

## Q3 2008 Earnings Call

### Company Participants

- Andre Dorf, Chief Strategy Corporate Development & IR
- Antonio Maciel Neto, CEO
- Bernardo Szpigel, CFO
- Carlos Anibal, Executive Officer for Paper Business Unit

### Other Participants

- Carlos De Alba, Analyst
- Debbie Bobovnikova, Analyst
- Marcelo Aguiar, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to the Suzano Pulp and Paper 3Q '08 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](http://www.suzano.com.br/ir). There will be a replay facility for this call on the website.

We'd like inform you that all participants will be in a listen-only mode during the Company's presentation. After the Company's remarks are over, there will be a question-and-answer section. At that time, further instructions will be given. (Operator Instructions)

Today's speakers will be Mr. Antonio Maciel Neto, CEO; Mr. Andre Dorf, Chief Strategy Corporate Development & Investor Relations Officer; Mr. Bernardo Szpigel, CFO; Mr. Carlos Anibal, Executive Officer for Paper Business Units; Mr. Ernesto Pousada, Chief Operations Officer, and Mr. Carlos Alberto Griner, Chief Human Resources Officer.

We would also 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 to Mr. Antonio Maciel Neto, who will start today's conference call. Thank you, sir.

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

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Good morning, everyone. Thank you very much for joining our conference call this morning. It's a pleasure to have the opportunity to talk to everybody. I will spend -- I will make a few -- to present some slides, just a brief presentation about the results, everybody had already the opportunity to read and to understand what we have done. So we are going to reserve at least half of our time for Q and A.

I'd like add that Mr. Rogerio Ziviani, our chief director in charge of pulp business, is in China, so he is not here. And Mr. Rodrigo de Farda [ph] our manager in charge of the pulp business is here with us to help us on the discussions.

Going to the page two, I would just like to present some highlights on the Third Quarter, the first one starting with the production. We have achieved almost 700,000 tons. This is the record levels of production for Suzano. The same happened with the paper sales. That achieved 305,000 tons. This is record sales for the paper business units of Suzano. EBITDA reached BRL365 million with a 36.9% margin. This is a -- as well -- a record EBITDA as well.

We presented accounting losses of BRL293 million as a result of the currency exchange rate devaluation, and the Real devaluation of 20.3%, which occurred within the Third Quarter. Net Debt to EBITDA, this ratio was also affected by the devaluation of the Real, and so the trend that we were observing before note that that we were in a trend going down. Now, we have the increase to 3.38 versus a 3.19 that we had in June -- last June, in the closing months of the last quarter.

Cash availability of BRL1.7 billion, on end of the Third Quarter, which provide to Suzano a very good liquidity perspective to face the difficult times that we are facing now. So we got to the Third Quarter with BRL1.7 billion in cash, and -- which was very good for us as we have this very stable market during the October month.

Pulp cash cost at BRL553 [ph] per ton. We experienced about 6% to 7% decrease [ph] compared to the last quarter. However, this is a very -- this is a reduction compared to what we had last year in the same period about 50%.

And this excludes maintenance shutdown which happened in Mucuri. This is about BRL453 per ton, is a -- with exchange rate at two -- this 226 at 2.2 is about \$200, so good news when we see the exchange rate going up for us.

Pulp prices under big pressure September, this is the price we had \$820 per ton in Europe, \$780 in Asia, and \$845 in North America. This was the price we had in September. We have seen a -- noticed a pressure on the markets. We are observing and paying attention to what's happening, especially China. We had a reduction in our sales in China as we discussed -- as we are going to discuss shortly.

Rogerio is there in China talking to all our customers on this kind of situation. But overall, China is where we have the situation -- the worst situation regarding the market elsewhere -- as a whole. The other markets, we see pressures. We have exchange rate changes. However, the volumes it is still moving.

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With regard to our Conpacel, this consortium that we have for the Americana industrial unit, it is the old Ripasa that -- it is the consortium that we have along with VCP. Now, it is in place in all levels.

We had last two years in the state (inaudible) the consortium implemented. And now we have the federal level as well. So this is done, is completed and this -- all the legal actions were taken, and the consortium is operating at full capacity, and with full compliance. And this is the final actions to make this to work out the business.

In the pulp business, in page three, I'd like just to highlight some of the numbers here. The first one is related to the global demand for the market pulp. The numbers that we had at the end of August was 2.7% higher than same period of 2007. In the first nine months of 2008, pulp sales were 96.0% higher for Suzano than -- compared with the previous year. Margin explained by the start up of the Line 2 in Mucuri.

