

Q2 2018 Earnings Call

Company Participants

- Carlos Anibal, Executive Officer
- Fabio Prado, Executive Officer - Consumer Goods
- Leonardo Grimaldi, Executive Officer - Paper Business
- Marcelo Feriozzi Bacci, CFO - Chief Financial Officer and IR Director
- Pablo Machado, Legal and Institutional Relations Director
- Walter Schalka, Chief Executive Office

Other Participants

- Caio Ribeiro, Analyst
- Carlos De Alba, Analyst
- Juan Tavaréz, Analyst
- Marcos Assumpcao, Analyst
- Renan Criscio, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning ladies and gentlemen. Thank you for waiting. Welcome to the conference call of Suzano Pulp and Paper to discuss the results for the Second Quarter of 2018. Participants will be in listen-only mode during the presentation of Ms. Walter Schalka, Chief Executive Office; Marcelo Bacci, Financial Investor Relations Executive Officer; Carlos Anibal, Pulp Executive Officer; Leonardo Grimaldi, Paper Executive Officer; and

Fabio Prado, Consumer Goods Executive Officer.

Afterwards we will begin the question-and-answer Afterwards, we will begin the question-and-answer session when further instructions will be provided. Remember that each participants can ask only two questions. If you need assistance during the call, please call the operator by pressing star zero. We informed that this communication contains certain statements that are forward-looking statements within the meaning of Section 27-A of the Securities Act of 1933 and Section 21-E of the Securities Exchange Act of 1934 as amended.

Some of these forward-looking statements are identified with words like believe, may, could, would, might, possible, will, should, expect, intend, plan, anticipate, estimate,

potential, outlook or continue. The negative of these words other terms of similar meaning or the use of future date.

Forward looking statements in this communication, include without limitation, statements regarding the declaration or payment of dividends, the information [ph] of principal operating and financing strategies and capital expenditure plans. The direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties.

Such statements are qualified by the inherent risks and uncertainties surrounding future expectations generally and actual results could differ materially from those currently anticipated due to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. These statements are based on many assumptions and factors, including general economic and market conditions, industry conditions and operating factors.

Any changes in such assumptions or factors could cause actual results to differ materially from current expectations. Suzano does not undertake any obligation to update any forward-looking statements as a result of new information, future developments or otherwise, except as expressly required by law. All forward-looking statements in this communication are qualified in their entirety by this cautionary statement.

I will hand over the call now to Mr. Schalka. who will begin.

Thank you.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everybody. Thank you for attending our second quarter results, Suzano Pulp and Paper. With us here we have all the management team of Suzano and today we have included our General Counsel Pablo Machado, if you have any additional questions, so him on the end. We are pleased to present our second quarter results. We had on this quarter when operational cash flow close to R\$1.3 billion, as we have been insisting, this is our main KPI on our organization that represents EBITDA, less CapEx sustaining and this compare with the capital employed in the organization to see how much is our return on operational investment capital. Our EBITDA on this quarter were close to R\$1.6 billion and this was affected by two different events, first of all is affected by the unexpected event of the truck drivers strike.

We decided to improve our working capital in the last few years to reduce our inventory on the raw material and semi-finished and finished goods and this implies that we are affected by the strike affecting around 105,000 tons of production and sales on pulp and paper. The second major event is a recurring event, but with large impacts on this quarter is the adjustment of the provision on the long-term incentive plan is based on our share price and share price went up a lot on this quarter, this has an implication of R\$15 million on our quarter results.

Our leverage is at the 1.7 times net debt-to-EBITDA. Bacci -- Marcelo Bacci is going to explain a little bit more about what is our financial position right now and we had one impact on the hedge initiative that we are doing. We had recurring hedge on our operations and swapping through US dollars as you may know. The FX came from 332 to 386 this quarter; on the other hand, we have the hedge on the Fibria's transaction and this creates much more impact on our results and we are going to detail during our presentation.

Now, I'm going to hand over to -- Leo that is going to present the Paper results.

Leonardo Grimaldi

Thanks Walter and good morning everyone. I would like to present the results for Suzano's Paper business unit for the second quarter of 2018. which was another positive quarter for us, despite the challenges that we have faced in Brazil. The figure presented on this slide are specific to the paper business unit, therefore, excluding Suzano's consumer business unit's results for the quarter. Beginning with the top left graph and looking at our production figures, we can see that even with the loss of 25,000 tons due to the truckers strike in Brazil, our production in the quarter was 280,000 tons. In fact, when we add up the first six months of 2018 our production was 2% higher than in the same period of last year.

