

Q1 2015 Earnings Call

Company Participants

- Carlos Aníbal de Almeida Jr., Executive Officer-Pulp and Paper Business Unit
- Ernesto Pousada Junior, Chief Operating Officer
- Marcelo Feriozzi Bacci, CFO & Director-Investor Relations
- Unverified Participant
- Walter Schalka, Chief Executive Officer

Other Participants

- Jonathan L. Brandt, Analyst
- Juan G. Tavaréz, Analyst
- Karel Luketic, Analyst
- Leonardo Correa, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Analyst
- Vincenzo Paternostro, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good evening, ladies and gentlemen, and thank you for waiting. Welcome to Suzano Papel e Celulose Conference Call to Discuss the Results of the First Quarter of 2015. All participants will be in listen-only mode during the company's presentation to be made by Mr. Walter Schalka, CEO of the company. Afterwards, we will have a question-and-answer session, when further instructions will be given. I would like to mention that each participant will be allowed two questions.

We would like to inform you that some statements that are to be made in this call may be projections or forward-looking statements. These statements are subject to known and unknown risks as well as uncertainties. And they may lead to these expectations not to materialize or be substantially different from what was expected.

These risks include, among others, changes in the future demand for the company's products, changes in the factors that affect both domestic and international prices of the products, changes in the cost structures or changes in the market seasonality, changes in the prices charged by competitors, exchange rate variations, changes in the political-economic scenario in Brazil and the emerging markets and international markets.

Now, I would like to give the floor to Mr. Walter Schalka, who will start the presentation. Thank you.

Walter Schalka {BIO 2099929 <GO>}

Good evening, everyone. It's a great pleasure to be with you to present the results of the first quarter of 2015 of Suzano Papel e Celulose. Michelle Corda is here with us, she is Investor Relations Manager; Carlos Aníbal, Pulp and Paper Business Unit Officer; Marcelo Bacci, our CFO; Alexandre Chueri, our Forestry Officer; Carlos Griner, our Human Resources Officer; Ernesto Pousada, our COO.

I would like to start the presentation with the highlights of the first quarter. Another quarter of evolution of our EBITDA that reached a record in the first quarter, R\$932 million, 43.4% margin. This EBITDA was reached due to many different drivers. And the main ones were the significant increase in the volume of pulp on a year-on-year basis growing 84.2% year-on-year, also due to the exchange rate - the average exchange rate for the company increased vis-à-vis the previous quarters, but also due to the costs and expenses that continued to go downwards. And this is a fundamental target for the company.

I would like to highlight our leverage. We reached a level of 3.9 times net debt/adjusted EBITDA ratio. I would like to remind you that we finished the project in Maranhão with 5.2. And 13 months later, we have already reached 3.9. And this is a very relevant indicator for the company for the future. And we will continue to work, so that this indicator continues its downward trend.

A special highlight is the consolidated cash cost reduction. In a year-on-year comparison, the reduction was 10.8%. Also, an increase in the cash cost vis-à-vis the fourth quarter of 2014, basically due to the effort to reduce for wood due to the Imperatriz stoppage that generated the lower availability of energy for sale with the grid.

A relevant highlight also is the approval of one of subsidiaries, FuturaGene, for the commercial use of the genetically modified eucalyptus gene, 421 (sic) [H421] (04:43) was approved by CTNBio, 18 votes for and three votes against. So we have the authorization for the commercial planting. And this is a very important competitive factor for the company for the future.

Regarding pulp, the highlight is the fact that in the last 12 months, we reached the prediction of 3.2 million tons approximately, getting close gradually to the 3.4 million of our capacity. And 3.24 million here with a reduction in our inventory. That was very important in the first quarter. And the reduction of our inventory was due to the major growth in consumption that has been happening in all the regions, namely, North America, Europe and Asia.

