

Q4 2014 Earnings Call

Company Participants

- Alexandre Chueri, Executive Officer
- Carlos Anibal, Executive Officer
- Ernesto Pousada, COO
- Marcelo Bacci, CFO and IR Director
- Unidentified Speaker, Unknown
- Walter Schalka, CEO

Other Participants

- Alan Glezer, Analyst
- Andre Pinheiro, Analyst
- Jon Brandt, Analyst
- Leonardo Correa, Analyst
- Lucas Ferreira, Analyst
- Marcelo Aguiar, Analyst
- Milton Sullyvan, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Patemostro, Analyst

Presentation

Operator

(interpreted) Good morning, ladies and gentlemen and thank you for waiting. Welcome to Suzano Papel e Celulose conference call to discuss the Fourth Quarter of 2014 results. 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 each participant will be allowed two questions. (Operator Instructions) We would like to inform you that some statements contained in this call may be projections or assumptions about future expectations. These assumptions are subject to known and unknown risks and uncertainties that might lead these expectations not to materialize or to be substantially different from what was expected. These risks include among others changes in the future demand for the Company's products or changes in the factors that impact domestic and international prices of products, changes in the cost structure, changes in the market seasonality, changes in the prices practiced by competitors, exchange rate variations, changes in the Brazilian political economic scenario or in emerging and international markets.

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

Walter Schalka {BIO 2099929 <GO>}

(interpreted) Good morning, everyone. It's a pleasure to be with you today to present the results of the Fourth Quarter of 2014 and the full year of 2014 of Suzano Papel e Celulose. Marcelo Bacci, our CFO and in-charge of Investor Relations as well is with us; Tiago Fernandes, Investor Relations Officer; Carlos Anibal, Pulp and Paper Business Unit Officer; Ernesto Pousada, COO; and Alexandre Chueri, in-charge of the first three business units, the officer for this area.

I would like to start the presentation by saying that the last quarter of 2014 was a period of evolution, another one for Suzano. And a very positive moment in the development that Suzano has been achieving in terms of obtaining growing results, in terms of EBITDA and decreasing results in terms of indebtedness.

In Q4 of this year, we had an adjusted EBITDA BRL826 million with 38% margin which is a record EBITDA in the history of the Company. And we also had a record year of BRL2.452 billion with an EBITDA margin of 33.8% for the year, a significant evolution over the adjusted EBITDA of the previous year of BRL1.781 billion.

Together with that, we saw a reduction in our leverage. The leverage of the Company started the year of 2014 with a level of 5.2 times. So when we were starting up the Maranhao operation, it has been dropping consistently. In September, it was 4.5 times and December 4.1 times, which is a downward trend that we had already mentioned to the market before as being one of the main objectives of the Company which is preparing the Company and making it stronger over time.

And this was driven by a series of actions that were carried out increasing the volume of our Imperatriz volumes and the benefit deriving from that. And two other effects that we will be discussing during this call which is a consistent cost reduction as well as reduction of the SG&A.

In pulp, we saw an increase in production last year of 1,050,000 tons because of our Imperatriz volume and also sales went up by 950,000 tons. As we had already said before, our production in Imperatriz would be between 1 million tons and 1,000,100 tons which is 100 million tons below which is what happened in according to the forecast that we made.

The evolution of our results that we achieved was in spite of a drop in the price of pulp by 8.9% during last year and it was offset by the real depreciation which was around 9%. It was almost even vis-a-vis the average price in reais from one year to the other.

In paper, in the last quarter we had very good results in one year with the evolution of sales, 1,322,000 tons in the year growing by 5.7% net of third-party paper and which is a very positive result. We also gained volume in the domestic market vis-a-vis our exporting.

Now we have 71% in the domestic market and we saw an increase in the average net price of paper, 8.8%.

I would like to draw a parenthesis here to give you a heads-up vis-a-vis January and February. The volumes of paper were very weak, below our expectations for these two months because of the Brazilian economy. And over time it will be generating paper surplus that we intend to export and certainly it will not happen during the First Quarter of this year because the speed of reaction, when you talk about exports, is slower.

Many people have been asking us about utilities, water and energy. And in order to give you full transparency, we are placing here at your disposal the information. Projects to reduce consumption at Suzano and Limeira units. We do not believe there will be any operating risk right now because of water and considering that we have -- and to give an important contribution to society we are working to reduce consumption at these units. In Imperatriz and Mucuri, water is not an issue. This is not being discussed right now.

