

Q4 2008 Earnings Call

Company Participants

- Alexandre Yambanis, Head of Pulp Business Unit
- Andre Dorf, Chief Strategy and New Business Officer
- Antonio Maciel Neto, CEO
- Bernardo Szpigel, CFO and Executive Officer for Investor Relations
- Carlos Anibal, Executive Officer, Paper Business Units
- Ernesto Pousada, COO

Other Participants

- Debbie Bobovnikova, Analyst
- Diago LoFiego, Analyst
- Ivan Fadel, Analyst
- Josh Milberg, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Verena Wachnitz, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, at this time we would like to welcome everyone to the Suzano Papel Paper 4Q08 Earnings Conference Call. Today we have a simultaneous webcast with slide presentation on the Internet that can be accessed at the site www.suzano.com.br/ir. There will be a replay facility for this call on the website.

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

(Operator Instructions) Today's speaker will be Antonio Maciel Neto, CEO. We also would like to inform you that statements during this conference may constitute forward-looking statements, such statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those set forward in the forward-looking statements. I will now pass the floor over to Mr. Antonio Maciel Neto, who will start the conference call. Thank you.

Antonio Maciel Neto {BIO 16703850 <GO>}

Hello. Good morning, everyone. Thank you very much for joining us this morning for our conference call. Today, we are going to talk about the Fourth Quarter of 2008 and the consolidated results of last year.

As usual, we have our senior management team here in our Sao Paulo office and today we are very happy to have a few new members joining us in the conference call -- Mr. Alexandre Yambanis, the head of our Pulp business unit and Mr. Carlos Griner, that's our HR director.

So I would like to welcome Alexandre and Griner to our business today, it's their first time participating in the call and all of you will have an opportunity to ask them questions if you need it.

So going through, my idea here is I will go through some of the slides and present the key methods that we would like to highlight today and just after we will have a lot of time available for Q&A.

So on page two, the highlights of the Fourth Quarter of 2008, starting with the market pulp and paper production of 654,000 tons, record net revenue of BRL1.1 billion. Pulp cash cost at BRL438 per ton, excluding the Mucuri maintenance shutdown.

These BRL458, if you take an exchange rate that's two-third, this is about \$190, so below \$200 as we have announced before, that we are headed toward that direction with some cost improvement and also the variation of the exchange rate. Record EBITDA of BRL382 million with the margin of 35% EBITDA margin. Accounting loss of BRL495 million, more than explained by 22% currency devaluation.

One highlight for the Fourth Quarter of 2008 is that we are continuing to pay a lot of attention to our cash and financial position. This has been our key priority and so today, we have a very good cost and profile to our debts.

The cash and equivalents position at the end of year was at BRL2.2 billion, that's a very strong cash position compared with our net revenue of BRL4 billion. We ended the year with BRL2.2 billion in cash that was very strong.

And also the net debt to EBITDA, the ratio that we are always tracking. I know for the Third Quarter we had 3.7, so this is the key highlights for the Fourth Quarter of '08.

Going to page number three, now I'm going to the highlights of 2008. We start with the production the same way, record production of 2.7 million tons of market pulp and paper. Record sales of 1.2 million tons of paper and 1.3 million tons of pulp, total of 2.5 million tons of sales.

Record net revenue of BRL4.1 billion, as I mentioned before. Record EBITDA of BRL1.5 billion, 36% EBITDA. In dollars, this is \$800 million EBITDA, very strong cash generation from the operations.

Loss, as we mentioned before, bottom line of BRL451 million, more than explainable to the devaluation, the currency devaluation, the real devaluation of 32% in this period. Also, I think that those information related to Mucuri Line 2 that we had concluded in the first half of last year, the learning curve.

In July, we have announced the new growth cycle, that was I think was a big high list in 2008. And also, I like to highlight here that we received a National Quality Award during 2008, this was in November last year. This is a very strong international recognition. This was provided by the Fundacao Nacional da Qualidade, the Quality National Foundation. This award is the highest national recognition of management, so that's very good.

Page four, some key notes about Pulp business units. First part of the page, we are talking here about the Fourth Quarter '08. Pulp sales of 329,000 tons, 13.3% higher than the Third Quarter, and this is more than explained by the recovery in our sales in Asia.

Mucuri shut down in November 2008, 30,000 tons. We had a maintenance on line 1 and most of this we did this before, considering market conditions to also adjust a little bit our inventory.

Also, about the price, the Third Quarter '08 we experienced a reduction in our price that was 27.9% lower than we had in the Fourth Quarter compared to the Third Quarter, going from \$697, almost \$700 to \$503. However, in Reais, during this period, this revenue was very, very stable, that's 1.4% due again to the big currency devaluation of the Brazilian Reais.

Now, we'll talk a little bit about the Pulp business units in 2008. I'd like to mention that the eucalyptus pulp demand in 2008 continued growing. This was 11.8% higher than 2007.

Another important highlight was that during the year, although we note about 2 million tons of shutdowns during the year, I mentioned before that this is very important, it's record pulp production of 1.5 million tons in 2008, sales of 1.3 million tons of pulp, 65% higher than 2007.

And during the year, the average net price was 6% higher than 2007, year-over-year average of \$636. In Reais, prices were very well stable at 0.2 negative points.