Record production of market pulp as well, in Third Quarter , 405,000 tons. As I mentioned before, in the pulp business the key highlight is the softening in the pulp demand in Asia.

Inventories achieved, 45 days for hardwood and 35 days for softwood in August, we are just receiving today, this morning, the numbers from some of the consultants. And we -- for September these numbers are two, three days bigger than we had before, higher. This number is three days high, so we have seen a two to three days increase in the whole inventories worldwide.

Capacity closures, over 1.5 million tons in fact I think it's -- as we speak it is 1.7 million tons announced for 2008. Average export price reached \$704 in Third Quarter. It's interesting to remind everybody that we had \$721 in Second Quarter '08, as but in Third Quarter '07 it was \$613. So this is interesting to remember.

In Mucuri production downtime in November, we have announced that we are going to take out of our production 30,000 tons. This is, let's say, wait and see strategy, mainly to understand what's going on in Asia. We have worked and analyzed the whole situation. As you know, we are among the lowest cost producers worldwide. And this capacity issue that we had in this quarter mainly due to the difficulty in the marketing channel is going to change.

We have -- we are very well prepared for this situation. However, we decided to understand better what's going on -- what's happening in the market. And so we decided to go through to announce the downtime. And by the way, today, the downtime that we have seen for the Third Quarter is very, very big.

Last night we -- I saw some of the consultants. For the First Quarter we have -- we had Rice [ph] reports, we had the Holton Rice [ph] reports. All of them are talking about 800,000 tons of downtime all markets (inaudible) and about 600,000 of the hardwood pulp in the Third Quarter.

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So it's really big when we announced just to wait and see. As a low cost producer, I think this was something that we have -- this is in the overall market. And this is mainly due to the demand that -- softening demand.

And this is -- we have discussed this with our customers. We have the opportunity to talk with most of our key customers, visiting them. And we have invited them to come to Brazil to talk to understand what's going on. And so we -- I think we are having a better picture as we talk about the market condition for the coming months.

On the pulp business unit in page four, this is just the numbers that we have discussed before compared with Third Quarter and Second Quarter. The pulp sales volume that we had in Third Quarter was 291,000 tons, compared with 352,000 in the Second Quarter. However, it was 156,000 in Third Quarter '07. And revenue achieved BRL338 million in the Third Quarter.

You see -- on the bottom on the page you can see that in the Second Quarter Asia was -- represented 35% of our exports. And in the Third Quarter Asia was only 21%. Europe went from 56 to 67, and North America from 8 to 11.

This change is mainly due -- is more than explained by the reduction of our sales in Asia, than the increase of sales in other regions. So this is just a comparison -- a comparative page. It's more than explained by the reduction of the volumes that we saw in Asia in the Third Quarter.

On page five we can see that in the paper business units, the net revenue increased almost to 11% in the Third Quarter, compared -- when compared with the Second Quarter. We have higher volumes, higher price. So this is a good combination for this.

Total sales volume of 306,000 tons in Third Quarter. That's a significant increase of -- compared to Second Quarter and Third Quarter last year. Domestic markets and the export market as well we has a 2.7% increase in our price. The mix for the domestic market was about 60% -- 59.4%.

And we have discussed before, several times, in our conference calls about the imports. We have noticed in our markets favorable increases in quarter -- over quarter, year over year of imports due mainly we have in the coated paper, excess capacity in Europe, our invoice for the Real valuation.

So we had exchange rates, and capacity, and offer very good for our Company. Now, I think the situation is very different from what we had experienced in the last -- say in the last two or three years.

And in the coated paper where we had about almost close to 50% of imported material, imported paper in the markets, in the Third Quarter we had the same level. It was every quarter going up and up. It was the same level. And we have seen, and have noticed in

several other markets, other grades of paper, a reduction of rise in the imports levels. And probably we are going to see much more of these as we move forward to the end of this.

Paper business units, continuing on page six, we see that the volume reached 306,000 tons as we mentioned before, compared with 283 last quarter. Sales, net sales of 652 million tons -- million Reals in the Third Quarter.

So as we look at the graphs on the bottom you see that Latin America, we are continuing to implement the strategy of focusing on the Latin America due to the regional characteristic of this market, paper market, you see that we have achieved 47% of paper sold -- our paper sold in Latin America.

As you know -- as I have mentioned, we had from our total sales production 60% being sold in the local market. So if you add the 40% that we have from our production to the export market we have almost half to Latin America.