Moving on to the top right and looking at our paper and Paperboard sales, due to a strong commercial execution in June, we were able to compensate almost most of the effect of the truckers strike. Sales in Brazil decreased 1.7% when compared to the second 2Q17 while our total sales including exports decreased 2.8% when compared to the same period last year. When we consider the first six months of the year, our sales in Brazil have totaled 352,000 tonnes this is 1.4% above the same period last year, driven been mainly by the stronger sales of packaging grades. For the same period, the latest Iba reports show a 0.5% growth in the Brazilian domestic sales of printing and writing and paperboard grades. When we include our exports, our total sales for the first half of 2018 have increased 1.3% compared to 2017.

During the second quarter, our average prices in Brazil have increased 3.8% when compared to the first quarter, 2018 and 9% when compared to the second 2Q17. Our average prices in international markets in US dollars have increased 4.7% when compared to the first 2Q18 and 11.4% when compared to the 2Q17 that is a 25% price increase in Brazilian reais. As a result of production stability, strong sales volumes and successful price increases both on domestic and international markets, our adjusted EBITDA margin has reached R\$1,000 per ton.

This is a 41% increase in EBITDA margins when compared to the second 2Q17 and adds up to R\$520 million of adjusted EBITDA for our paper business units, so far. Our ROIC has also increased reaching 15.4% in the second 2Q18.

I would now like to invite Carlos Anibal to present the results for our Pulp business unit.

Carlos Anibal {BIO 19090865 <GO>}

Thanks. Hello and good morning everyone. So, let's go to page five of our presentation, so we can cover the full Brazil's business. The second quarter was characterized by solid, pulp market fundamentals and a strong US dollar that impact our results. We continue to believe that the current tightness in the pulp market is a function of a steady demand from paper and (inaudible) producers and a constrained global fiber supply.

We are still seeing increased levels of unscheduled and unexpected and I would like to reinforce that unexpected downtime throughout of the key markets and the second quarter was also impacted by the truckers strike in Brazil as well as environmental initiatives that include the shutdown of highly polluting pulp and paper mills and the legalization on our recycled fiber imports have created additional supply tensions in the market. In the second quarter, our production was 821,000 tons, lower quarter-on-quarter and year-on-year and that is explained by a scheduled maintenance shutdown at Mucuri Line 1 and mainly by the truckers strike that happened end of May.

Sales volume in the quarter amounted 800,000 [ph] tons. Such low level is explained again mainly by the impact of the truckers strike that reduces our production. Usually such kind of impact would be, I would say partially absorbed by inventories throughout the supply chain, nevertheless as we mentioned in our Q1 conference call we are running at low levels of inventories and this situation hinders our ability to manage a such relevant external event. It is important to say that we are still running below 30 days of production that brings operational challenge to us.

Our revenues were up 4% quarter-on-quarter and 27% year-on-year reaching R\$2.16 billion as a function mainly of weaker reais which depreciated 11% quarter-on-quarter. Our adjusted EBITDA for Q2 was R\$1.32 billion and EBITDA per ton reached R\$1.64 [ph] driven mainly again by weaker reais. Finally, the return on invested capital for the last 12 months for the whole business was slightly over 20%.

Now moving to the slide number six. Cash costs excluding maintenance downtime for Q2 was R\$630 per ton up R\$43 [ph] quarter-on-quarter. The increase in cash cost is explained by mainly higher price and consumption of chemicals especially caustic soda and sulphuric acid which represented the increasing reais per ton. The other important impact is the increase in fixed costs that represented R\$22 per ton and such impact is due to a lower volume. Finally, in the last 12 months, we are running below 2017 cash costs that was R\$599 per ton, wood impacting positively by R\$24 while chemicals are partially compensates this effect.

Now, I turn it over to Marcelo Bacci.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Good morning everyone. We will be talking about some key indicators of our financial position, starting with capital expenditures. Our CapEx in the quarter was R\$573 million totally for the year R\$1.3 billion and our guidance for 2018 is R\$2.8 billion, which is

basically the number that we had before, plus the exercise of the option on the Duratex land that was announced in the previous month.

Moving to the next slide, we'll be talking about our debt situation. We closed the quarter with \$2.6 billion of net debt approximately R\$9.9 billion with an average debt maturity of 90 months and an average cost of debt in dollars plus the reais part swapped into dollars of 4.6% a year which is a very competitive cost. Our leverage in terms of reais was 1.7 times, in dollars 1.5 times, with the continuous evolution over the previous quarter.