Growth of pulp sales - of eucalyptus pulp was 18.2% in this quarter, a very robust growth, which allowed the company to have a higher volume of sales of pulp during the first quarter. Besides, it's important also to mention the gradual price increase that we are

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implementing. In pulp, we have just announced a new increase for North America. And, today, we have the list price already announced of \$790 in Europe, \$680 in Asia and \$900 in North America.

The paper market, on the other hand, was weaker than we expected or that we would like to see in the first quarter. The paper market in Brazil had a drop of 12.6%. And our volumes went down by 12.9% in the domestic market and maintaining market share in the region. We increased our focus on exports for the future, but we imagine that the paper market tends to have a weaker year in 2015 due to the macroeconomic situation. And in spite of that, we had a 10.6% increase in the paper's average net price on a year-on-year basis.

Some data about our operating performance. The first one is a record sales in the last 12 months, R\$8 billion. Gradually, we are capturing value in the operation that we have and improving our top line in the organization. On the other hand, we are gradually reducing our COGS per ton. And in the last 12 months, in March 2015, we reached R\$1,265 per ton. And this is through a series of investments and operating efficiency gains that we have been obtaining in all the areas of the company, starting with forestry, then going to our plants, logistics, commercial. And all that has been allowing us to achieve competitive gain for the company.

Administrative and selling expenses in the last 12 months - we reached the lowest figure with 9.1% year-to-date on sales. And this operational efficiency and cost discipline and expense discipline has been obsession on our part. We will continue to work on all these line items in order to generate contractual competitiveness for the company.

Regarding cash costs now, the highlight for the cash costs is the following. This year vis-à-vis last year, this is a major evolution that we achieved in terms of chemicals and fixed costs because of Imperatriz. And in relation to the fourth quarter of last year, the fixed cost was kept stable per ton. And due to the mix and the average rate is here and in terms of chemicals, as you can see on the slide, due to the non-operation of the Imperatriz Unit for the downtime, because of downtime with the higher availability for the sale of energy and this will continue in April.

That is to say, the price of energy in the north that was separated or different from the other areas, so brings about the difference in the price of energy vis-à-vis between the north and the south. So the arbitrage is smaller than last year. And this is why, in Mucuri, we started to export energy. And exports are growing on a monthly basis in Mucuri.

The company indebtedness is dropping steadily. And it will continue to drop steadily, in spite of the fact that in the quarter we had a major increase in the net debt due to the exchange rate devaluation from R\$2.65 on December 31 to R\$3.21, the exchange rate on March 31 this year. And in spite of that, there was a drop of 4.1 times in December from 4.1 times to 3.9 times in March.

The speed of this reduction in our indebtedness has to do with the price of pulp and the exchange rate. However, our expectation is positive in terms of accelerating this decrease

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in the company's leverage. The company will continue to seek liability management operations. And we want to increase the duration of the company's debt, together with a cost reduction for the company's debt. And given the evolution of the figures obtained by the company, we consider that it will be possible to bring about new operation at lower cost and with longer durations. And we will continue to work towards this objective.

Investments in the first quarter, R\$423 million, in Q1 2015. And we would like to reiterate the fact that our CapEx guidance for this year for R\$1.5 billion is maintained. We are not changing it. R\$1.1 billion in maintenance or sustained CapEx and the remainder in modernization. And we would like to mention that right now the Suzano unit is in a current scheduled maintenance stoppage.

And together with that, we are making all the connections for the coming on board of the new digester of Suzano. And this will probably happen at the beginning of next week, on May 16 or May 17, when we will be starting up the new operation of the digester. And after the learning curve, we will start to tap into the benefits from this digester. And these benefits are relatively important for the Suzano plant.

I would like to highlight the next slide, because I consider it one of the most important in our analysis, in my personal opinion. And during our press conference, we talked about the operational cash generation. And we said that this is one of the most important indicators to measure return on invested capital, ROIC, and using this figure vis-à-vis the capital invested by the company.

And Suzano has been gradually increasing operational cash generation quarter-over-quarter. In the last 12 months, the company had an adjusted EBITDA of R\$2.9 billion. And if you deduct from that the sustained CapEx and the working capital, this means an operational cash generation of R\$1.7 billion.