On page five, just in graphs some numbers that I have mentioned before. On top in the left-hand side, you see that in the middle column that in Fourth Quarter of '08 we had these sales of 329,000 tons compared with 291,000 in the Third Quarter and 294,000 in the Fourth Quarter of '07. For the full year, we move it from 799,000 tons to 1,520 [ph] tons.

Destination of our pulp sales, here you see a little bit different graphs. We have before always presented the destination of our exports and now as Brazil represents about 16%, 17%, we are showing here for the first time the destination of the sales now, not only the exports.

You see that in the Fourth Quarter, Europe was 41% and Europe and Asia 37%, Brazil 16%, North America 6%, and Latin America only .2%. And compared to the year, it's Europe with 46%, Asia 28%, Brazil 18%.

So as we move forward, you are going to see more in 2009, to anticipate some questions, that it's more comparable to Fourth Quarter than the average, more than explained by the growth of our sales in Asia as we had announced before when we sold out the production of the Mucuri line two that was more -- the highest capacity was destined to Asia (inaudible).

On Paper business, page six, starting with the net revenue, record of BRL723 million in the Fourth Quarter, 10%, 11% higher than the Third Quarter '08 and 16% higher than the Fourth Quarter '07. Domestic sales of 171,000 tons, about 6% more than Third Quarter and in line with the Fourth Quarter. Very strong sales considering the market situation, 171,000 tons.

Paper price increased. We were able in the Fourth Quarter to increase our price on the print and white segment by 5.7% compared with the Third Quarter. And in paperboard, we were able to increase our price by 2.9%, that's interesting figures and reinforcing more and more the significance of the Paper business for Suzano.

Exports price, in fact we have a decrease in dollars terms on the price, 6% we had in the Fourth Quarter compared with the Third Quarter. This was more than compensated by the devaluation of the Reais. So in Reais, we had 28.4% increase in prices during this time.

Going to the bottom of the page, now some Paper business highlights to the full year of 2008. Domestic demand in 2008 in print and white, about 7% higher, and paperboard in line with 2007. So we have a different perspective on the key segments where Suzano plays.

In mature markets, we have seen a drop and a reduction in demand, 6.1% in North America and 2% in Europe compared to 2007. Record sales of Suzano in the paper business, 1.2 million tons in 2008, 3.2% higher than 2007. And the prices when you compared 2007, 2008, we had flat prices, 0.5% in 2008 while we had a 2.7 increase in 2007.

Page seven, same approach that we had presented to the Pulp business. In the middle, we present in the left-hand side and on the top, the 302,000 tons sales compared to 290,000 last year and 306,000 in the Third Quarter '08. For the full year, 1,125,000 tons '07, compared to 1.162 in 2008.

At bottom, we have the exports. You see that our sales in Brazil was about 55% to 56%, 62%, this is the range where we have seen average 60% sales in the domestic market. In the exports, you see this is very well aligned with what happened in 2008 with the Fourth Quarter '08. Latin America full year 41%, Fourth Quarter 39%. Europe, 23%, 23%. North America, 21%. Asia, 15% and 17%.

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So this is the profile, what is these figures are confirming our strategy where we see in the paper business more original because if you remember that we have 60% of our sales in Brazil and out of the 40% that we export, we have 40% in Latin America, the big chunk of our sales is really real.

Before talking to the consolidated numbers, we have one page, page eight, where we need to talk and communicate about the growth cycle of Suzano. Our Board of Directors entertained a Group discussion about these perspectives and the final decision was really to maintain in (inaudible) the construction of the two new greenfields for market pulp production. So we are maintaining our investments in the forest base that we have, we are working.

In Maranhao State it's aligned with a partnership with Vale. At Piaui States we have developed by ourselves. So the startups of 2013 and 2014 were confirmed again, and we are on track with the investment maintaining this construction. So the key message here is that the two Greenfields that Suzano had announced in July last year, they are maintained, they are on track, on schedule and moving forward.

We had at the same time in July last year mentioned two other projects. One was the expansion of Mucuri, the debottleneck and trying to find an optimization of the two lines to get another 400,000 tons. We are working and Ernesto Pousada is leading, our CEO is leading the project and working with the engineers internally and externally.

This is moving, however you remember that we had mentioned the idea of starting buying equipment we had scheduled throughout the first half of 2009. We have delayed this discussion until the end of this year due to cash needs. The idea is that despite the fact we have a very strong cash in excess of BRL2 billion, the Board of Directors decided with our recommendation to postpone a little bit.

This will take from now to the end of the year for us to have a further analysis related to the market and, let's say, the financial conditions and that this is related to the economic situation worldwide that's very uncertain as we speak.

So this project was -- the decision we have maintained now our technical efforts in trying to find the best alternatives to get lower costs as possible out of this expansion. This is still on our portfolio of top listed projects, however this will be taken more at the end of the year.

The same for the third line, you guys remember that we announced one line of 1.3 million tons in Maranhao, another line 1.3 million tons in Piaui, 400,000 in Mucuri, and another 1.3 million tons in a site to be defined.

At that time we mentioned it could be in Maranhao or Piaui because both sites can have one, two, or three lines without any technical problem. Or another site, because you remember that we had analyzed several sites and we had some very good opportunities still in Brazil to be developed.

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So to get the timing that we had proposed that was 2015, 2016 for the startup, we would have needed to have started the first phase as we speak, so we are delaying this decision also up to the end of the year.

Most likely just after the half of the year, Third Quarter, Fourth Quarter, we will have a better picture about the economic situation worldwide, demand, new closings or project announced, a lot of movements are being seen in this industry. So both projects will be analyzed, they are still in the pipeline, still being considered, however this will be --.