Our amortization schedule continues to be very comfortable in our cash position of R\$8 billion, we already see some transactions related to the Fibria due that we'll be talking about later on. But in any case, the amortization that we have in the rest of 2018 and the coming years is a relatively low number, which gives us a lot of comfort in terms of debt management. Talking about the Fibria business combination, we'll start with the timeline. As you all know, the agreement was signed back in March, on the corporate side, we had last month the approval of the protocol of justification and incorporation by the Board of Directors of Suzano and Fibria and yesterday we received the confirmation by the SEC of our registration there, which allowed us to the shareholders' meetings of Suzano which was done today as you may have seen the relevant factors we posted this morning.

So, the shareholders' meetings will be held on September 13. So, we now have completed the filing and the registration process with the SEC. and we are working -- still working on SOX compliance that will be necessary starting January 1, 2019 remember that in the first year of registration there's a waiver for SOX compliance. On the financing side, we have issued debentures of R\$4.7 billion and credit note -- export credit note of R\$770 million, already in relation to this transaction which allowed us to reduce the amount of the bridge loan of the committed bridge loan from \$6.9 billion to \$4.4 billion, which was also done during the course of this last month.

On the antitrust side, we have received the unrestricted authorization by the US antitrust authorities and we continue to work in the process in Brazil, in China with European Commission and in Turkey. In addition to all that, we have started in June the integration planning process with the constitution of a work group that is planning how the companies we work together and the idea is that by the end of October, beginning of November this plan will be ready. Of course, taking into consideration, all the restrictions that we have on the legal side in terms of exchange of information between the two companies.

In terms of the financial closing of the transaction, we have two important aspects to discuss. Here, the first is hedging and the second is financing. On the hedging side, the table that you see on page 10 starts with the situation in March 2015. Back then the amount that we had pay for the Fibria shares the R\$52.5 per share times the number of shares total R\$29 billion. The FX rate back then was R\$29 billion, so the amount on March was roughly \$8.8 billion. As we are a company that generates cash in dollar, we needed to hedge these amounts in dollar terms, because the situation we had in March was one that every \$0.10 of variation in the FX rate would increase or decrease the amount of finance needed by \$277 million which was a situation that we felt not very comfortable.

FINAL

So, we started to hedge this position with many different instruments in the market and by the end of June, the amount payable to Fibria is now R\$29.5 billion because there is this correction by CDI and at that date, we have hedged 74% of that amount in dollar terms, approximately \$6 billion of hedging with an average exchange rate of roughly R\$3.6. And the situation in June was one that every \$0.10 of variation in the FX rate would change the payable, not by R\$277 million anymore, but only R\$54 million. And just as an additional information, this situation at the end of July we hedged a little bit more, we now have \$6.6 billion of hedging with an average exchange rate of R\$363 million [ph] and the sensitivity of the financing to the FX rate is only \$41 million and that's a situation that we feel much more comfortable than the one we had in the past.

Of course, this additional hedging that we did added to the normal position that we have on our balance sheet. So, on page 11 you see the position that we had on June 30 and the results. So, our notional of dollar related derivatives was a total of \$9.18 billion, which was composed of \$2.3 billion of normal cash flow hedging that we always have in our balance sheet, according to our policy of hedging the following 18 months of mismatch between dollars and reais. We also had, back then debt related hedges which were transactions in reais hedged into dollars, that transaction in reais that hedged into dollars of \$800 million and that -- those two kinds of transactions, we always have in our balance sheet and that's normal course of business. We added to that position that \$6.05 billion of Fibria related hedges that totals the \$9.18 billion and the result generated by those transactions that have to go directly to our P&L was a loss of R\$2.55 billion of which R\$1.75 billion is related to the position of -- related to the Fibria deal.

Of course, we have to record in our balance sheet this as the loss; the opposite side of the equation, which is the reduction on the payable in dollar terms is something that will show up in our balance sheet over time. On the financing side, we have here a walk-through of the original situation and where we are today. So, we start by showing that back in March, the amount payable was R\$29 billion, correction by CDI from March to June, R\$534 million totaling R\$29.6 [ph] million. Now, in addition to the amount that we have to pay to distributors, shareholders, we have to liquidate the R\$1.75 billion of losses that we had on the hedges, so the total payable is R\$31.3 billion when you add what we're going to pay to the shareholders, plus what we're going to pay for the hedges.