As far as energy is concerned, we are net exporters of energy, we export energy. Therefore we do not believe there is any risk whatsoever. In spite of that, we are working in Suzano and Limeira to reduce consumption of energy and in all the plant to increase production so that we may generate the benefit from the high price of energy at BRL380, the spot price. And we are making investments in energy efficiency in all our plants.

The operating performance of last year was driven by an increase in our net revenues of about 28% year on year breaking a record, close to BRL7.3 billion. And besides there was a drop also in our COGS per ton. Our cash cost and our COGS have been dropping going from BRL1,307 per ton to BRL1,284 per ton offsetting inflation and so deriving a benefit with the overall cost reduction.

SG&A going from a level of 11% last year going to 9.5% this year and 9.5% over sales as well in the last quarter. And some people might ask why we saw an increase in our administrative expenses. They were based on the bonus that was paid to our management because of the good results obtained. So this is the reason why.

Operating performance vis-a-vis the cash cost with stoppage or without stoppage, we had an evolution of BRL580 per ton to BRL536 per ton in spite of the higher cost of wood with the -- because of the Mucuri. So a higher mix with a higher participation of third-party wood.

And the counterpart of that was the benefit coming from energy and other chemicals in the variable cost. And BRL536 per ton were the cash cost. And especially in the Fourth Quarter comparing with the Third Quarter, it had already been positive BRL502 per ton and the cash cost was BRL484 per ton.

So we continued to work to reduce our structural cost and to maintain our competitiveness on an ongoing basis.

The Company's indebtedness is also good news. Our indebtedness dropped from 5.2 times to 4.1 times. And positive cash flow, we worked during the whole year to have a positive cash flow in spite of the Imperatriz balance to be paid. And we still have some left off for this year because we are gradually achieving the levels that we are paying our suppliers as those happens over the retained amount. And in spite of that, we are generating a positive cash flow.

And as last year, we had a CapEx of BRL1.8 billion and this year we are going to have BRL1.5 billion. With the EBITDA going up this year vis-a-vis last year, certainly we will have an even more positive cash flow during this year. Our debt dropped to BRL3.8 billion and during last year we had liability management operations amounting to BRL2.5 billion. And this is a project that we have to continue to carry out other actions of liability management we wrote over the term of our debt. And obtaining good results because of the financial position of the Company.

In relation to investments, we are within the guidance that we gave you for the full year, BRL1.75 billion excluding Vale Florestar which was BRL45 million, therefore BRL1.79 billion is if we add the two parts. It's important to say that our investments in maintenance amount to BRL1 billion and last year we had an investment of BRL750 million. And we are keeping our guidance of BRL1.5 billion.

And we are going to discuss the fluff project in detail. We have many projects of competitiveness underway. In May, we started up the new digester of Suzano. And the project is on time and on budget. This should bring about a reduction in our operating cost in the Suzano unit. And we continue to work to reduce the forest average distance [ph], program of efficiency, energy efficiency. And other smaller projects in our many different plants.

These projects are low-risk projects because they are based on cost. So no market risk. And they have low execution risk and a high return. So we are giving our preference and our priority to this kind of project.

Right now we are announcing to the market a very important moment of wood acquisition. And give you an overview of the wood situation now. We had already been telling the market that we had one-third of our own wood, one-third of Vale Florestar. And one-third market.

Entering last year, in an operation that we announced to the market, we acquired the Vale Florestar operation. So we have two-thirds our own wood and one-third of third parties due to the drop in the price of pig iron.

There are many good opportunities to acquire wood at competitive amount. And we are seeking to reduce the average distance and more competitiveness. So in this one-third of third party, we were seeking other operations for wood acquisition and we are announcing now an operation that has no CapEx impact, 8 million cubic meters of wood.

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And the process of payment will be through the delivery at the plant. We are buying standing wood. We are going to harvest and transport. And this will be from 2015 to 2020 for every single month. We will see the volume delivered at the plant and we make the payment in the next month. So there is no risk whatsoever involved in this operation but the non-performance or non-delivery. And that we could supply from other alternatives. And this means that we have even more competitiveness in the Maranhao operation because of that.