This indicator is an indicator that we track on a monthly basis at the company. And this gives us a possibility for the necessary cash generation in order to pay the interest that we have to pay and also the expense on CapEx and the dividends that we must pay, besides reducing our indebtedness. So as far as we are concerned, this is a very relevant indicator and an indicator that has been growing very fast in the last few quarters.

And I would like to highlight our strategic view about the future. We continue to have, as our strategic view, the maximization of our asset base value. And we can go after that in two different ways. The first one has to do with structural competitiveness. We will continue to bring new ideas, new projects in order to seek structural competitiveness.

And this has to do with harvesting equipment and with radius and the energy efficiency of the company, the plants and retrofit and the consumption of chemicals – specific consumption of chemicals and other issues having to do with the plants. In-sourcing, as well and associated to the operating efficiency gains that we are achieving. Over time, we will be achieving more and more structural competitiveness.

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Then the good news that I would like to reinforce is that this is something that is part of the DNA of the company to-date. Everywhere at the company, people talk about what can we do tomorrow better than what we are doing today. And this cultural transformation that is happening gradually as a company has been generating a multiplication of ideas. And, gradually, we start applying these ideas in each one of the business areas of the company, in each one of the activities of the company. So I'm very pleased to see that the company, as a whole, has been generating new opportunities. And, over time, this will be giving us more and more competitiveness for Suzano Papel e Celulose.

On the other hand, we are looking for businesses that are adjacent to the main or the core business of the company. The issue of petrol (15:53) rationing is already being developed. We already have plans approved by the board. And implementation - it will be operational in December this year. And we're seeking other adjacent businesses in order to create value to our asset base. So very soon we intend to announce to you other alternatives, other opportunities to create value.

On the other hand, we want to say very clearly to the whole community that we believe that consolidation creates more value than organic growth. The company is not prepared today for consolidation due to the leverage that we have, but in the future this is what the company intends to do.

So, now, I end my presentation. And all the members of our executive board are now available to answer your questions.

Q&A

Operator

Ladies and gentlemen, we will start the Q&A session now. The first question is coming from Karel Luketic from Bank of America Merrill Lynch.

Q - Karel Luketic {BIO 16467278 <GO>}

Good evening, everyone. Thank you for the question. Carlos Aníbal, could you give us an update about the price increases of pulp and also China demand, inventories in China? And the second question has to do with the paper business. To which extent can you offset part of the weaker domestic demand with imports and maybe you could talk about your coming pricing initiatives?

A - Carlos Aníbal de Almeida Jr. {BIO 6275986 <GO>}

Good evening, everyone. Karel, thank you very much for your question. Let's start by the pulp question. This is a very favorable moment in the market fundamental support. The price dynamics that we have in force, we see a sound demand, a robust demand, in all our main markets. Be it due to the new capacity for tissue or the seasonality in North America and also the replacement in some regions and mainly in the United States of fibers for eucalyptus. And we see an important move in this direction. And March was a

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very strong month, growing 10% vis-à-vis February. And the highlight in March, according to CBDP, was the growth in eucalyptus that reached 20%.

In the first quarter, demand grew 3.4% and the major growth – the highlight was China. In compiling information from many consultancy companies, we believe that at least 500,000 tons of capacity have come into the market this year. And we're talking about a value of approximately 2.5 million tons. In China alone, the expectation is that we have new capacities amounting to one million tons. Another important move that happened in the first quarter in China, we saw some producers semi-integrated resorting to market pulp in order to meet their needs due to some operating difficulties.

Still about China, we believe that this growth of demand that we saw in the first quarter is purely related to demand. That is to say, we have no element whatsoever that lead us to believe that the Chinese are doing any inventory rebuilding. We believe that this is pure demand, demand growing. And another important element that we see in China is the impact of the measures taken by the Chinese government, fighting against pollution and water pollution. And this has been having positive consequences for demand and, more specifically, eucalyptus on the supply side. Between February and May, we had about 11 stoppages in South America, three major stoppages in China and Indonesia. In May, usually, you see a lower production of pulp, mainly softwood, due to the stoppages that are scheduled for North America.