The great news that I'd like to announce is that we are moving forward with this Maranhao and Piaui, the key projects, the core because there are two outstanding that's coming in production in 2015, 2014.

Page nine, a consolidation of the numbers that we have mentioned. I'm not going to go through all the numbers, just in the column of Fourth Quarter '08. Just to mention that it's a very strong net revenue of BRL1.1 billion, 14% higher than last year.

And I think here the key highlight is that EBITDA, the margin of 34.7% or \$167 million, BRL382 million, net debt to 3.7. This net income, the negative net income, as I mentioned before, more than explained by the currency devaluation.

On page ten, is now 2008 versus 2007. I think here that we have went through all the numbers in the pages before, but I would like to highlight here the EBITDA of \$800 million, which is 50% higher in dollar terms than we had last year. That's a big growth, very strong cash generation in dollars as we had 36.2% margin EBITDA. In net debt, as we had before, 3.7 versus 4.2 at the end of 2007.

So my final page here is only to highlight the three key messages that we'd like to leave with you this morning. First one, that Suzano is very strong on the financial position. We're continuing working under Bernardo Szpigel's leadership, working very hard to maintain a very solid financial position. So we have a very good debt profile, costs in time to pay the debts, and a strong cash position as we speak.

The second highlight is very important as it is related to the performance, operation performance. We have mentioned this here before many, many times. We have very strong EBITDA, the generation of BRL1.5 billion, \$800 million, in 2008.

And the new growth cycle that I just mentioned. We are from one side, we are working in the short term efficiency, working very hard on cost reduction, very hard on improving our sales, very hard on net revenue, and maintaining very strong attention to our cash on a day to day basis.

At the same time, we are continuing the growth that Suzano has experienced before, making a good perspective on the future and our decisions here to move forward with those projects in Maranhao and Piaui during this crisis that we have seen worldwide. And

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we have made some decisions that are very, very consistent with what Suzano has done during these past years.

So with that, I will finish here my introduction for the conversation, and I will give it back to the coordinator for the Q&A session. Thank you very much for your attention.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Diago LoFiego [ph] from Merrill Lynch. Please go ahead.

Q - Diago LoFiego

Hi. Good morning again. Just a follow up question here from Portuguese call regarding the domestic paper market. So could you elaborate a bit on the outlook for the uncoated and coated segments for 1Q '09 and 2009 in terms of demand and prices? I mean, do you expect any kind of distributor destocking for these segments as well, just like happened for the cardboard segment?

A - Carlos Anibal {BIO 19090865 <GO>}

Hi. Good morning this is Carlos again. We have been seeing some destocking with our distributors. That has happened since January. We saw the same movement in February again.

The lines most affected by such movements have been paperboard and cut size segments which are related to the industrial activity, okay? What we are doing, we are looking for new markets, new channels. We are developing new accounts outside of Brazil to compensate that.

Q - Diago LoFiego

Okay. And what about prices? Should we expect any --?

A - Carlos Anibal {BIO 19090865 <GO>}

Regarding prices, we see a stability compared to what we saw in last quarter. I mean, prices seem to deflect.

Q - Diago LoFiego

Okay. Thank you.

Operator

Our next question comes from Ivan Fadel from Credit Suisse.

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Q - Ivan Fadel {BIO 4827533 <GO>}

Hi, just in line with the first question asked and also exploring more of what was discussed on the Portuguese call. You mentioned that paper volumes are much weaker in the beginning of the year, and as you said its coming from cardboard and cutsize segments, it could be destocking.

But if you could quantify for the grades that Suzano produces itself, what has been the first two months of the year in terms of demand or sales among the different kinds of paper products that you sell? How was the sales performance in the beginning of the year?

And I understood also from the comments in the Portuguese call that Suzano expects to sell the 1.1 million ton capacity of paper this year also. So does this mean that you also believe that demand should improve during the year and we should have a better second half relative to the first half? Or is it something that you're seeing the improvement already for paper demand?

A - Carlos Anibal {BIO 19090865 <GO>}

Okay, this is Carlos. I would say that demand is roughly down at about 10%, okay? This is what we have been seeing ourselves in numbers. The second part is related to our paper volume and this is (inaudible). As I mentioned, we should be able to place our capacity and our volumes in the market during this year.

Contrary to what you said, we don't expect a boom in demand in the coming months. What we should do in the coming months is to rebalance our sales mix between exports and domestic sales. So we should be able to find new channels and improve our exports in terms of increasing our presence in some other markets.

Q - Ivan Fadel {BIO 4827533 <GO>}

Right. Even considering that global markets are also suffering in terms of demand, you believe that you can find yourself markets there to export your excess --?

A - Carlos Anibal {BIO 19090865 <GO>}

Yes, yes, you're right. And this is mainly because our presence in North America for instance doesn't represent a significant portion of the local market there. We still have a very, very low market share in those markets, so we can truly increase our presence there without damaging or dumping huge volumes in such markets.

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

And -- but this is Maciel, just to complete I think this very important subject, our market share as Carlos was mentioning, in Brazil is very high in the domestic market. We are around 50% most of the grids that we participate, something more than -- 60%, along there.

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So when we have a reduction in demand, this is what is clear to us is what we have seen, that in the Fourth Quarter we had a slight reduction. In the First Quarter, as Carlos was saying, we are maintaining the price very competitive [ph] despite the fact that probably the market is going now according to our association and the statistics that we have in our hands, by 10%.