So we can say that we are sending our paper, almost 80% of our total production being sold in Latin America and send 60% in Brazil. So we have implemented consistent this strategy to be more local, more regional on the paper business as we see a more global strategy related to the pulp business.

On the page seven -- this is probably we are going to have opportunity to talk during the conversation -- during the call. But we -- this is -- I think this is -- was to say that we mentioned several times that the paper business is less volatile than the pulp business.

And in the -- when we had for the last three, four years the pulp going up -- price going up, the pulp, the paper markets were lower than -- compared. As we -- but we have mentioned that the paper prices and the paper market is more stable.

So we have seen that now -- that last quarter as we see more production on the pulp business. We have seen more stable, more profitable in the interesting business on the paper related -- more due to the regional approach that we have discussed. So probably this is -- I have read some of the reports that you guys have prepared.

And some of them we are now with discussions on the paper business as a good asset for the Suzano, mainly due to our very strong presence in the regional market where we have a leadership position. So this is, I think, interesting for our conversation short.

On page seven, you see just the wrap up of the numbers quarter over quarter. So you see the sales volume is 34% higher than what we experienced last quarter in '07, and a -- slightly 6% lower than we had last quarter, more than explained by the 22% reduction on the pulp export market. And offset relatively by the paper domestic market where we experienced 15.4% growth quarter over quarter.

On net revenue, we have BRL990 million, almost BRL1 billion, this is 20% -- 21% higher than last year, and 1.4% lower than what we experienced last quarter.

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Here on the net income we had, as I mentioned before, BRL293 million of loss, negative. And this is more than explained by the exchange rate variation that we are going to talk shortly as well.

Cash cost BRL453, this year it is interesting to see that quarter over quarter we saw a 6.8% increase. We are going to talk about this later also, but I can just mention upfront that on the operation side we had a better performance than what we had before. We are continuing to reform our specific consumption of chemicals is improving, and last year we experienced some cost increase on the chemicals price side, but in the consumption side as well, as we increased the wood coming from our peasants, the farmers that provides the wood for us.

However, I would like to underline that we are now as we have a cash cost of BRL453 this is 15% lower cash cost than we had last year at the same time. So this I think that's in interest.

EBITDA level as of 3Q, BRL365 million, 37% higher than same period last year, 3.3% higher than last quarter. In dollars, we have EBITDA \$219 million which is 57%, almost 6% higher than what we had last year, which we can translate in 36.9% EBITDA margin.

Exchange rate, everybody know, this was 1.67, compared with 1.92. And I have already mentioned our ratio net debt to EBITDA as 3.38, last quarter we had 3.19, and in '07 Third Quarter was 3.9.

Page eight, we have this same figures now as we compared first nine months '07 to '08, sales volume 38% higher, paper volume 2.1% below last year, but we are on track to have this numbers in the -- or zero or a little bit higher than last year. Pulp volume is 102% higher than last year, net revenue 21%.

Net income, the loss, the accounting loss that we mentioned puts us in a situation of 95% lower than last year, nine months. EBITDA, 29 -- almost 30% higher. EBITDA in dollars 53% higher. EBITDA margin 2.2% or points higher, and here you see the impact of the exchange rate as well.

On page nine -- this is my last page -- it's just the -- putting I think the key bullets that we would like to call your attention. The first one is EBITDA record in the quarter despite the very stable environment, business environment that we faced during the Third Quarter, better paper price, better volume in the paper business. So we have better volumes, better price, and so the paper business is also actually improving to the results.

The exchange rate caused this accounting loss. However, this is going to be a outstanding situation for the companies, not only for Suzano, but may be to Suzano where we have our revenues, prices to -- already to 60% in dollars through our exports, and we have a perspective to have this -- more than these. So the exchange rate caused the one-time impact in our balance sheet. We are going to pay a higher debt in the next year.

Our average duration of our debt is almost four years, so we are going to have time to pay this. However, this one time however if we have the higher levels of exchange rate we are going to have a good -- very good benefits to our cash generation. And this will be for all the coming quarters as we see our stronger exports continue.

Also the capital structure, I have already mentioned the BRL1.7 billion in cash, or in cash equivalents, was a very good situation for us whereas the liquidity is 10 points.

Our hedging policy is very conservative, very consistent. The Company has worked out always in this very conservative, very consistent, not losing opportunities, but always the time (inaudible) as the dollars we are receiving from our exports through the hedge position, always with a very, very clear direction, which is protect -- to hedge our sales -- that is the revenue, to protect the revenue. And so we feel confident compared with our operating plan.