Another important element on the supply side is that, today, in the spot market, there is practically no availability of eucalyptus pulp. And this shows how balanced the market is. It is important also to say that we saw up to today the effect of the closing of the Mediterranean region. Some regions are growing in demand. And this limited supply to these regions where demand grew favor the implementation of prices in the south of Europe, new capacities in Uruguay and China. Uruguay – China woodchip paper are being well absorbed by the market. And the inventory has dropped – a major drop in the case of softwood. We are talking about nine days vis-à-vis 2014, four vis-à-vis February 2015. And we believe that these inventories are very well adjusted.

And, certainly, in the case of eucalyptus, this decreases the pressure regarding pricing initiatives. The April prices have already evolved as we expected due to very favorable fundamentals. Once again, it's important to mention what happened in China in April. The growth in softwood, sapwood was going through a moment of lots of pressure in many markets. And at the end of April, the price of softwood went up by \$10. And we see many announcements already scheduled for May. And this ultimately strengthens eucalyptus fibers. And Walter said this at the beginning. We had already announced in May and late April a \$20 increase for North America. And we are evaluating an adjustment for the other regions as well.

Although we have seen a reduction in the spread between softwood and hardwood, we believe that the current levels sustain the replacement of softwood for hardwood. So we have, overall, a positive situation. And one thing that I would like to mention about China, because it has an impact on global demand. In China, we see more than ever the effect of actions taken by the central government in terms of fighting against pollution. There is a program in the south of China to close small capacities that are considered as pollutant by

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2016. And we see a strong pressure, so that these plants may adopt cleaner technologies and more efficient technologies in terms of water usage in this context.

We see an important move happening in the replacement of non-wood for virgin fibers. Depending on the source, China will contribute between five to eight non-wood fibers. And as you increase the effectiveness of the program of pollution fighting, we will see a lower availability of non-wood fiber and a higher consumption of virgin fiber. And this ultimately strengthens eucalyptus fiber as well.

Regarding the paper market, as Walter said, we had a first quarter that was below our expectations, an overall drop in all our channels in product lines. And we had announced at the end of last year an increase for paperboard and increase in our printing and writing lines. And they were implemented. They were carried out according to our expectations. And if it were not for a different mix that we have, well, the average price would have been higher than the fourth quarter. Here we are talking about an increase of almost 6%.

In the first quarter, we saw a drop in the import of coated papers. But, at the same time, we saw a drop in demand. And we believe that there is still a relatively high inventory of imported coated papers. But we believe there will be a drop in import of coated paper in the next two months due to a less favorable exchange rate and a less favorable demand. And then, we'll be able to maybe get part of this market. We have no increase scheduled so far, but we are tracking the market. And we check what is happening in the international markets.

And, of course, the exchange rate variation cannot be totally transferred because the euro is weaker vis-à-vis the dollar. And because of that, there is an increase mainly in some countries in Latin America regarding imports from Europe. This point should be considered in our analysis in the next few months. But, so far, we have nothing programmed for this, no increase programmed for the paper market so far.

Operator

Jon Brandt, HSBC.

Q - Jonathan L. Brandt {BIO 17988091 <GO>}

Hi. Good evening. Thank you for taking my question. First, on the pulp side, I think, since the last conference call, there's been a few announcements of potential pulp capacity coming on. I'm speaking specifically about Fibria. Eldorado's planning another pulp plant in the APP and all that should come in 2017, 2018. So I'm curious as to your thoughts there, if you think all of that capacity will come on and what that could mean for pulp prices in 2017 and 2018?