So we are not going to be big reductions in price here is not going to translate into a big fix as we move forward. However, in the export market is -- in (inaudible), where we have seen reduction of about 9%, 10% or so with the market. The market has been 10, 15, 20 times bigger. In our expectation, let alone 11% [ph] when you talk about (inaudible).

So with the help with the exchange rate, it would help with the pulp price, the pulp cost that we have today. It's very low and very competitive, we have been able to compete better than we competed last year.

So what we, for your perspective, we are not seeing as Andre [ph] mentioned, a big recovery in the second half to place our ones. Probably, most likely we are going to see mixed change with an increase in the export markets and very good results as well.

Q - Ivan Fadel {BIO 4827533 <GO>}

Okay, Maciel, if I can just take advantage of your views here, do you believe that paper, your Paper business could soften the impact of this downturn in the pulp markets throughout 2009? Is that a view that you share or you believe that they should suffer equally if this is the case?

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

I think really that this is what we have seen, Fourth Quarter and this beginning of the First Quarter was the confirmation of our strategy that we had been talking for the last two years. Okay, well, now we have the numbers on top of what we had seen before and what we mentioned before.

So in the very strong Paper business, good margins, very strong presence where I think that our present -- the one period of the national, the Brazilian market is the big asset of Suzano today, along with our distributors and our key customers.

We have seen this as we see the devaluation, the currency devaluation and some actions from the government against some deviation on the tax related to some imports. What we have seen now is a reduction on the imports we have seen.

So by starting to see a lower number on the imports in the Paper business, we have a very strong, very strong business. You haven't seen that what we have mentioned before now is clear that it is a business with a lower environment is not so volatile as we have in the pulp.

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Pulp is always going up or going down, paper is more stable, so with this very strong business, very strong customer base, we have been able to produce better margins and offset the pressure we have seen in the Pulp business.

However, on the Pulp business as we have about 80% exports, the currency exchange helped also in the results. Fourth quarter, as I mentioned in the presentation, the taxing advantage was almost the same because we have big decrease in the prices in dollar terms, however we have exchange rate variation that's very strong. We are not going to see this in the First Quarter in '09 because the exchange rate is almost the same and the price continued to reduce.

So on the other hand, we have worked very hard on the fixed costs and that's on the variable costs, to offset part of that. So in short, this Pulp business, we are working very hard on the cost reduction and we have received some help from the exchange rate.

In the Paper business, the strategy is to continue being very strong, maintain our market share in the region, not only Brazil but in South America coupled by lower costs, more stable prices, and most likely we will increase our exports to mature markets to offset some reduction in the demand in the local market.

Q - Ivan Fadel {BIO 4827533 <GO>}

Perfect, very clear. Thank you, Maciel.

Operator

Our next question comes from Debbie Bobovnikova from JPMorgan, please go ahead.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. Good morning, everyone. I just wanted to get a sense of the evolution of your pulp business. What are you hearing from your customers and have you been able to settle any contracts in any of the regions? Is there any contract business happening right now or has everything stopped? Kind of any color on the pulp side would be very helpful.

A - Alexandre Yambanis {BIO 16470785 <GO>}

Hi, this is Alexandre Yambanis. I'll be glad to reply to the question. The Suzano, we have today under contracts around 80% of our sales under contracted. 10% is allocated to regular customers not under long term contracts and then we have another 10% in the spot market.

So we have been following our contractual business. Of course, prices have been falling in tandem with market prices and the overall market situation. But we feel very comfortable with our contracted business so far.

What you will see in the future is maybe a reallocation of this contractual business, probably towards customers that make more sense from a strategic standpoint for this

company.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Oh, I'm sorry, can you elaborate on that, on that reallocation? And also, are there any payments that will need to be done to you if your customers decide not to take the full volumes? What are the penalties in these contracts?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Well in the Pulp business to the best of my knowledge there are no take-or-pay contracts. In other words, if customers default on their commitment to buy the pulp, there's no take-or-pay clause. I mean, I'm generalizing now.

In the industry, I'm really not aware of any take-or-pay contractual obligations. So no customers have a contractual obligation without having to pay us back if they don't perform and our expectation -- and so far, we have seen a very high rate of performance in our contracts.

Your first question, reallocation, this is just a theoretical answer so far. What I'm trying to say is that we intend to keep 80% of our sales on contracted. But that doesn't mean we'll keep it with exactly the same customers going forward.

As the dynamics of the sales of this company will progress with our increased production, with the optimization of our current capacity, plus new capacity that will come on-stream in the five years to come, we obviously will see a different pattern of end users buying our pulp.

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

I would like to elaborate a little bit on what Alex had mentioned, that we have two big possible changes or allocation within our contract base. I'll give you two examples.

We have probably we are the only company with this number of contracts in China. Very few other companies have contracts in China, we have several contracts in China. China is growing. Probably there we will take the number of what we have in contracts or more in some of the cases. Some other regions probably are going to see customers that will take less than they have in the contracts before. So a mix is compared to two regions, but we deem our contract base moving.

Also, you see segments. Print and white segment is more under pressure than the tissue market, so we have seen our contracts in the tissue segment stronger than in the print and white situation. And we have this 20% of spot or 10% that normally we allocate that is probably going to have some change as well, as the market is changing very fast.

