GO>}

Carlos, thank you for your questions. On the SG&A side, we have two effects here in the fourth quarter is normally when we adjust our provision for variable compensation that of course we cannot do before because we don't know the performance of the year. So as we approach the end of the year, we increased that provision and the same happened at the end of 2020. So when you compare it to the previous quarter, you have basically the difference of this additional provision. On a year-over-year basis, we have inflationary

effects that were partially compensated by efficiency, but there was some effect and looking forward, we expect this inflationary pressures to continue. But we are working to compensate that with more efficiency. On the CapEx side, we normally have some concentration in the first quarter, but this year with the Cerrado project, we will probably have a more stable performance of CapEx over the year specific concentration.

### **A - Fabio Almeida de Oliveira** {BIO 22179839 <GO>}

Carlos, it's Fabio here. Thanks for your question. Regarding paper prices, our paper prices have risen 9% in dollar terms in our export markets in the fourth quarter and were quite stable in the domestic market mainly due to such seasonality. As you know we have a large volume of -- that goes to the federal books program and we sell that in Rio and its long-term contract. So and that was the reason that in the fourth quarter in the domestic market prices were stable. As regarding your questions about price announcement, we have announced a price increase for coated wood fleet for the domestic market 35% increase, which we believe will be implemented installments during the next months because we have contracts -- long-term contracts and we only need to wait for the term of this contract in order for the price to kick in. And we have also increased prices in North America by 9% effective March 2022.

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

Thank you very much. All the best.

### **Operator**

The next question comes from Marcio Farid with Goldman Sachs.

### **Q - Marcio Farid** {BIO 22379440 <GO>}

Yes. Thanks. Good morning, everyone. I have a couple of follow-ups. First one of the supply chain bottlenecks, quite surprised to see Suzano delivering strong volumes in a quarter that was supposed to be very challenging, right. So that probably proves that your supply chain is more reliable than most. So just wanted to understand if you can expect that to continue over next few quarters and if you are seeing any signs of improvement in terms of supply chains demand and supplying in the short term just thinking about (inaudible) international shipping as well.

And the second question now you did mention obviously China momentum has been quite strong. One of the things that has been noted is that paper prices in China hardly reacted to the very high inflationary costs environment that we have. What I mean is (inaudible) everything, but so just trying to understand how do we see paper price momentum -- price momentum in China picking up in the next few quarter versus your comments on low inventories and very high end demand for the region? Thanks.

### **A - Leonardo Grimaldi**

Okay, Marcio, good morning. This is Leo here. Thanks for your question. The line was not that clear. So if I don't answer it completely, you'll have to (inaudible). So on the supply chain side, we actually see the situation getting worse in this first quarter of the year due

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to a lot of COVID contaminations in ship crews and also in port congestions throughout the world. So we see this tightening and actually making the whole situation even more challenging. At this time, we don't see sensible improvements at least until the first half of 2022, which actually could easily remain until the end of the year and should maintain this pulp availability quite pressured as it is today.

There's also a factor of supply chain that we are following very closely, which is the truck and real car situation, several regions like Europe, U.S. and especially Canada where we are tracking local strikes and that obviously can impact further and supply of wood and raw material to co-producers and tighten even further the market. COVID is also impacting the Chinese ports. Today the Chinese ports are operating at closed loops and no one comes in or out. And there are limited number of pilots who are those who bring the vessels to berth and this is all delaying and loading operations in anywhere from 7 to 15 days. So the situation is quite great for the moment. We are struggling to maintain our high service levels to our customers.

I believe your second question was related to pricing and the margins of the paper producers in China and the inflation pressure. So this is actually what caused the -- yes, so this is actually one of the KPIs that we're monitoring closely their margins and what's going on there. We saw price increases going on at the end of last year and the tentative in three Chinese New Year and our sources say that the Chinese New Year, the RMB200 price increase was implemented roughly to 60% to 70%, but there is a strong belief that as we are now in a strong peak season that increase now all implemented until the end of the month of February. Actually our customers are already reporting a plan to have further price increases for the next months, which we all believe is very reasonable, because today the sentiment in the Chinese market is that there is no room or no room at all to speculate against rising pulp and raw material costs.

So prices have to come up to support this rising pulp and raw material and cost that I have mentioned. It's also important to say that we track this margin and that margin reached the or not actually margin, but the spread between their prices and pulp price, they reached the lowest gap in mid 2021 and they have been recovering ever since. And today printing, writing, board and tissue all are trending over average historical values. And just as a reference, this gap that's one of the ways to look at margin between tissue prices and pulp crisis have increased 300% since mid year 2021. So the whole chain is much more healthy than it was a couple of quarters ago.

**Q - Marcio Farid** {BIO 22379440 <GO>}

Perfect. Thanks a lot, Leo.

**Operator**

The next question comes from Caio Ribeiro with Bank of America.

**Q - Caio Ribeiro** {BIO 18420483 <GO>}

Yes. Hi. Good morning, everyone. Thank you for the opportunity. So going back to the -- to pulp price hikes, I just wanted to see how likely another pulp price hike in China for March

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is in your view. And also on this topic in the recent past, we've seen paper makers in China struggling to recompose margins in moments when pulp prices are rising very fast and we saw that last year. And I know you mentioned that paper makers are hiking prices and there are expectations of further paper hikes ahead. But would you wait for those prices to move up and for the implementation to be successful before announcing another pulp price hike? And then secondly, going back to pulp cash cost per ton, I just wanted to see if longer-term whether that target that you had by 2024 of BRL560 per ton, whether you consider that to be still achievable? Thank you.