And then secondly, I was hoping to get a bit more clarity on the paper side. It looks like for the past couple quarters that export prices have been above domestic prices. And I know that there's some additional costs associated with exporting. But I'm curious if you could touch a little bit on the profitability of exports versus domestic sales on the paper side. Thanks.

A - Walter Schalka {BIO 2099929 <GO>}

This is Walter. Jon, thank you for your question. I will answer the pulp part and then I will give the microphone to Carlos. In terms of pulp, we have no intention to talk about the capacity increases by other companies specifically. And we believe that, conceptually speaking, we shouldn't place volumes and capacities at a higher pace than the growth of demand because it will certainly lead to a drop in prices and the price volatility over time. And we expect our competitors to be rational in terms of creating value for the industry and for each of the companies operating in this industry.

A - Carlos Aníbal de Almeida Jr. {BIO 6275986 <GO>}

This is Carlos, Jon. Overall, in the domestic market, we still have a profitability that is higher than profitability that we get with exports. Of course, we do this kind of analysis on an ongoing basis. And we always try to maximize our profitability. Nevertheless, with the exchange rate that we have today, once again, the domestic market is more profitable than our export market.

Q - Jonathan L. Brandt {BIO 17988091 <GO>}

Okay. Thank you. If I could just follow-up on the pulp side, it seems like what you're saying is that demand is still pretty robust. There's a lot of people. And I think the market is anticipating a second half weakness in pulp prices. Are you expecting the same or would you expect prices to remain relatively stable in the second half of this year?

A - Operator

I would rather not make any projection about what will happen in the second half. But I repeat that we are very bullish regarding our new paper capacity made in China, mainly in tissue. This could help absorb these new capacities.

Q - Jonathan L. Brandt {BIO 17988091 <GO>}

Okay. Thank you.

Operator

Juan Tavarez, Citi.

Q - Juan G. Tavarez {BIO 15083199 <GO>}

Hi. Good evening, everyone. Just two questions. My first question is on your cash generation. I noticed that your working capital increased, so you kind of turned free cash flow negative this quarter. I'm curious whether we should expect a reversal of that working capital use or should this be a kind of a consistent level for the rest of the year.

And my second question is on pulp, just to touch on the points you've mentioned, seeing stronger demand and better pricing. I'm curious if you've seen any incremental supply coming up available for sale into the export market because of these positive conditions. Usually, when we see the market staying at these levels you tend to see some producers

debottleneck some projects. I'm curious whether the currency in Europe plus the trend we're seeing in demand that you mentioned, are you seeing any incremental supply coming out of the woodworks?

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

Juan, this is Marcelo. Thank you for the question. I will be talking about working capital. We have two major effects on the working capital in Q1. The exchange rate variation was the sale prices were higher both in dollars and in reals due to the price levels and the dollar value. And this impacted our accounts receivable to a certain extent. And the paper inventory due to the reasons that Carlos has already referred to, exchange rate variation, we cannot foresee that. And paper inventories, we expect by the end of the year - after some actions to be undertaken, we expect them to go back to the historical levels that we have.

A - Carlos Aníbal de Almeida Jr. {BIO 6275986 <GO>}

This is Carlos. Thank you for the question. Right now, we see no additional supply - no additional availability on the part of producers. However, it's important to track that and the difference between the price of hardwood and softwood. This is a point of attention and this point requires constant monitoring. I have just returned from Canada today where we had a meeting with clients. And the whole industry was there. And my perception was that the pressure that existed on softwood have decreased. As I was able to see, the market has apparently - prices have stabilized in Europe, in North America and there is an upward trend in China.

And there is a major difference there because, in the last 12 months, part of the growth of the demand for hardwood was in replacement of softwood. And another point of attention to be tracked in the next few months is the difference between the price of paper and the price of pulp in Europe. In the last few days, there was a positive factor that was a certain appreciation of the euro vis-à-vis the dollar and that decreases the impact in Europe for local producers.

Q - Juan G. Tavaréz {BIO 15083199 <GO>}

Thank you very much.