We are proud to announce to the market right now the first fluff operation of hardwood in the world. We decided to make an investment in our Suzano unit and we will be transforming one line that we have into a fluff with a capacity of 100,000 tons per year starting up in December 2015. That is to say still within this year, we will be placing fluff in the Brazilian market of hardwood.

And we have been carrying out extensive tests with many clients and they been approving our products and we are sure that today we can replace up to 70% for tampons and 30% for diapers in tests that we are making with many clients. So 70% for tampons and 30% for diapers.

So printing and writing can also be produced, flexibility to produce fluff or printing and writing paper according to our clients' demand. And so BRL30 million addition for this project. So this is another innovation made by Suzano that is really starting ahead of the others in a very innovative approach on a global basis.

And we are reinforcing to the market our position of investing in systems, in processes to generate more and more competitiveness internally, reducing transactional activities and empowering more and more our management so that we may create the necessary speed in this transformation process at Suzano.

And on the peoples side, which is very important, we are investing more and more in the development and retention of our talents with training programs that have been -- well, we have a record volume of training sessions and we are giving the necessary infrastructure to our people. And as far as compensation is concerned, we are aligning shareholders and employees by means of a more and more aggressive variable compensation program with the -- in spite of the increasing administrative expenses in Q4.

This combination of people, processes. And systems allows the Company to seek more and more competitiveness structurally and allows the Company also to carry out the modernization and the reinforcement of the Company consistently.

So now I would like to place myself at your disposal as well as the other officers of the Company to answer your questions.

Questions And Answers

Operator

(interpreted) Ladies and gentlemen, we would like to start the question-and-answer session. (Operator Instructions)

Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) The first question is about your efforts regarding liability management. We saw a lot being done last year. Maybe you could quantify for us what this could generate in terms of interest expenses. This would be very helpful.

And the second question has to do with the volumes. The volume of Maranhao was slightly lower than what was expected, still very strong. But the ramp-up was okay. But maybe slightly below the expectation that we had. Was there a specific reason for that? What could you talk about the volume performance in Q4?

A - Marcelo Bacci {BIO 17648865 <GO>}

(interpreted) This is Marcelo. I will talk about liability management, okay? The operation that we carried out last year, BRL2.5 billion, they had a double effect on the reduction of interest rates and also a slight effect in the rolling over of the debt profile. But the main one was on the cash effect. They may have generated on their value BRL2.5 billion, a reduction of 1% per year in our interest rate, 1percentage point in the overall interest rate.

We are still considering other alternatives to continue in this endeavor of liability management. But right now we see some alternatives that could bring about gains even higher than the one that I mentioned. So we could expect new rounds of operation similar to that with gains at least of 1percentage point per year. But most probably higher than that.

A - Carlos Anibal {BIO 19090865 <GO>}

(interpreted) This is Carlos Anibal. With relation to your question about volume, our production in Maranhao in 2014 was according to what we expected, between 1 million tons and 1,000,100 tons. Maybe you are asking this because we had a sale in Q4 of 822 million tons compared to 860 million tons in the Third Quarter.

In Q4, we produced 822 million tons and we sold 821 million tons. So we lowered our inventory. And a higher sale in Q3 came from our inventory buildup from the startup until the end of the Third Quarter because of the ramp-up of Imperatriz.

Q - Leonardo Correa {BIO 16441222 <GO>}

(interpreted) Thank you very much for your answers. One additional question about Maranhao on the cost side; you mentioned the transaction on the side of wood acquisition and we have been talking with you and we see that there was an expectation of increase in the average distance or wages and maybe a cost increase. I would like to

know whether this minimizes the inflationary effect mainly in the Maranhao operation. Can you quantify this or give us some indication of a trend or an inflationary or deflationary trend because of this operation?

A - Walter Schalka {BIO 2099929 <GO>}

(interpreted) This is Walter. And I would like to say that our stand is to seek cost reduction structurally in the operation of Maranhao. Imperatriz has just finished this stoppage. It finished yesterday. It was very successful. And we are going back to normal production levels right now.

And in this stoppage, we made many small adjustments in the operation to produce an even more competitive volume and even higher volume as of now. And regarding wood is that we will continue to seek operations that may lead us to a lower structural cost for the system.