How we're going to finance that amount? The first part is of course the \$2.3 billion term loan that we hired since the beginning of the transaction the part that is long term that we announced, together with the transaction that represents about R\$8.9 billion. We added to that the debenture that was issued last month of R\$4.7 billion, so the amount still to be financed was in June R\$17.7 million. Since June, we have also issued export credit notes of R\$770 million and now the amount to be financed is approximately R\$17 billion and therefore we reduced as I mentioned the committed line that we had originally for \$6.9 billion to \$4.4 billion, which is approximately R\$17 billion.

Our idea is that during the course of the next month, before closing, we will continue to work on financing this deal not with other sources, being the cash that we have available in the company or transactions with the international capital markets for potential bond issuance, some other finances that we may find in the domestic and international market,

so there is a possibility that the amount that we're going to draw from the bridge loan will be lower when we close this transaction.

With that, we conclude our presentation. We thank you very much for your attention and we open for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instruction) Our first question comes from Thiago Lofiego with Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Hi, thank you gentlemen. So two questions, the first one on the deal. If you guys could give us a little bit more color to the extent it's possible on the approval processes within the (inaudible) the European Commission and the China Ministry of Commerce. I mean, do you have any update on those, how they are evolving and what's your level of confidence that a deal will get done still in 2018? Second question regarding the forestry deal with Duratex. So, what's the rationale for you guys having exercised the call option with Duratex, is it solely a defensive move, or do you plan to use that land in a potential project going forward? Those are my questions. Thank you.

A - Pablo Machado

Hi Thiago, this is Pablo Machado speaking, thank you for your questions. As to the development of anti-trust approvals, I think we are following as expected, both in terms of timing and in terms of our communication with the various anti-trust authorities. The situation we are now at Qadi [ph] was disclosed earlier on this week by Valor where the market could see the main responses -- or the main feedback from customers, competitors and suppliers. Things are moving -- things are moving as expected in Brazil and market test is about to be completed.

In China, the preceding follows a confidential procedure, so the parties do not have access to the market test feedback. We know that the market test feedback is underway. We expect that to be completed in the next coming days or weeks and in Europe, we are still liaising with the European Commission, things are moving there as expected. The Commission is undertaking what they call an informal market test and we expect to move ahead to filing as soon as we agree that with the Commission.

So, I can tell you that the procedures are going as expected in all the jurisdictions and we do not expect at this point any surprise.

A - Walter Schalka {BIO 2099929 <GO>}

Related with the second question, Thiago thank you for your questions, it's Walter speaking the exercise of the option on Duratex land and forest is related to upgrading

optionality for us for the future. We do -- we are facing a fast deleverage process than we imagined before and we could open possibilities for us for the future and the exercise is creating an optionality for us, if we decided in the future to have a new organic growth or new project. On the other hand, we do not know because we are not allowed to know how the supply would on the Jacarei plant on Fibria and there could be a possibility to use this then in forest if necessary to supply Jacarei, if necessary we don't know the details because we do not have access on their information.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, that's clear. Thank you, Walter. Thank you, Pablo.

Operator

Our next question comes from Caio Ribeiro with JPMorgan.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Yeah. Good morning everyone and thank you for the opportunity. So, my first question is regarding the potential 25% tariff on recovered paper imports from the US that China is thinking of implementing on August 23. I just wanted to get your view on the potential impacts that this could bring to pulp demand and prices going forward, just given that recovered paper imports into China have been declining quite significantly this year already with the current restrictions with some shortages being reported even.

And then secondly, if you could give us some color as well on what you expect in terms of the evolution of pulp cash costs going forward that would also be very helpful, thank you.

A - Carlos Anibal {BIO 19090865 <GO>}

Hi, good morning this is Carlos. Thanks for your question. Well, let me start to give you an overview about the China pulp market and that we can say that the demand grew in the first half of this year 4.5% and that means roughly 11.7 million tons. Hardwood is growing 8.5%. We understand that the pulp prices [ph] are at normal level throughout the chain, from producers to customers there in China. By that I mean stocks sit at the ports or at the customers' warehouse are at a standard and normal level.

Regarding your question about a possible or potential, 25% tariff that was just announced and we believe that it is too early to make any comments about that, that was announced two days ago. So, the market is still analyzing what might be the outcome. You also mentioned that there was a reduction on recycled paper imports that is true. Today the market expectation for this year, taking for account the imports up to June is a volume of 15, 16 million tons and that compares to 26 million ton last year. So, definitely that could impact the virgin fiber market in the coming months. The cash cost we cannot give any guidance about that, at this point in time.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Perfect, thank you.