Operator

Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good evening. My question is to Carlos Aníbal. Can you already see some improvement in the volume of paper at the beginning of the second quarter? And what should we expect for each one of your business lines? What is the volume trend for the second quarter?

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And what about – well, export volumes have dropped by 6% in Q1, I suppose, because of competition and also because of demand in the rest of Latin America. But do you see any opportunities to sell to other countries in the region and increase your volumes? And the reduction that we saw of SG&A in Q1, is it because of the lower sale of paper in the quarter?

A - Carlos Aníbal de Almeida Jr. {BIO 6275986 <GO>}

Our volumes in April in the domestic markets – paper volumes were slightly higher than what we had in March but still below April last year. Our market is characterized now by a low visibility. And this is the reason why I would rather not make any projections about the second quarter.

There is only one element that apparently could be positive. And it has not been confirmed yet, which is the perspective of a higher demand for non-coated paper because of the federal government and the program for books for schools. I would rather not make a projection due to the lack of visibility that we have today.

For the domestic market, we saw a drop in exports in Q1, as you said. As you can see, that this whole drop happened in paperboard. And non-coated paper was practically equal of what we had last year. And the drop in paperboard is related to a difficulty that we had to export to Argentina, a situation that apparently has been normalized. So we expect this to be recovered over the years.

We will always be seeking opportunities to increase our exports, maximizing our profitability. And, as you said, and I said myself today, in Latin America, we see more competition in the market due to the higher presence of our European competitors that are taking advantage of the devalued euro in order to try to increase prices in Europe. And when they do that, they decrease the volume and, therefore, they have this volume that they are trying to sell to Latin America. So it's very difficult to predict. But, over time, we will try to increase our sales to other markets as well.

This is regarding SG&A. This has nothing to do with the volume of paper. This has to do with work that we have been doing for a long time already regarding metrics budget where we seek opportunities for cost reduction in the organization as a whole. And we understand that we have already reached a very high maturity level there. So the opportunities now to cut costs are smaller than we had in the past. But we will continue to see cost reduction on an ongoing basis in the company. So this is not a one-off situation. If you look at the charts of many, many quarters, you will see a gradual drop in SG&A.

Operator

Marcos Assumpção, Itaú BBA.

Q - Marcos Assumpção

Good evening, everyone. Congratulations for the results. The first question has to do with the cash cost of wood that went up R\$30 per ton on a quarter-on-quarter basis, mainly

due to the increase of purchase of wood from third-parties and the biggest radius. Should we consider this as the peak for the year or should we consider additional increases? Walter, in the current scenario that we are living of pulp prices and the exchange rate, do you believe that the new pulp project will be bringing return on the invested capital?

A - Walter Schalka {BIO 2099929 <GO>}

Marcos, good evening. The first question has to do with cash costs for wood. We're getting close to the peak of the cost of wood. As of next year, we will see a major drop in the average distance - the average radius and purchases from third-parties in Bahia. And this year, we are tapping into the opportunity of having better pulp prices to accelerate the utilization of our own wood in the future in the region, increasing the average age of our forests. So, this trend of having a high wood price for this year will continue. However, we are already very close to the peak.

Regarding the pulp prices and the exchange rate, I think, no investors should make a decision based on a very short-term situation. Of course, the price of pulp at the prices that we see today, on May 7, that is to say, the exchange rate, would justify a new project. But it's very difficult to have a project that has some years maturation curve, at least two years for the implementation of the project, without having no visibility whatsoever about the pulp price and exchange rate.

And as this is very sensitive, history shows that, over time, projects have not been bringing the necessary or adequate return to investors. We are very pleased with the current moment that we are living now with the pulp prices together with the exchange rate. But it's very difficult to know what will happen from now on. And for this reason, Marcos, the company intends to continue to see cash costs and SG&A and expenses as a whole lower gradually over time because the search for structural competitiveness, that is a very positive obsession by the company. In spite of the volatility of pulp prices and exchange rate, we intend to bring adequate returns to our shareholders.