Operator

(interpreted) Lucas Ferreira, JP Morgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(interpreted) About the fluff project, just to make it clear. So you're using pulp -- pulp is integrated into the operation of printing and writing paper, is that correct? Is it one for one, 1 ton of fluff produced will be 1 ton less of paper? And do you expect any discounts vis-a-vis the softwood fluff and how much would that discount be?

And Carlos, I have one question to you. You announced this quarter an price increase in North America and if you compare the markets, what is the dynamics regarding supply and demand in the other markets because you only announced that in North America, not for the rest of the areas, consumer areas?

A - Walter Schalka {BIO 2099929 <GO>}

(interpreted) Thank you for the question. This is Walter. Regarding fluff, you are correct, it has to do with integration. And it is not exactly one for one. It's approximately one for one. So each ton of fluff produced will be a drop of about 1 ton in printing and writing paper.

Now regarding clients, we have already aligned with many clients the operation of this volume of fluff. And what happened vis-a-vis prices has not been discussed yet. But there will certainly be a discount over softwood. However, this has not been quantified yet.

A - Carlos Anibal {BIO 19090865 <GO>}

(interpreted) Lucas. Good morning, this is Carlos. Thank you for the question. We have a very positive reading of the market fundamentals right now which lead us to believe that the price increases that we announced for Europe and China in January, as you said plus

\$20 in North America as of March 1st. So BRL880 would be the list price. We understand that especially in North America the fundamental.

Regarding the other regions, we are -- continue to monitor the market and once again we have a positive position. And on the demand side it's very sound. China has been behaving well.

We expect another year of growth in China because of the new capacities, especially tissue and paperboards. And in China we will continue to have growing opportunities mainly in non-woods. (inaudible) that further illustrates this opportunity is a fact that China is being producing about 7 million tons of tissue paper and of these 7 million tons, approximately 50% are produced from non-wood.

And what we see today in China is a very quick and speedy migration of order capacities that use non-virgin fiber and new machines using mainly eucalyptus. The spread between hardwood and softwood have been decreasing and they are at a high level and we understand that too justifies substitution of \$140 in Europe, a \$100 in North America, around \$50 in China.

On the supply side, our perception is that the new capacities that have come on-stream mainly in the second half continue to get gradually to the market and very satisfactory for the demand for eucalyptus. And the European markets still feel the effect of the closing of (inaudible) at the end of last year.

And over this First Quarter, we have important maintenance stoppages in Latin America that limit supply. Many questions have emerged about the increase in inventories of softwood. In January they went up by nine days. And I would like to take the opportunity to share with you our understanding of that.

Our understanding is that we see this as something very natural. In the last couple of years between December and January, we had a six-day increase. And I say two years because as the marketplace has more and more capacity in Latin America, it's only natural for the point of balance go up and I estimate that for each plant of 1.5 billion tons inventories are going up between 1.5 days and two days.

It's natural to have new capacities in Latin America and inventories going up. We had very strong sales of eucalyptus in December and because of that inventories have to be further built up and an increase in inventory and we had delays in vessels that should have shipped in January, they ended up departing in February.

And because of that, there is an impact on January and February. And there is also the need to increase inventories because of producers in Latin America to cope with the maintenance stoppages that have been scheduled for the first few months of this year. And it's only natural for us to see an increase in the hardwood inventories as new capacities are added in Latin America.

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Operator

(interpreted) Milton Sullyvan, Brasil Plural.

Q - Milton Sullyvan {BIO 19085202 <GO>}

(interpreted) I have two questions, the first one about paper demand. Could you give us some more color about what product is being more impacted and what is the strategy looking ahead and what is your target market for your export?

And the second question has to do with cash generation. We saw an increase in cash generation in this quarter and I would like to know as this cash generation increases if your availability to accept new projects increases or whether your focus will continue to be exclusively there?

A - Unidentified Speaker

(interpreted) With relation to demand for paper in the domestic market, the months of January and February reflected our understanding, as Walter said, all the uncertainty and skepticism regarding the macroeconomic scenario.

It would be only natural to see a reduction in demand due to the fact that we had five working days less than the same period last year. So this by itself would mean a smaller market than the equivalent period in the previous year. What we saw was a skepticism that ended up affecting equally our several kind of paper as well as our channels.

So I couldn't say that there is one kind of paper or one channel that has been more affected. I would say that vis-a-vis last year it was uniform. And what are we doing? We are taking advantage of the interest, the exchange rate and we are channeling part of the volume that we lost in the domestic market to exports and are mainly to Latin America. This is our focus now.