So we don't have the last year the derivatives, we don't have target forward, we don't have difference in the (inaudible) derivatives. What we have explained our real hedging position, up to 40% of our availability becoming always becoming 18 months, we -- always when we had opportunities to go to these -- to sell dollars upfront in a very good value compared to our operating targets.

We had -- so we had been -- this has been a very good policy. We have protected our revenues during these months and we have for the last two, three years. It was very good, very positive, and now -- and we are going to continue doing that, to focus on the cash protection, to focus on protecting our revenues, and we are continuing with this conservative hedging policy. In other words this can be another -- we can talk, have additional information as requested during the Q and A.

The new growth cycle was the announced during this quarter. We announced this growth cycle in July. We have -- one of the questions that we have received is that, if we are going to continue, or we are going to discontinue our projects due to this organic growth cycle that we have announced.

The answer is that we are going to continue mainly because now what we are doing is to prepare -- we are preparing the forestry. So this is the lowest part of the investment, and this is key because it takes time. So we are maintaining our schedule for this organic growth project. The decision relates to the industrial investment. Those decisions are going to be taken as we move for the Mucuri expansion.

This is going to happen in the First Quarter, First Quarter of next year, so we have time to analyze and to go back to our board of directors to analyze the situation despite -- about moving forward or not in the Mucuri expansion. For Maranhao site we -- the decision is going to be taken in -- only in 2011. So in 2011 this is going to be great if we continue as described.

For now we have -- we are now four, five weeks of big turmoil, the big financial breakthrough -- breakdown as you see in the worldwide market. So this is not the time for

us take decision. In this -- more important than that is that we don't need to take the decisions now. So we are going to take the decisions as required. And now the only decision that we have taken is to continue the preparation of the forestry.

And do you know that we have -- the forestry is very low cost compared with other projects, and we have partners like Vale, in Maranhao project. They are continuing the preparation of their forest-based to serve Suzano's plans in the future.

So for the new growth cycle we are continuing, we are going to continue the forest-base, and we are going to take the decisions as -- during the timeline that we have announced before.

Then the final is, everything is related to people. We are continuing to improve, and our people promoting some of our -- people -- the talents we have inside the Company, and bring some people from outside. Here we have two or three movements, important. We just hired Carlos Griner from GE, where he was serving as the Latin America HR director.

He is a very experienced HR person, engineering from -- based academic background, but more than 15 to 20 years in the HR. Ten years with GE, five years working outside Brazil, in US and Mexico. So Carlos Griner is bringing to us a very good experience from GE, 10 years of GE, and this is a key preparation for this new growth cycle that we have. So we are investing there.

Then we have some changes also, as we look for the future we see how important it would be -- this sufficient training area, and new business, M&A alternatives, and also the relationship with an investor.

So we invited Andre Concepto [ph] to take over this unit where he is going to lead this strategy, the preparation formulation and also the implementation up to the delivery to the business units for the operations -- the operations after the investment.

So this was one important change. Carlos Anibal moved from the pulp business to take over the business units, and the paper business units, sorry for that. And so this was an important change, also internal move that is working out very well.

So having said that, we are going to be ready to answer the questions, we have all our teams here and we will be more than happy to answer the questions. Thank you very much for attention.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we will now start the question-and-answer section. (Operator Instructions) And our first question comes from Pedro Grimaldi from Goldman Sachs. Please go ahead.



**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Hi, hello this is Marcelo Aguiar. Two questions for you Maciel. Thank you for the call. The first one is related to the hedge position that you have. I mean, you are selling dollars. So what is -- I mean, based on the full financials I can -- I arrive at the conclusion here that you have \$1.7 billion on pre-export financing. And you just said in your speech that the average maturity life is four years, I think.

So we are talking about something like \$400 million per year of your exports tied to that -- with pre-export financing. Anyway my number, it could be wrong, right depending on the full price and the volumes next year.

I mean, we're working with \$1.3 billion of export next year. So you have an excess of like, let's say, \$900 million to sell dollars. So you adopt your strategy to hedge the full excess of export, or -- because there you already sold \$500 million, which is a pretty big number?

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

Marcelo this is Bernardo. Good morning.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Good morning.

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

There are two different things here. First of all, on this dollar exposure, and the way we do, first of all you touched on the borrowings that we have, the \$1.7 billion of trade finance. This is our typical strategy that we have been following. We use this to lower our cost of debt. We have access to lower interest rates, and our policy on this portion is to have a cash flow hedging, and using our natural hedging.