Q - Marcos Assumpção

Carlos Aníbal, you talked about the pulp market and could you give us more details about the target of the program in China which is underway now and the spread between the fibers? When we look at China, we see the spread between hardwood and softwood close to \$10. What is the level that you consider sustainable in China?

A - Carlos Aníbal de Almeida Jr. {BIO 6275986 <GO>}

Hello, Marcos. Thank you for the questions. Information about these shutdowns are not very precise in China, but the target in 2012 were 8 million tons for 2013, more 2014, almost 5 million tones. And this is what we see. But when we talk with our clients there, we see a bigger resolve on the part of the government now. And recently, they have disclosed a specific program to fight water pollution with many restrictions that the industry is having in China. So, these are the figures that are the published figures. And, of course, there is another figure. In Guangdong, in the south of China, the local city administration announced the shutdown of 157 plants that should be closed by June - this coming June.

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I was in China at the end of March. And this was very much discussed and debated. And everybody was talking about the impact of these measures on the part of the government and the impact on our business. And this will certainly decrease the availability of non-wood and with a higher consumption of virgin fibers. And there is a very important economic component there, because it will help decrease this oversupply that exists in China now, mainly for printing and writing paper and paperboard.

Regarding the spread, it's very difficult to say what the figure should be. But what we see today are the new capacities that are coming on. And this year, these new capacities should amount to almost 1 million tons. And maybe hardwood that gives the final product a better performance. And this change in softwood mainly on the part of traders. Softwood has already reached its peak. And now, there is a recovery process. This happens in March, already \$10, and there are many increases already scheduled of around \$20 from May. Although, the spread net-net is around \$20 to \$30 today, the expectation is for this difference to increase with a higher utilization of eucalyptus fiber, mainly to the detriment of softwood.

Q - Marcos Assumpção

Thank you, Carlos. Thank you, Walter.

Operator

Vicenzo Paternostro, Credit Suisse.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Good evening, everyone. Thank you for the question. My first question, maybe Carlos, you could talk about the transfer of the exchange rate depreciation and to the price of pulp in the domestic market? Based on the results of Q1, we see that the international market due to the depreciation of the exchange rate, you've captured all that in the exports but the domestic market was slower. So how do you transfer the differences in the exchange rate to the price of pulp to the domestic market?

And the second question has to do with energy. Could you remind us please about the equation, the energy that you sell in the north and that you buy in the south and including the new volume that will come on stream in Mucuri? I would like to have a breakdown of the effect of energy, the volume of energy and what was this gap between the price in the north and the price in the south. I didn't really understand that. So could you describe this in detail? I would like to better understand that.

A - Carlos Aníbal de Almeida Jr. {BIO 6275986 <GO>}

This is Carlos. It is true that we had a variation. That was practically null in dollars in the domestic market in Q1 vis-à-vis the fourth quarter of 2014. And in the external market, we had gains of about \$20 per ton. This performance in the domestic market is essentially linked to the way we price on a monthly basis with a major impact due to the exchange rate.

This is very sensitive commercial information. I wouldn't like to go into that, but I can assure you the fact that we have not had a domestic market following the external market is related to our pricing model. And that was impacted by the volatility of the exchange rate over the quarter. And the trend in normal conditions without volatility, the transfers to the domestic market would be following the international market.

A - Ernesto Pousada Junior

This is Ernesto Pousada. Thank you for the question. We have a surplus of about 100 megawatts per hour average in Maranhão and of which we export 60 megawatt hours. And the remainder is used by third-parties in the site itself. And in Mucuri, last year, 14 megawatt hours and in this year we believe in the second half of this year we will be reaching 26 megawatts hour. Besides, in São Paulo, today, we acquired in the market about 40 megawatts hour for the Suzano unit.