Operator

Our next question comes from Juan Tavaréz with Citi.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi, thank you. Good morning, everyone. Just my first question, just to touch again on current pulp markets. If you can give us some visibility of what you're hearing in China from your customers. We've been hearing that paper prices have been falling for the last few months and I think it's -- we just heard that there is some discussions about rebates on pulp prices until August. I'm just curious how you're seeing that scenario and how those discussions are going now into August.

And also, if maybe you can just touch on your paper costs, was it that a ramp up of the consumer goods business. I'm just curious there, maybe if you can discuss what was the margin in your consumer goods business this quarter and kind of where we should expect margins to be in your consumer goods when it's fully ramped up. Should it be above where your normalized paper business is or just kind of understand how much of a drag this ramp up is being right now into that segment? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Good morning. So, let me start with your question related to pulp. So, I would say that the supply and demand for pulp remains generally and temporarily tight; July business was according to our expectation and by that I mean regular volume and plus BKP [ph] prices across the key market. Despite the seasonality of July and August in the northern hemisphere the low level inventories at both pulp and paper producers, in our view that supports a common understanding between buyers and sellers of a large market.

It is true that we have heard about some soft wood weakness in China and we understand that is not supported by the current market fundamentals and why do we say that, again as I said before, stocks are at a normal level at both producers and consumer side. Important also to remind that we have, right now, we price the spreads between soft and hard wood there in China of around \$90 to \$100 already considering a possible -- a potential price drop for softwood. So, it remains to be seen what's going to happen with the soft wood and though, we are confident on the hard wood side of the business.

A - Fabio Prado

Hi. It's Fabio here. Regarding the consumer business, we still have volume which means, I think it's very difficult to determine the right margin that we have at the moment.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Do you have a sense of when you'll be fully ramped up in that business, maybe?

A - Fabio Prado

Yes. We are doing -- ramping up the volumes, and from third quarter onwards, we're going to publish results.

Q - Juan Tavarez {BIO 15083199 <GO>}

And just to understand there, so once you're fully ramped up how should we think about profitability in that business? Do you expect it to be notable premium to what the previous paper business was, just to understand, again I'm trying to gauge here this level of EBITDA per ton in your paper business this quarter, how much of that is being pressured by just a ramp up in consumer goods.

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

Juan, this is Marcelo speaking. Unfortunately at this point we cannot give guidance to the future results of consumer goods, starting next quarter we'll be publishing the results, but we cannot give you any indication of our future results of this point.

Q - Juan Tavarez {BIO 15083199 <GO>}

Okay. Now worries. Thank you.

Operator

Our next question comes from Marcos Assumpcao with Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi, good morning everyone. First question to Carlos, you mentioned in the press release that inventories are at a comfortable level at 35 days. What will be the level if that becomes a little bit -- becomes a concern for you in terms of inventories of both softwood and hardwood. The second question to Walter, we have been seeing the deleveraging of the company happening very quickly; also the leveraging a pro forma basis with the (inaudible) acquisition also happening very quickly. So, at leverage ratio eventually will Suzano be comfortable on going ahead with a new pulp expansion project?

A - Carlos Anibal {BIO 19090865 <GO>}

Hey Marcos good morning. Carlos, you said that 35 days was sort of hard and softwood right. I would say a number above 40 days would draw our attention.

A - Walter Schalka {BIO 2099929 <GO>}

Related Marcos, thank you very much this is Walter speaking. Related with the deleveraging pace that we are facing right now, we will be strict with our policy for the future. We, as we mentioned on the day of the deal -- transaction with Fibria on March 16, we announced that our focus would be on the leverage of the company as fast as possible. We continue to have this in mind and then we continue to make this company working on the financial policy that we are not going to change the companies, there is going to be between two and three times net debt over EBITDA and this is our target and we are aiming this target.

After the closing of this transaction, we will discuss internally, what would be the potential avenues for us on the future, but we are not seeing any major implication or

announcements to be done on the short-term related with this potential growth opportunities.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Perfect and just as follow-up.

A - Walter Schalka {BIO 2099929 <GO>}

We do have already, another issue that is quite important there is a total net debt over -- total net debt of the new entity. We do not have a very large debt not only related with EBITDA, but not a very large debt. We want to decrease the total debt of the new entity for the near future.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Perfect. And just as a follow-up on new expansion projects in the market. When do you expect the (inaudible) project that was just announced to start up?