Regarding cash generation this resulted, we will continue with our discipline which has already been mentioned to the market for quite some time of continuing to deleverage the Company seeking projects that are marginally relevant vis-a-vis return on capital, such as the reduction of the average wages of the forest and retrofit of our industrial unit, as a change in the logistics concept gradually, distribution of paper in a more scattered fashion.

These are projects that some of them require CapEx and the CapEx will continue to be realized because there is a high return on capital and -- but mainly reduction and acceleration of the Company's leverage.

Operator

(interpreted) Thiago Lofiego, Bank of America Merrill Lynch.

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Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) I have few questions. The first one has to do with capital allocation. You should be generating a significant cash in the next two years. What is the strategic rationale of the Company? Should we expect some more dividends or more growth projects such as the ones that you have been mentioning lately, or maybe consolidating the sector?

And getting a little bit more into the fluff part, what is the potential to add the conversion that you have of the paper plant to the production of fluff pulp? For a long time, we have been seeing Suzano leaving a little bit or gradually paper and going more towards fluff.

And the last question has to do with the expected cost of wood thinking about Mucuri and Maranhao. And looking at the average radius and third-party wood, there are variables that are positive and negative for the next few years until you will normalize this issue. So could you talk about Mucuri and Maranhao regarding the average radius and third-party wood for the next few years?

A - Walter Schalka {BIO 2099929 <GO>}

(interpreted) This is Walter. Regarding capital allocation, our focus right now is on deleveraging and seeking structural competitiveness in all the areas of the Company. We are going to submit this to the general shareholders' meeting, a distribution of BRL150 million in spite of the loss.

This is a way of giving some view to our shareholders. And we recognize that this is not the most adequate today. But we understand that today the focus of the Company -- when the shareholder places his fund in the Company, he has a better rate for this investment than staying just with their own resources.

And we want to further strengthen the balance sheet of the Company and seek alternatives and prepare ourselves to a -- maybe a possible consolidation of the industry. We have no projects in this direction. However, this is the focus that the Company intends to have.

If there is no consolidation in the market, we will consider what we will be doing with our cash in the future. But this is not in our short-term radar screen. Our radar screen shows only reduction of our indebtedness and looking for a project that may increase our competitiveness.

Regarding fluff, we could be looking for other alternatives for increase of production in the future. However, we will be waiting to see the degree of success that we achieve.

We expect to be successful in this project. And for the allocation of these on 100,000 tons, we must not forget that the Brazilian market is a market for 400,000 tons of fluff and fluff has a high logistic cost. Therefore we should be focusing these 100,000 tons and in the future some additional tons in the Brazilian market.

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Now I will give you Alexandre now.

A - Alexandre Chueri {BIO 18677290 <GO>}

(interpreted) About the wood supply starting with Mucuri, the average wages in 2015 will be similar to what we had in the last quarter of 2014 during the full year of 2015. As of 2016, then we will start to reduce the average distance of Mucuri and the consequent gain in cost reduction.

In Maranhao, the average rate is of 2015 will be growing vis-a-vis 2014. However, this growth has already started in the last quarter of 2014. So the average radius of Imperatriz growth vis-a-vis 2014 and in 2016 it should be similar to 2015.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(interpreted) Walter, could we go back to fluff? Technically how much more could you produce if you talk about the potential for conversion?

A - Walter Schalka {BIO 2099929 <GO>}

(interpreted) Well I'll be very frank Thiago, I cannot give you the precise answer. I am going to look for that and I really don't know it by heart. So I can give you this afterwards.

Operator

(interpreted) Vincenzo Patemostro, Credit Suisse.

Q - Vincenzo Patemostro

(interpreted) I have two questions. The first is related to REINTEGRA and the change regarding payroll. How much do you estimate that these changes could impact your cost?

And I would like to understand how much REINTEGRA has added to the cost in Q4 on the EBITDA side, how much REINTEGRA represented in Q4?

And the second has to do with CapEx. I see that the maintenance CapEx of 2014 was BRL1 billion and in this amount as far as I understand you're not including the maintenance stoppage of Maranhao, neither the replanting of 1.5 million tons or the equivalent in new trees as you will be producing 1,000,100 tons in Maranhao and not 1.5 million tons. So what could we expect as far as maintenance CapEx is concerned because I had something like BRL1 billion, BRL1.1 billion in my mind and with these figures I have the impression that could be more?