### **A - Leonardo Grimaldi**

Caio, good morning. Thanks for your question. This is Leonardo here. The first part of it's related to future prices. We obviously cannot commit too much details as this interferes with our commercial strategy and tactics for the coming months. But what we can say is that the short-term or the supplying demand fundamentals at least for the next months are required supportive. And if we look at the resale prices and also the prices that the Chinese and Asian producers are selling on the markets, we note a more than \$100 gap over imported eucalyptus pulp price. This is also indicative of what can come on place. As it relates to customers paper and word customers recomposing margins, as I mentioned in the previous question, this is one of the key variables that we track and follow. We want to make sure that the whole chain is healthy and so that's supportive. But I cannot come into more details as obviously this is part of our commercial strategy and how we evaluate the levels, timing of future increases.

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

Hi, Caio. Thanks for your question. As we have done annually, we break (inaudible) total service operation costs at our next Suzano day at end of March.

### **A - Walter Schalka** {BIO 2099929 <GO>}

Just to complement the answer, it's very important that we have been working on the structural long-term reduction on our cost. If several actions as planned retrofits and increase on our land base and our forest activities close to our plans and these allow us to have lower costs on the future. On the short-term, we have this impact on inflation and we are going to give more transparency to you during the March 30 Suzano Day.

### **Q - Caio Ribeiro** {BIO 18420483 <GO>}

Perfect. Thank you all.

### **Operator**

The next question comes from Cadu Schmidt with UBS.

### **Q - Cadu Schmidt** {BIO 21245445 <GO>}

Good morning, everyone. Thanks for the opportunity. I have a question to Leo. Leo can you please comment on the overall level of pulp inventories at the end of the year? You said that inventory has declined on a quarterly basis and according to our calculations



even further down to the lowest level since 2018. So I just wanted to check if you can see this may be leading to a weaker sales performance in the coming quarters especially with the amount of maintenance downtimes happening at the moment information? Thank you very much.

### **A - Leonardo Grimaldi**

Thanks, Cadu. Thanks for the one and only question to me. Yes, I did said in my speech, we have obviously seen and this is public information that European stocks were down at the end of the year. According to the pulp association at 1.1 million tons, we think this is below optimum, especially in this challenging supply chain situation that we see in Europe with COVID discharge and then also internal logistic situation in the market while all producers are running at very high operating rates. So and just an additional information which is I think will add further color to my answer, our market sources just couple -- just one day ago anticipated that there will be -- there should be further inventory reductions in January. We are tracking or they are tracking and have been reporting to us what's going on in Italian ports, which is a good presentation of what's going on in Europe. And the expectation is of a new 6% reduction of stocks by the end of January when the January numbers are public. So even more and even further reduction in January.

When we look at China, we saw the 1.6 million ton stock for the closing of the year and the reports are now already official and there is even a new reduction for January, a new 5% reduction. So stocks are coming down another 100,000 tons and will reach 1.5 or have reached 1.5 million tons. We are tracking what's going on the ports and the level of activity on Chinese ports and it doesn't seem to be a lot of vessels coming in at this time, which is related to what I mentioned in terms of the mid numbers and the reduction of the exports from South America into China. So our forecasts, our expectation is that all these supply scenario will be so tight that the stock will be low or lower coming forward and not recovering at least on the couple next months. And with all the additional paper and board and tissue capacity, which was added into China, our view is that a healthy level of stock to support all this production is much closer to 2 million tons than to 1.5 million tons. So we think that this brings the market to a very tight S&G situation.

### **Q - Cadu Schmidt** {BIO 21245445 <GO>}

Great. Thanks. So can you comment on Suzano's own inventory position and how do they compare to historical levels?

### **A - Leonardo Grimaldi**

Yes. We have --- obviously our inventory position. We cannot give a lot of guidance because that reflects our commercial policy, but what we have been saying and I think is quite clear from our sales performance versus our production numbers which despite we are not reporting our capacities is that our stock is at very low levels. We are keeping the stocks at low levels and supporting long-term and long commitment customers and maintaining our service levels there. So our stocks are quite low at this time and below optimum operational levels.

### **Q - Cadu Schmidt** {BIO 21245445 <GO>}

Great. Thanks, Leo.

## Operator

As there are no questions, I would like to turn the floor over to the company CEO for the final considerations. Please Mr. Walter Schalka you may proceed.

### A - Walter Schalka {BIO 2099929 <GO>}

I would like to thank all of you to join us on this session. I think was very interesting discussion that we had. I would like just to highlight to you our vision of the future. We are impacting not only the 2 billion customers that we have every single month with our products, but we are in fact in the society as a whole with 8 billion people working on a dimension of two major issues that we have on our society that is how we are going to address the climate change in one side, how we are going to address the inequalities and diversity and inclusion that is quite necessary. I'm very pleased that we have been evolving on our numbers and we are going to share this information to you on the right time on all of our targets, ESG targets for the future and we have been developing the company and preparing the company for the future as well.

We have creating value to our shareholders, but we are sharing value with all the stakeholders and that's very positive as well as part of our culture and we continue to do this. Our vision is that on a very humble position,

Suzano is very well prepared for the future, but we continue to develop our activities. We continue to move and transform the company in a better company that could impact positively this society. Thank you very much for joining us and have a very happy day. Thank you very much.

## Operator

Thank you. Suzano Fourth Quarter Results Conference Call is finished. Have a nice day.

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