So in short, I think Alex is confirming that we will see this average of 80% being sold to our contracts, existing contracts, with some changes within them.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And this might be a silly question, but just to understand the contract business then, if there are no clauses in the contracts in this kind of a volatile environment, what is the benefit of setting your contracts?

Because from what I understand, the pricing is done on a spot-basis anyway, so the prices I would assume are the same whether it's contracted business or not. And it looks like there's really no guarantee of volumes in the end either. So what from your point of view is the benefit of going through the trouble of setting the contract business?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes. Well the contracts are generally, when it comes to prices, they refer to market prices, either a market benchmark or announced prices, but they refer to market prices. So those market prices will vary according to market dynamics. The benefit of having long-term contracts is that customers, number one, appreciate our pulp, appreciate our fiber, appreciate our history.

Just to give you an idea global eucalyptus demand in 2008 was 11.8% higher than 2007. And this company's sales have grown 65%, so more or less six-fold the market increase for eucalyptus, so that shows that there is a recognition from the market that Suzano produces, number one, a superior fiber from a quality standpoint, number two, our services are being recognized as being I would say second to none in the industry.

And the contract, customers like to linked to a company like ourselves in terms of committing themselves in the long-term, simply because there are not many, many players around that would represent an option. So contracts are usually honored despite the fact that they don't incorporate a take-or-pay clause.

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

Debbie, just to complete because I think that's an important discussion for everybody to understand the importance of contracts. Because when you talk you see that no volumes commitment, no price commitment, what about the contract? I would like to go through this. This is very important for the industry, and from customer point of view, it's more important than everything you can think.

First about quality and what Alex mentioned about the specification. We have, when we go through a contract, we spend a lot of time testing and going through the quality of the specifications of the pulp, we test in their machines, we agree on the conditions. And this is very important. When you have a contract, before that you have a lot of technical commitment and technical analysis that is very hard to be changing a lot.

The second one is about the logistics. It's very important to have the destination, to have the vessels moving to the specific ports to have the transportation from the ports to their customers' mills, so this arrangement of logistics also takes time. So it's good for the customer to have a regular base of supply of pulp.

Price, as Alex mentioned, is normally market price. One is for breezy [ph], another one is for x, another one is an offset price, you have something that's market-related and some discounts on it.

Volumes, they have their planning, what they need, and we have all our plans, and allocation is very important for both sides, when they have to refill the inventory they need to carry. So having a contract is more stable and more probably cost efficient to have some supply with regular base going to.

And also we have some incentives from the customer's perspective. Normally we agree on volume and we give them a tender for what we call rebate with some fuel but important percentage point, the rebate gives them 50 points. So they have some incentive to go to.

So in short for us, contract is why we work very hard to be at 80% level contracts, it is good business for us.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Great, thank you very much for that. If I can just add two very quick, more technical questions on your press release. One, you mentioned that you started to hedge your pulp price exposure. Can you talk a little bit about how you are doing that and what amount of your volumes that represents? And also, there is a change in accounting that impacted your leases. Can you tell us about those leases?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Debbie, this is Bernardo, I will answer your question on the hedging, on pulp hedging. We have been hedging some of our pulp sales. In fact, this is something that we have been doing despite the fact that the market for hedging for futures in pulp is relatively small.

It's not a very large market, you can have contracts, you cannot do this for very large volumes. We have been doing contracts which are typical contracts and this -- today's contracts which go up to, let's say, 30,000 to 50,000 tons over a period of one to two years. It's not very long, and very small, not very many contracts.

Despite the fact that this is something that I would say is a wish by the industry for many, many years, it's not very deep and large market. The way we do this is normally over the -- OTC, over the counter, with some players in the markets that specialize in the sways and take positions. We would like to see this to grow, but it's still a limited market.

A - Andre Dorf {BIO 15460232 <GO>}

Regarding the leasing contracts, Debbie, this is Andre. We recorded BRL90 million increasing our debt related to this leasing contract. This is something that we did with some equipment suppliers.

And one good example is the chemical plant in Murcuri, where the supplier constructed a plant and operates the plant and they render a service to the Company. So it's not something that would be contracted with the bank, but rather with the supplier.

Why we are doing this or recording this change in this quarter? This is because of the new law that has a good objective to converge our accounting principles in Brazil to the international standards.

And the law determines that every company has to now account every leasing contract as if the assets belong to the company and it treats the rental as a financial contract. So bottom line is that we incorporated this specific plan in our assets and we pay the rental as a financial expense now.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And this is a major part of that expense, is this chemical plant?

A - Andre Dorf {BIO 15460232 <GO>}

We have this chemical plant and the new drier and the mill.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Great.

A - Andre Dorf {BIO 15460232 <GO>}

It's two efforts.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Great, thank you very much.

Operator

(Operator Instructions) Our next question comes from Marcos Assumpcao from Itau. Please go ahead.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning, everyone. First question on paper, just would like to understand if on the uncoated printing and writing we should still see a positive impact from government purchases that we see in 4Q also in the first Q09?

A - Carlos Anibal {BIO 19090865 <GO>}

Marcos, this is Carlos speaking. We expect to see that in the second half of this year, eventually a higher number than what we had in 2008, okay?

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Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, just like a quick question on paper as well, it's just a comment actually. Do you consider like revising the paper capacity of Suzano? Because if you take a look on the past two years, booth 2008 and 2007, not only production but also sales were above the 1.1 million tons capacity. Do you consider revising this number?