A - Walter Schalka {BIO 2099929 <GO>}

We do not have additional public information than you. What I heard in the market, that could be the second or third quarter of 2021, but it's a public information that I have. I do not have any additional information.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

All right. Thank you very much.

Operator

Our next question comes from Renan Criscio with Credit Suisse.

Q - Renan Criscio {BIO 18747357 <GO>}

Hi, everyone. Thanks for the opportunity. Just two questions on my side. The first one on paper prices, the results this quarter were well supported by prices in Brazil. So, can you remind us first what was already implemented in terms of the paper price that you announced and if we can see like further carryover impact in the next quarter, so in terms of your realized price for the third quarter.

And the second question is on the working capital. So you did mention that you had a decline in inventories or an increase in inventories due to the truckers strike. But, can you quantify this is already normalized or if we can see like a further decreasing in your inventory levels in the next quarter?

A - Leonardo Grimaldi

Renan, this is Leonardo, thank you for your question regarding our paper business. As I mentioned, our prices in this quarter have moved again up 4% compared to the first

quarter 2018 which is roughly 9% above the same quarter last year which is what we expect and then what we had announced previously in terms of price increases. Now, due to market fundamentals we have announced new price increases in Brazil that's ranged from 9% to 14% for the second half of the year and the implementation (inaudible) now developing as we expected, but fortunately we cannot disclose this expected implementation rate for the upcoming months.

A - Carlos Anibal {BIO 19090865 <GO>}

And this is Carlos regarding your question about inventory. I would say that we would like to increase slightly our inventory, but I'm not sure if you're going to be able who do that due to our current market scenario. We are with -- the demand should not allow us that movement. This is what I can say right now.

Q - Renan Criscio {BIO 18747357 <GO>}

Okay. Thank you.

Operator

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

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

Good morning, everyone. So my question has to again -- with inventories. If I understood correctly, the company right now is running with around 30 days of pulp inventories which I think you said that, that represents operational challenges. So, in the third quarter there is no maintenance downtime at the pulp unit, do you expect then to perhaps produce obviously at full capacity and increase your inventories of pulp and therefore that will that mean that the available pulp for shipments to customers will be reduced.

And second question that I have is related to cost impact from the truckers strike; do you think that we have seen the worst of that negative impact or we still should expect something to come through in the third quarter just to -- given the normal flow of cost of production into cost of goods sold and if you can give us any sense of the magnitude of these non-recurring special cost pressure that will be helpful. Thank you.

A - Carlos Anibal {BIO 19090865 <GO>}

Carlos, it is Carlos speaking. Thanks for your question. Right now, we are running below 30 days and it is a very challenging number for us. I would say that technically we would like to likely increase that number, we should be working with a higher number. But again, at this point in time. I'm not sure if we're going to be able to do that now in Q3 due to our expected demand. Okay, we might have a minor increase, but not enough to bring us to a comfortable level. Regarding the impacts of the truckers strike, in my view, we have already seen some impact in the market and there is more to come.

We have just received the Brazilian Export Statistics related to July and I'm going to share with you some numbers, some public information. Total shipments from Brazil of BKPs

[ph] dropped about 25% compared to June, I mean for the previous month. And that means that roughly 350,000 tons of market pulp. Still comparing to June, Europe was 29% lower, and again I'm talking about shipments from Brazil for the key markets. So Europe was 29% lower and the shipments from Brazil to China was 23% lower. So that definitely, we'll back those markets in the coming weeks or months.

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

Alright. Thank you.

Operator

We are now closing the question and answer session. I will pass the call back over to the company for the closing remarks.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you very much for everyone to attending this conference call. It's Walter speaking we are very pleased from what the developments of the company on the last month. We are preparing ourselves to the closing deal with Fibria and not only in terms of hedging on financing, on synergies preparing the synergies for the future through our (inaudible). We are working on the SEC -- we work on the SEC and we conclude that -- SEC, now we have the SOX that we are working. We have several initiatives and the company, even on this scenario is delivering the expected results considering that actual market scenario.

Then, we are very pleased from what we have right now. But, we are very committed and we have a lot of energy to prepare the company for the future. Thank you very much for attending and hope you have a nice day and week.

Operator

That concludes the conference call of Suzano Pulp and Paper. Thank you everyone for participating and have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.