Since we are exporters we match all of our future, let's say the maturity of all of these debts in each individual period, the exports that we will have in that future. So this is the amortization of those and will be conducted over the period of more than four years. So this is exactly what we have -- we have been doing. In that sense we say that we don't incur in any currency risk for the debt portion in terms of trade finance. So this is one portion.

The other thing that we have been doing is now focusing on securing an operational margin given the fact that the Real has been appreciating over the last -- well, between 2003 and now -- was to hedge some of our income on our sales revenue.

A portion of this, of up to say 40% over a period of -- maximum of 40% over a period of up to 18 months. Taking into consideration that we could secure our, let's say, fixed exchange rates in the futures market which were good for the purposes of our plan, of our budget if you like.

So this is what we have been doing in addition to that. So what we have -- at any time that we found that we had an interesting exchange rate, a fixed exchange rate in this field of up to 18 months which was equal or better than our plan, then we swapped to a fixed rate. This is what we have been doing.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Sorry, Bernardo, let me see if I understood it properly. I mean, your maximal exposure in terms of non-deliverable forwards, so selling few dollars in the future is 40% of what, of your exports revenue in the next 18 months, that's the maximum that you can do?

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

Yes we can --

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay, okay.

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

You have to be a little bit more precise. It's not only income, because we have payments, we have rates which are -- these are smaller volumes, but then it's our liquid exposure in terms of exchange rates.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay. And can you help us, or provide some -- what is your -- I mean, what is the average rate that you have? So you have sold in the 500 million notional value. That's very important.

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

Yes. We will -- as you know, we will be publishing this new requirement by CVM that will -- companies have to disclose what -- all of the operations that we are going to -- that we have in terms of all of the factual derivatives. As you know, this was published last Friday. So we are preparing all of these statements so you will know this in a few days.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay. So last question is related to paper prices in Brazil. If you can elaborate a little bit, which is the domestic price compared to the international uncoated paper price -- the current FX rate.

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

Could you repeat that Marcelo, the question? Could you repeat it, please?

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

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Yes, for sure. So -- I mean, in the past we have been seeing domestic prices at a premium to international uncoated free sheet prices. I suspect that at the current FX rate we have maybe a discount or a parity. So I would like you to elaborate which is the current -- premium or discount for uncoated free sheet in Brazil at the current FX rate.

**A - Andre Dorf** {BIO 15460232 <GO>}

Hi, Marcelo. This is Andre. As reported in our press release our prices in Reais are growing. I mean, we reported almost 3% price growth in the Third Quarter. So they are stable and growing in Reais. And the corresponding price in dollar terms depends on the exchange rate that you use.

And this is quite volatile as of now. So there's still -- a premium would depend -- the amount of the premium depends on the exchange rate that we use. So I'll say that the prices in Reais; it's a better process of what's going on, and they are growing, and they grew in the Third Quarter.

**Q - Marcelo Aguiar** {BIO 3721791 <GO>}

Okay. Thank you, gentleman.

**Operator**

Our next question comes from Debbie Bobovnikova, from JP Morgan. Please go ahead.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Hi. Good afternoon everyone. My first question is on your outlook for consolidation for a possible M&A. I heard some of the snippets from the Portuguese call, and it looked like you were pretty optimistic that there could be interesting opportunities.

Well my question is, if I look at your leverage ratios, it seems like you're already at what I would consider maximum leverage ratio, if you look at net debt to capital, net debt to EBITDA, EBITDA to interest coverage.

So I guess my question for you is, do you see -- what kind of targets do you see as being reasonable for a possible -- targets, or possible consolidation targets, acquisitions in terms of millions of dollars that you can take on, and do you expect to have help from the Suzano holding company in financing those deals?

And also I guess, all of that related, what do you feel is a reasonable number for cash flow generation for the Company for next year that you're assuming that makes you comfortable with the leverage ratios and the ability to look for more opportunities? That's my first question, thank you.

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

Thank you very much Debbie for your question. The -- what we have mentioned before is that the optimist -- what -- we were saying that in this environment, business environment

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that we are entering now, always you are going to have opportunities and risks.

And Suzano, what we just mentioned answering a question, that if you -- we are considering or paying attention for a possible consolidation what we answered was, first, we thinking consolidation is very good for the industry. So this will be very good for the industry. So this is in overall terms, we'd like to see it happen, and it would good for -- if Suzano could participate on it, this is first thing.

The second thing we mentioned is that we have a -- the cash situation. And also you touched the point that the controlling shareholders, they have a possibility to participate in the -- in more investment in the Company in the paper business. So we could consider it, and participate in any opportunities.