A - Marcelo Bacci {BIO 17648865 <GO>}

(interpreted) This is Marcelo, Vincenzo. About REINTEGRA and the INSS. The INSS, the effect of this change with a 2.5% tax rate on the revenues, is BRL60 million in cost increase as far as we are concerned. This year, we do not know when this change will come into force. So the effect for the year cannot be estimated yet.

And with this tax rate, it's really indifferent for us to stay in the current regime or go back to the previous regime, tax regime. So in principle we are going to keep the current tax regime and then we will pay attention to the evolution of prices and this will determine whether we will change or not.

Regarding REINTEGRA, in the previous tax rate we estimated BRL140 million for the year. And of course it changes with the exchange rate. And dropping to one-third, this means a reduction of BRL90 million over the potential that we had with the previous tax rate. And in the last quarter, the effect of REINTEGRA was about BRL30 million as a cost reduction factor.

A - Walter Schalka {BIO 2099929 <GO>}

And regarding CapEx -- this is Walter, Vicenzo. First the issue of CapEx, well the stoppage of Maranhao that was scheduled for last year and it was this year, it's relevant. It's only BRL16 million. It's not significant in the overall figures or CapEx figures.

Regarding the sustaining CapEx which is the second question that you asked, our sustaining CapEx, we had already given guidance to the market of BRL1.1 billion already running at full speed or full capacity.

Operator

(interpreted) Andre Pinheiro, Itau BBA.

Q - Andre Pinheiro {BIO 17114104 <GO>}

(interpreted) I have two questions. You were talking about the deceleration of the paper demand at the beginning of this year and the increase in exports. Maybe Anibal could say a few words about the profitability of paper exports with the current exchange rate scenario.

And also the price increases of paperboard, we see some producers suffering and having to increase prices. So how are you implementing your prices for paperboard?

A - Carlos Anibal {BIO 19090865 <GO>}

(interpreted) I will start by the second question. At the end of last year, we announced an increase for the paperboard and printing and writing papers. Paperboard, in the last call we told you that we would be tapping into an important part of the increase over the First Quarter and this forecast is maintained.

A major part of the BRL9.4 million that we announced has already been implemented and will be reflected when we publish the results of the First Quarter of 2015. And the case of printing and writing paper, the increase was about 10% in effect as of January.

So we are implementing these price increases. And the percentage that we will be capturing at the end of the First Quarter will come from a strategy that we have in

implementation that takes into account these specifics of our products, of our channels. And of the conditions that exist in the market right now.

Both increases have been already implemented. And at the end of Q1 we will have tapped into part of that. Regarding exports of course as we have a more favorable exchange rate, the profitability will be going up. And in spite of that, it's still lower than the domestic market because in exports we have a higher logistics cost.

And the trend is that naturally as we have a higher demand, we will be able to have later on the possibility of having some product lines based on this exchange rate variation. We still don't have that. But this is a point of attention.

Operator

(interpreted) Jon Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

First I wanted to ask you on the liability management side if we could come back to that, how much are you -- how much data are you looking to pay down versus refinance? I mean we've seen a level of growth that remaining relatively stable. And I know the exchange rate plays a part of that. But is there a sort of a target gross number that you are trying to get to? And also what is the highest cost of that that you have now?

Then my second question relates to the pulp side of things as a whole. Walter, you've argued in the past that the industry needs more supply restraints and that returns weren't adequate enough. I'm wondering if your views have changed now given the pulp prices are increasing moderately and the currency is at BRL3. Do (technical difficulty) --

A - Marcelo Bacci {BIO 17648865 <GO>}

(interpreted) I think we have had a technical problem. I believe Jon will come back. This is Marcelo and I will be talking about liability management. We have about BRL1.5 billion in debt that mature over 2015. So our priority regarding this debt is to pay them back in order to reduce the gross indebtedness of the Company.

The opportunities of refinancing that we are observing have nothing to do with this BRL1.5 billion. But they have to do with longer-term duration operations that were hired when the risk perception of the Company was different and the interest rate was higher.

We are talking about other operations that could amount to BRL2.5 billion in this round that we are imagining now. And that would be potential for refinancing with cheaper and maybe longer operations.