And the major difference vis-à-vis last year is that the cap of the price in the free market, R\$822 per megawatt hours. And in January, it was R\$388 per megawatt hour. You can see that there is a substantial difference in the prices. And this was already expected. In the north, you have less rain in the period and the price dropped, but what we have contracted in the southeast, the cap that we have today, is R\$388 per megawatt hour. So there is a very positive map in the energy scenario for the company. Okay.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

Thank you.

Operator

Leonardo Correa of BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good evening, everyone. You're still talking about consolidation or going back to consolidation. A few days ago, we saw an interesting move on the part of competitors here in Brazil that suggests - well, at least this is the impression of some players in the market - suggests more discipline from 2016 on. Could you say how you received the news and how do you see this vis-à-vis market discipline? Do you believe this helps to sustain prices at a higher level? And going back to consolidation, Walter, due to the great complexities and the uncertainties involved in all M&A deals, could you say a little bit more about ideal opportunities or regions? What is your view about consolidation?

And in terms of balance sheet, what kind of level should you get to in order to start consolidating? I am talking about the net debt/EBITDA ratio. Would like 2 times, 2.5 times be enough for you to do some moves in terms of consolidation? And now regarding fluff, a month ago, we saw an announcement on your part, something that you have been studying for a long time already. What is the evolution of the project? This is a more limited market than Brazil in terms of size versus still an opportunity and your product is different from other players. So what is your strategy regarding fluff in the current scenario?

A - Walter Schalka {BIO 2099929 <GO>}

Leonardo, thank you for the questions. I will start by the first part of your first question about consolidation and how we see the operation that was announced by competitors recently. I would like to say that, conceptually speaking, we believe it's very positive. We have no details in order to be able to judge more specifically the effect of this deal on each one of the entities. However, we believe very clearly that the consolidation of volumes helps price discipline over time, so we see this positively.

Regarding Suzano's stand vis-à-vis consolidation, our view is very clear. Consolidations have very expressive synergies, whatever they may be. Nevertheless, Suzano is not yet prepared for any move in consolidation because before that we have to accelerate the reduction of our leverage in the company. Of course, the speed depends on the price of pulp and the exchange rate as well.

In the first quarter, we had a very positive situation in this regard. In spite of the devaluation of the real, we saw a reduction in our indebtedness to 3.9 times. And this trend, if it continues to be downward, it will further accelerate our deleveraging. So the timing for us to be able to get 2.5 times or three times net debt/EBITDA ratio, which we consider as an adequate level, then we could start this program of consolidation, but, of course, it depends on the conditions.

Regarding fluff, this is a program that continues. And our CapEx investments are already underway right now. And as from December, we will be able to operate with hardwood fluff for the local market. We do not intend to export so far, but we have to know the market better. We will have a limited capacity, 100,000 tons, in a market that is overall 400,000 tons. In the future, we will be defining our position vis-à-vis this market. The level of CapEx involved is quite low for the organization. The investment is not that big. So we're very sure about the investment that we're making right now in fluff.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you.

Operator

Now we close the Q&A session. We would like to give the floor back to the company for their closing remarks.

A - Unverified Participant

I would like to thank you all very much for participating in this late hour. And there is a reason for that. Tomorrow morning, I will be traveling to Mucuri. We have a program called Suzano and You. And I talk with 100% (55:53) of our people online. And we will be doing this in Mucuri for the first time ever, outside our headquarters. So I apologize for the late time. And I would like to express to all of you our view about the sector.

Our view is very positive right now and may be about the transformation that Suzano has been undergoing, cultural transformation, and all the actions that we're doing, all this

brings a certainty to all of you that there is an evolution in all areas of Suzano. And this evolution - we are preparing all our people, all our staff. And because of that, we are achieving better and better results over time.

And more than that, we have to prepare ourselves for the future with humility, but with tranquility as well in order to reach better and better results. We are absolutely sure about the path that we are following, creating value for our shareholders. And we will continue to go after this objective in a consistent fashion. Thank you all very much. Thank you. Have a very good evening.

Operator

Suzano's conference call is closed. We thank you for participating. And wish you all a very good evening. Thank you.

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