We mentioned also that we don't have anything in front of us, as we speak. But we know that the opportunities will come. And we are going to analyze. We are not saying that we are going to go ahead and close any deals in the coming months.

However, we just mentioned, answering the question that we are going to be ready to go. Just we'll give in a -- just in perspective, is that if we decide to -- if the organic growth that we can finance from our cash point the (inaudible). For the, let's say non-organic growth for M&A possibility. We cannot -- one of the alternatives we have is to approach the capital market.

And given that if our controlling shareholders said today, they own about 50% of the Company, if they decide to -- if we decide to approach the capital markets for open specific opportunity, as they have sold the petrochemical business, and they have announced that they were going to consider seriously to invest more on the paper business, this is not going to be a big deal for us to go without the resolution of the controlling shareholders. This is something that is there.

So this is what we can say about -- you guys know about the petrochemical business. And the situation of this unit where (inaudible) now is a sign that we're seriously paying attention to the strategy as we move forward. And we are going to look at consolidation.

Cash generation for next year is very soon to talk. We -- you know that Suzano hasn't presented guidance to the market. This is our internal policy. But even though we have decided what's going to -- too difficult at this time to confirm. Because we are in the middle of a very difficult scenario, we don't know exactly what's going to happen.

And from our side, what we are doing is to just to work very hard on the productivity, trying to protect our cash to improve our efficiency. So I think it's -- sorry for that but I can give you any guidance on the cash generation and also about the ratio that the EBITDA -- net debt to EBITDA. Like to see -- Andre would like to attend.

**A - Andre Dorf** {BIO 15460232 <GO>}

FINAL

Net debt to EBITDA, the ratio of net debt to EBITDA depends on the EBITDA of course, and the exchange rate has affected the net debt immediately already taking to account in this ratio, but has not affected the EBITDA yet. And it will affect on the coming -- it's affecting now.

And not on the Third Quarter, but -- and it's going to affect in the next periods. So it's a picture that we're seeing now, this ratio. But it should improve as we capture the benefit of the current devaluation in our cash generation in the coming months.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

(Inaudible) -- stay flat.

**A - Andre Dorf** {BIO 15460232 <GO>}

I mean, taking to account the current devaluation, as of today, we're talking about 40% to 50% currency depreciation in comparison to -- yes, in comparison to 160 -- 1.6 that we had in the past. So even with the current levels, we are -- the net effect is quite positive for the Company.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Thank you for that answer. Just a couple of follow ups on that. One, is on the cash that the holding company has. Is it still that, roughly \$1 billion that they received from the sale of the petrochemical assets, is that still the amount that's been held there?

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

Still have -- what they have announced this was the -- what -- they have announced that November first last year they sold the petrochemical business for \$1.1 billion.

And what they have announced is that most of this money is going to maintain to -- they have decided to invest in the other business, mainly to the paper business. So I can't tell you exactly the number, what I can tell you is that (inaudible) that they are considering -- they are ready to consider a opportunity in the paper business.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. Great. And for the short-term debt that you have due over the next 12 months, I believe it's about BRL900 million. Who is that debt due to, and are you seeing any push back from the supplier financing, because we're hearing a lot of issues in other industries with that. I'm just wondering if you've seen any change as a result, in your credit market.

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

Debbie, this is Bernardo. Good morning. First, most of the short-term debt is related to the (inaudible). So again its dollars, and the effect of the dollars will be -- we will be receiving the same dollars that would be used to pay the short-term debt. The other thing is no protection.

All of our financing -- you know that we use basically two kinds of financing, one is trade finance for general purposes, and our working capital liquidization. And the other one is project financing, which we use mostly to build the Mucuri. Well this is over 12 years, with average maturity of eight years. So this is well beyond the current period so no pressure whatsoever.

**Q - Debbie Bobovnikova {BIO 4684018 <GO>}**

Great, thank you for that. And one more question, if I may, on a different topic. Antonio, you were there at the recent conference, a week-and-a-half ago, and you made some very strong comments along with the CEO of VCP as to your outlook for supply discipline in this industry, and the need to basically increase the supply discipline.

And in the back of that, there were several announcements of market related downtime to take place in the Fourth Quarter by the Brazilian producers, pulp producers. Now, it seems like you're slightly pulling back from those comments and saying that if the markets continue to be weak and if prices don't stabilize then you'll have to start selling more volumes than basically taking down prices as a result.

And so my question is, just -- can you just tell us what your thinking is, what you're looking for in terms of these market downtime plans and just take us a little bit through the rationale that you see for cutting back now and then building up inventories to sell into first half of '09. Thanks.