A - Andre Dorf {BIO 15460232 <GO>}

Hi, Marcos, this is Andre. This 1.1 represents the nominal capacity of the equipments. What happened in the last few years is that we have been able to outperform the nominal capacity of the equipment, the machines, and the finishing lines and by then selling more than the nominal capacity.

Also, in last year we sold something from the inventories, not only the production capacity, but we reduced our inventories compared to the previous years. So we do not intend in changing the nominal capacity but rather to express our sales projection which for '09 should be between the nominal capacity and what we did in 2008.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, I don't know if you already said this or you can say that, on CapEx, for 2009 did you guys provide a guidance for maintenance and growth?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes. We can. We expect to have the maintenance CapEx, the sustained CapEx is what we call, in the range of BRL350 million from now on. So this figure is a good guidance for the next few years. In respect to growth to the new cycle, we tend to invest, and this is just the forestry base CapEx, around \$100 million in the next few years, per year, I'm sorry. This is per year in the next few years.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. So probably CapEx would be around like six -- total of BRL600 million?

A - Alexandre Yambanis {BIO 16470785 <GO>}

That's right.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Last question here, maybe to Alex on Pulp. Andre, you mentioned that Suzano should be able to sell its pulp production capacity of 1.7 million tons, in 2009. If we consider that you sold 1.3 in 2008 that should be 400,000 tons additional capacity coming to the market.

Also, if we add VCPs additional capacity this year of like 600,000 tons its 1 million tons of additional capacity coming to the market in a very weak global market demand conditions. So Alex, like how much capacity shutdowns do we need to see throughout the

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world to -- and like, we also know that inventories remain at very high levels, how much capacity shutdowns we need to see to bring the market to equilibrium [ph] again?

Because I think it's a significant capacity coming to the market. It's -- and a lot of people only talk about VCP and you guys are also bringing some interest in -- like some significant capacity to the market?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Sure, I'll try to ask -- to be as objective as possible, to answer to your question. Well you see that inventories are being trimmed downwards already, they went from 50 days down to 47 days in February. And in terms of hardwood they went from 56 days down to 53 days in February. So we are seeing some good discipline in the market, on the one hand.

On the other hand, China is coming very strongly as an alternative market. Just very quickly to give an idea, China today represents more than Europe in terms of imports outside of Europe. If you take what Europe imports outside of its border it is less than what China is importing today in terms of market haul.

China is coming very strongly due to different factors. First of all, the Chinese government is pouring money in terms of financing paper operations.

Number two, China is shutting down or idling capacity at a very fast pace and this is due to two main factors, number one being that price, international price are lower than the production cost of their own capacity. Number two is because of environmental reasons. The Chinese are being constrained to shut down lots of the straw bulk capacity and this is going to be shut down forever, idle forever.

And also, the wood pulp capacity is being shut down due to cost reasons. So China is probably going to absorb a significant amount. China has been growing -- they are now importing, they are now buying some -- around 9 million tons of pulp per annum and growing at a click which surpasses 10%. So the capacity as you mentioned, China alone should be able to absorb them.

Other than that if you read the public announcements of Tresagold [ph], you mentioned Tresagold [ph] apparently, most of their production is being placed already in the market contracted with existing customers. So we are not -- we don't think that Tresagold [ph] with its portion, learning curve from 2009 which will represent 640,000 tons as you have mentioned, will represent a real threat in terms of market demand.

So this coupled with shutdowns that are happening around the industry, and as you are probably right, if you -- you probably saw rather, right, I'm sorry, announcing that 3 million tons of pulp will shut down between January and May of 2001.

If you could compound all of this together we believe that 2009 will be if not a recovery year, a stabilization kind of period.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Verena Wachnitz; please go ahead, from T. Rowe Price.

Q - Verena Wachnitz {BIO 5955218 <GO>}

Hi. Good morning. Just two quick questions. The first one, just to confirm the volume guidance for pulp is 1.7 million tons, that's the question.

And the second is, what is the trend that you expect in your pulp cash production cost in Reais, throughout the year? Thank you.

A - Andre Dorf {BIO 15460232 <GO>}

Hi Verena, this is Andre. In terms of pulp capacity, you're right its 1.7 million tons, our nominal capacity and we are operating at full this year. Regarding cash costs I'll pass it forward to Ernesto.

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay. Good morning, everyone, it's Ernesto Pousada. Regarding the cash costs, what we expect for 2009 especially on the First Quarter is what we are seeing is a stabilization of line two of pulp production in Mucuri which should result in a better chemical consumption on costs.

And the second part is we are seeing as well, a decrease in some of our chemicals that we buy in the market place. So in general we should see a lower cash cost in the First Quarter comparing to last quarter.

Q - Verena Wachnitz {BIO 5955218 <GO>}

All right. Thank you.

Operator

Our next question comes from Josh Milberg from Deutsche Bank. Please go ahead.

Q - Josh Milberg {BIO 2004065 <GO>}

Good day everyone. Just a few questions. First on paper, you mentioned this effort to expand your presence in markets abroad basically to compensate weaker domestic demand. Are there certain markets where you see a greater opportunity to expand, than in others or do you pretty much expect your geographic mix to remain the same?

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Also, can you comment on your paper export pricing policy and how aggressive you intend to be going forward?