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

Debbie, this is very interesting, important question, because of -- taking for the chance for qualification on that. This is -- the downtime was announced not only by the Brazilians. We -- last night we had, they had Rice reports. We saw also during the day -- yesterday there were Holton Rice reports, and the numbers is very big, of the downtimes that have been announced for the First Quarter -- really big.

So we haven't seen that this is -- and most of that let's say the percentage, the 20%, 30% of the downtime that they have announced -- that has been announced. So the -- it's very important in a situation where we have this big turmoil, like we are seeing now is -- we take the opportunity to reduce production like we did, because our inventories was -- as we haven't sold our volumes to China last quarter, we decided to take out this volume to wait and see what's going to happen in the market.

So we think that this is very important, not to cause a big price war in the market, as we have with some very specific -- that could be a short term -- we know that this price is serious, it's real, it's going to happen, it's going to touch all the segments and the business worldwide.

So -- but the (inaudible) of these prices, in terms of points in price, nobody knows what's going to happen. So we decided to take -- took the initiative for all our volumes to reduce and wait and see what happens. What I mentioned this morning, was that -- we had --

somebody mentioned that -- compared our production capacity to sales that we had in the last quarter, we were at 67 -- below 70% capacity.

What I mentioned, if this continues for a long period, we as the lowest cost producer would likely -- we are not going to be at 70% [ph] capacity if this continues for a long term business. Probably this is -- we don't know exactly the ratio that we are going to see. But lot -- now that's most of the higher cost produce continued producing (inaudible).

So in short, I'd like to tell you that our strategy is to manage our inventories, to avoid to have a big inventory. This is not good for the investment, not good for Suzano to avoid big inventories, and to analyze and to define our steps considering volumes opportunities, price opportunities exchange rates in the deals as we close the deals.

So in short, downtime is an opportunity that we always will have to continuing to have a more -- to much better demand and to offer. However, we are among the lowest cost producer, probably in the -- in this season of results, we have seen the lowest cost producer that we have seen. So and this is a -- something that we can leverage as soon as we think that this is correct for our company and for our shareholders.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Great. Good answer. Just then, I guess one last question, you just touched on cash costs. I noticed that in the press release you mentioned your cash costs just from Mucuri mill, do you have a consolidated cash cost for the Company including your Cubatao expense. I'd imagine that increases your overall cost.

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

Debbie, we only -- this is Bernardo. Again, we only disclosed our Mucuri cash cost.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions) Our next question comes from Carlos De Alba from Morgan Stanley. Please go ahead.

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

Good morning, here in Teheran or good afternoon in Brazil. My first question is -- could you comment on where do you see the paper prices in international market moving in the Fourth Quarter, and at least in the First Quarter -- in the first half of 2009? That will be my first question.

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

Carlos, this is Carlos speaking. As of today we don't see any change, okay. In upcoming months we see prices in Europe and North America very stable.

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

Okay. Thank you very much. Then second question is, you're going to take some downtime in Mucuri in the Fourth Quarter, reducing production by 30,000 tons. How much of that is going to affect your shipments during the quarter? Are you going to reduce your shipments also by 30,000 tons?

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

We -- no, actually it won't reduce the shipments themselves through our external terminals. We're going to basically reduce our inventories here in Brazil.

The production counts that we have is going to be more than enough to maintain the shipments. What we have is going to reduce the levels of inventory of -- inventories of production that we haven't sold last quarter.

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

How much are your current inventories right now?

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

We see -- just -- we just mentioned that our target is to have our inventories between 35 to 40 days, and we are above those numbers nowadays, and this will be corrected with the downtime.

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

Okay. Then I had some questions on the -- on your CapEx, is there any CapEx guidance for 2009 at this point?

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

Well this is Bernardo, on our CapEx for 2009 the basis of course our maintenance CapEx, this is running at the order of BRL350 million per year, so this is -- continues to maintain a large portion of that of course, for the -- and we harvest the trees, we have to plant them again, so almost 50% of debt is related to that. So this is the base level.

Then we will also have something additional which we are now in the -- our budgeting plans, we have not finalized them. But as we have announced, we'll continue to form our forest base for the new -- the growth cycle. This is going to be done over -- to be done over a period of seven years.

The new cycle is a very interesting one, in the sense that the forest base is very low cost. The cost of land is growing in the areas that we have. So we are finalizing our budgets, and then we will -- when we have them ready we will be able to provide this information.