A - Carlos Anibal {BIO 19090865 <GO>}

Hi Josh, this is Carlos. I would say that the United States is going to be our main markets where we can come up with the new -- with the available capacity. We had a very low market share there and we think that without any major problems we can grow our presence in the markets.

Regarding price it is true that end up last year, or last quarter of 2008, we saw prices under pressure and we have been seeing the same situation now in the First Quarter. That will depend on the grade of the region, then you are going to see more or less pressure but at the end of the day prices are under pressure.

Q - Josh Milberg {BIO 2004065 <GO>}

Are you undercutting players in the US then, are you offering some meaningful discount that you can comment on?

A - Carlos Anibal {BIO 19090865 <GO>}

No, no, we are taking some niche where we can have a good presence with a higher quality product.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay, that's great. Then just a question on the pulp side, with VCP and Veracruz merging, have you seen or -- any opportunities to capture some new business from some of their existing major customers in the US or Europe, if that's something that you can comment on?

A - Andre Dorf {BIO 15460232 <GO>}

Well, we obviously, we become the option number two in terms of volumes of course, because after the mergers there will definitely at least for a certain period of time, be bigger than Suzano. But being an option number two is not bad at all because customers will look at us as a good alternative to diversify their procurement. So we see that as a positive anyway, as a positive in this standpoint, as a positive also from a price solidity standpoint since this means consolidation.

Q - Josh Milberg {BIO 2004065 <GO>}

Okay, that's great. Thanks.

Operator

(Operator Instructions) Our next question comes from Pedro Grimaldi from Goldman Sachs.

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Q - Marcelo Aguiar {BIO 3721791 <GO>}

Hi everyone, it's actually, Marcelo Aguiar. Good morning. Good afternoon. Question on cutbacks, just want to understand in more detail. You have a very challenging growth path, as we look into the next decade and I would like to understand the specific CapEx per ton you are seeing for mills and for forestry.

If you can breakup for example the cutbacks per ton you are expecting for the Murcuri mill, if you have any visibility at this point? And the same for your plants in the northeast region of Brazil.

A - Andre Dorf {BIO 15460232 <GO>}

Hi Marcelo, this is Andre. When we originally announced our new expansion program we announced a 1.8 billion US type of CapEx per new mill, 1.3 million tons a year, mill. This was right before the crisis, and by that time prices of the commodities, metals and services were at their high.

Also, the pipeline and backlog of equipment suppliers was at full at that time. So we are not providing a new guidance. We are still refining the numbers but for sure we are living in different times and we should be able to reduce those figures.

Also, and also important is the new exchange rate that we are facing now. More or less 60%, between 60% and 70% of the CapEx is Reais denominated. So when we look them in dollar terms they should be much less now because of the significant currency depreciation that we have had since the announcement.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

And if I can add, on the Murcuri mill, you postponed the decision if you are going to go ahead or not. Let's assume if you decide to go ahead by the end of 2009, so is that a case that this mill would start up at the end of 2011 or in the CapEx per ton I would expect the CapEx per ton should be less than you are going to spend for machinery and also land in the case of the northeast, right?

A - Ernesto Pousada {BIO 15951890 <GO>}

Yes, here is Ernesto speaking, regarding your first question on the timing. From the point we decide that more or less we will take anywhere from 22 to 24 months because we need a new dryer anyhow which will take about that time. So whenever we decide, another 22 to 24 months.

Regarding the CapEx, for sure we expect -- it's a similar answer to what Andre mentioned, we are going to revise the CapEx, the backlog on the suppliers are much less right now, or close to zero, on orders. So we're evaluating this again. We're under negotiations with them as well. We continue to discuss the alternatives and we expect the CapEx to be lower comparing to a Greenfield.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

And I mean we have been seeing, I mean the [order that] that you have been facing difficulties to reduce debt because of the currency. A lot of non-cash impact but in the end you're debt continues to go up and not reducing. And I think the whole market once started in 2008, was expecting that that to reduce to the end of 2008 but it just didn't happen; of course because of the currency.

And looking going forward you have all these projects and I would just like to understand, what level of debt would you be confident to have in terms of let's say a total debt to EBITDA or net debt to EBITDA, before you start a new big investment in machinery? So what level of debt would you like to have before starting your big CapEx program?

A - Bernardo Szpigel {BIO 2080745 <GO>}

Marcelo, this is Bernardo. It's important to remember that what we will be doing right now is forming the forest days for the coming years. The largest portion of CapEx for new capacity is a smaller volume.

Just about the CapEx for forestry, as well remember that in the areas where we are in (inaudible) we have a lower price of land, we also in Maranhao are going together with Vale so that a large portion of the forest days is not going to be done by us.

So then one of the nice things about the strategy of the strategy that we are using is that it doesn't require very large amount of CapEx in the coming years. Where we are going to need more CapEx is five years from now or four to five years from now when we start building a new mill.

And this is -- in terms of what level of CapEx net debt to EBITDA ratio that we would like to be is of course we were doing below -- we were going -- before the devaluation of the Reais we were going towards below three times.

After having invested in an entirely new mill, so in a very short period of time, and you know this, the debt to EBITDA profile in this industry is very interesting. It increases when you have a new mill and then it goes down very fast because of the very large EBITDA margins we enjoy when we have competitive position and this hasn't changed in Brazil.

So what you are seeing now is a picture given the very strong devaluation that occurred. So it's nothing compared to the long-term strategy that we have been following and we will continue to follow, it doesn't change very much. So it's a picture of what you see.