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At this point I would like also to make some clarifications. There must -- maybe has been some misunderstanding on the question by Marcelo Aguiar, how much is our -- we do in terms of our hedging for future -- in terms of the futures market for our operating margin. We operate with a limit of 40% of our dollar exposure over the next 18 months.

By that we mean our sales -- our revenues in dollars less all of our commitments in terms of freights and debt service, and this is running at the rate of \$1 billion per year. So the maximum is 40% of \$1.5, \$1 billion [ph] this is the max. And we disclosed (inaudible) by the end of this quarter that we were at the level of BRL500 million.

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

Then -- thank you, Bernardo. My final question will be regarding -- in the income statement on the (inaudible) would you disclose the losses on the monetary and ethics variation, the loss was BRL451 million, out of which my understanding is that BRL293 were related to the impact on the US denominated -- US dollar denominated debt. Could you explain what the remaining portion of that loss is related to, please?

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

The -- both of the monetary variation in the line is related to the dollar denominated debt. So that's the bulk of this --

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

Then there were -- so we excluded BRL293 million related to the impact on the US dollar denominated debt? We still have another BRL158 million in loss. Is there any one thing or a couple of things that explain that difference?

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

Look, if you look at the -- our press release, you are sure then you have all of the information there. The official financial results we have, the BRL650 billion the total, and most of that was related to the exposure in terms of the balance sheet, of debt, that was the largest portion of that.

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

Right. Okay. Thank you very much.

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

Sure.

**Operator**

(Operator Instructions) We will now pause to allow participants to poll for questions. This concludes the question and answer section. At this time, I would like to turn the floor back over to Mr. Antonio Maciel Neto for any closing remarks.

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

Okay. Thank you very much. We will be available for this if you have additional questions Andre will be more than happy to answer the questions. The whole team will be available in the -- just -- please feel free to call and send e-mails, and to talk if you have additional doubts.

If you have something that you haven't understood so far please don't hesitate to call us and to let us know. We're going to do our best efforts to give all the clarifications that you want.

We have a discussion about the pulp market. It's going to be a very tough business as we move forward. And because we have the demand softening we would like that more in China. In China we have offer as well as -- except offer from some of Asian producers. And so we have this difficult situation in the market in China. In the whole of Asia but mainly in China.

And we are going to handle the situation as we move in the coming months. But we feel that we are very well prepared for this because of the old investment that we have, that Suzano has done during the last few years. You see that we are we are -- with our cash cost 50% lower cost than we had before in Mucuri, because Mucuri's margin is 90%, 95% of our (inaudible). So that is why we spoke -- this reason.

So with the low cost, and that the exchange rate is helping a little bit, we are going to continue working out to improve our productivity and the operational standards to face this tough market. As we move you are going to see and analyze opportunities for downtime if needed, or for production. And in selling as a competitive basis considering always volume, price, and the exchange rate as we talk.

From the cash standpoint we are -- we have a solid position. We are playing in a market only selling our future -- selling the future markets with our dollars this is a very common and simple swap operation. Always where we see opportunities as Bernardo and Andre mentioned that's equal or above our targets in our budgets. We have sold dollars to protect our revenues up to the limit that we have mentioned.

So from the cash standpoint, and from the approach that we have on the market, we are also very comfortable with what we have. As to -- CVM has required the additional disclosure on this Friday. We are going to prepare it, and so we're going to have all the details and numbers.

But we are going to confirm in the coming days what I'm saying. So it's a very comfortable situation, very conservative considering the revenue we have in dollars (inaudible) to what we have committed is we follow the steps -- upfront sales in the future market. And that's it. So this is also something that is good that has happened.

We are going to protect our cash as much as we can. We are going to spend only the money for the organic growth on the first phase. We are going to reduce the fixed cost,

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and the order in postponing projects that we can postpone without serious commitment about the future of the Company.

And from one side you have this very strong -- and more in the effort this productivity efforts that has led by Ernesto here, that's more important than ever. And the organic growth project is moving. And we are going to take decisions as we have those in our timeline starting the fiscal of next year.

And the last thing in -- and June 11, this will be important. And also we are going to be paying attention for the movements in the market. Our strategy of being a integrated paper -- about 1.1 million tons of paper as well as being a big player -- almost the whole market is our key, a strategy that we are following. However, we are going to be paying attention for opportunities as we move forward.

So thank you very much for the attention and for coming for this conference call this morning. And again, please feel free to contact us if you have any doubts. Thank you very much.

## Operator

Thank you. This concludes today's presentation. You may disconnect your lines at this time. Have a great day.

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