In terms of -- so we are comfortable with these levels. The last thing that I would like to mention is how we fund these things. And this is how we did in our previous, in this last mill.

We funded with very low term funding, very low cost and tied to all possible volatility (inaudible) we can find, either in the exchange rate markets or price of pulp. So we have tested this strategy, it has worked and we are confident that it could be one of the forms of success to continue to grow.

A - Alexandre Yambanis {BIO 16470785 <GO>}

And just to highlight that, we will have some years of cash generation before going into domestic CapEx for wood mills. So it gives us room to reduce debt before investing again.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you.

Operator

Our next question comes as a follow up from Debbie Bobovnikova from JPMorgan. Please go ahead.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi, just a quick question. I just wanted to get a sense of what your pulp inventories were like at the end of the Fourth Quarter and where they stand right now? Thanks.

A - Andre Dorf {BIO 15460232 <GO>}

Hi Debbie, this is Andre. We actually don't disclose our exact number of inventories. What we had in the Fourth Quarter was a reduction in our levels because of the -- firstly the shutdown that we did in November, it was a 30,000 tons shutdown in the Murcuri mill and also because of the sales that came well above the Third Quarter. And now we are forecasting a further reduction in this quarter and in the coming quarters because of the sales that we are projecting.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes as a follow up from Ivan Fadel from Credit Suisse. Please go ahead.

Q - Ivan Fadel {BIO 4827533 <GO>}

Just a follow up on the inventories question. According to the numbers you were having in 2008 Suzano produced about 1.5 million tons and you sold 1.32 million, still in the Fourth Quarter but only looking at 2008, this is an extra 204,000 tons of pulp that was produced and not sold.

So does it mean that you added about 204,000 tons in your inventories? And according to my calculations here it should be roughly about 40 days, 43 days of production. If that's so, is this the amount that you added of inventories, during this year?

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A - Andre Dorf {BIO 15460232 <GO>}

Hi Ivan, this is Andre. Part of the inventory, or part of the difference that you mentioned was related to the ramp up of Murcuri annual line. We had to build up some inventories throughout the chain to support the new sales levels.

You're right, we ended the year with a higher level compared to our ideal levels. We usually work with the ideal level between 35 and 40 days of production but we are in the direction of reducing at those levels, to meet the ideal levels again.

Q - Ivan Fadel {BIO 4827533 <GO>}

And can you just say, were you at the ideal levels at the beginning of the year?

A - Andre Dorf {BIO 15460232 <GO>}

No, still slightly above that.

Q - Ivan Fadel {BIO 4827533 <GO>}

Is it fair to say that you have to basically reduce at least something close to 210,000 tons of inventory this year, right?

A - Andre Dorf {BIO 15460232 <GO>}

We're going to look after it at 40 days, that I mentioned.

Q - Ivan Fadel {BIO 4827533 <GO>}

Okay. Fair enough. Thank you.

Operator

Thank you. This concludes the question-and-answer session. At this time, I would like to turn the floor back over to Mr. Antonio Maciel Neto for any closing remarks.

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

Well thank you very much everyone for this interesting conversation. Very good, we will be available for further conversation through our institutional relations -- Investor Relations team, led by (inaudible).

I would just like to make a few comments as a closing remarks, we know and we have seen that we are going to see very tough days during 2009, this is not easy. We are fully dedicated to protect our business and to continue growing.

Very strong action on cost reductions, we are going to see next fall, in the coming months that we will continue to reduce our costs and to be competitive. From the markets perspective, paper, we mentioned that we have this asset, very strong, this is mainly in

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Brazil. Good margins coming for the situation that we have seen. Probably some mixed increase to of -- by some of the markets outside, maybe in the US.

In the Pulp business a very strong contract base and very good and strong leadership now under Alexandre Yambanis, one of the most experienced professionals worldwide, in the Pulp business that is now joined in our team here. That we are very glad to see what Alex is able to deliver to our business.

In the growth cycle we are going to be fully specific to our -- to deliver what we have mentioned before, in July, with the two new Greenfields. As we move forward we are going to be able to disclose and give you more details as we progress in the formation of the forest base.

We have a lot of innovations and we are gaining a lot of benefits from 25 years of R&D that Suzano has developed in the northeast region. This is more than 25 years of R&D team working, that nobody could be thinking and get the productivity in the project like Suzano has because nobody developed and invest in the R&D in forest base that Suzano has done for the last 25 years.

And you can be sure that we are going to continue paying a lot of attention for our financial situation. We are going to continue on the very strong conservatory, paying attention for our daily, daily based about our cash. That's still -- as we finish the year on top of BRL2 billion.

The ratio, net debt to EBITDA is now our -- under our attention everyday as well, working and maintaining a comfortable situation. And as we have seen, I think we mentioned during this presentation, our debt profile and that tends to have a very good cost.

We have very good terms in both our debts and its higher now due to exchange rates, but our revenue as we are approaching 60%, in excess of 60% of our revenues going for export, they are higher also.

We have our debt fully measured to our revenues in our capacity to refinance some of the payments that we have in the coming months and in the coming years. So we are very strong on the financial base. This is the time for us to pay a lot of attention on the health of the company but at the same time, be very strong willed and very aggressive sales position, and looking forward with the future with the new growth site.

So thank you very much for your attention and just let you know, let me know if you need further information.

Operator

This concludes today's conference. Thank you for attending. You may now disconnect your lines and have a good day.

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