Regarding the cost of our debt, the most expensive debt we have is the one contracted in 2010-2011 when the risk perception of the Company was different, mainly the ones that are dollar-denominated and that were contracted at the time the interest rate was much

higher than could be found in the market at the time. So these dollar-denominated debts are the ones that we are going to focus in our next liability management effort.

Regarding Jon's question about our view of the pulp industry, our view has not changed. We believe that projects with the level of capital we are talking about \$3 billion cannot be affected because of positive or negative volatility in the exchange rate or in the price of pulp.

We understand that there could be a surplus capacity in the pulp industry over time and this could lead prices that do not give the adequate remuneration to shareholders. So we will continue to carry out our discipline seeking competitive cost both in operating efficiency, both in our structural issues as we have been repeating consistently during this call on one hand. And on the other hand making our balance sheet more robust for the future.

Operator

(interpreted) Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(interpreted) I have a question about costs and let's go back to costs then. You had a very good performance in Q4 and if Walter could talk about the capacity of Maranhao producing more in the next few years or in the next few months, would you say that the cost of Maranhao compared to the future would be a drop of 10%-15% in cost? Could you quantify how much you can reduce the cost of Maranhao without placing new projects in the pipeline? That's the question.

And the other topic is energy. Could you quantify the benefit from the sale of energy on your COGS over 2014 and then Q4 and if the increase in the generating capacity that you have for 2015 would be enough to offset the drop in energy prices because you are selling energy at a much lower price than the average of 2014?

And let's go back to wood. I think the explanation was not quite clear, wood from third parties. Could you talk about the level that you were operating in Q4 and how you will operate in 2015 and projections for 2016 and 2017?

A - Walter Schalka {BIO 2099929 <GO>}

(interpreted) Marcelo, thank you for the question. This is Walter. I am going to talk about cost first. We had a very positive cost in Q4 due to the gradual increase in the Imperatriz volume and the higher efficiency in all the plants. Mucuri and Limeira are examples of that.

As of January, we have a cost reduction factor which is energy at a lower level than we had. We had another factor that plays against which is a slight cost increase in wood. And the third factor specifically in Q1 which is the stoppage of Imperatriz, that affects our overall cost.

But we understand that our cost as our focus, it will continue to go down consistently over time and other actions will be taken to seek more and more competitiveness. Alexandre Chueri said a while ago that as of next year we will see an important drop in the average wages of Mucuri and this will bring about a drop in our overall cost. Now Ernesto will be talking about energy.

A - Ernesto Pousada {BIO 15951890 <GO>}

(interpreted) About energy, what we should be seeing 2015 vis-a-vis 2014 is an increase in volume in our energy surplus at Maranhao for the full year will be running at full capacity and of course this will be generating a high volume of energy.

And we are saying here what we already said in the past, we are supplying less to our internal suppliers so it would be about 60 megawatts-70 megawatt surplus, close to the 50 megawatts that we had mentioned. So we should see a higher generation in Maranhao and a much higher generation in Mucuri.

Mucuri, Walter has been repeating that we were basically self-sufficient with no surplus. And we are ramping up with many opportunities and project that should be adding an important volume to our base.

And the price of energy certainly on the average, it should be lower. It was close to BRL822 last year and BRL388 now. And it's very hard to predict the fluctuations in the market dynamics vis-a-vis the price because this is quite volatile.

If there is any change in the rules and regulations, maybe the price will go down. But so far it's BRL388 and it has been keeping at this level. But let's see if this level is kept. Overall, we should have an additional volume of energy higher than 2014 and the price, as I said, it's very hard to predict.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(interpreted) Could you mention in megawatts how much you would have in generation capacity vis-a-vis last year?

A - Ernesto Pousada {BIO 15951890 <GO>}

(interpreted) Marcelo, we have many projects. It's very hard or difficult to give you an exact volume. Maranhao would be the 70 megawatts as I mentioned. But Mucuri, we still have many projects that have not been started up and reductions in plants.

So Mucuri, we are talking about 25 additional megawatts of energy for the average for the year. Maybe it will start lower than that and then we start speeding up because we have projects that are coming on-stream. So these are the two most important units, 70 megawatts and then 25 megawatts.

Marcelo, now about wood, I would like to mention that more important than whether the wood is ours or a third party's is the ranges, the distance from the plant. Because of the

difficult situation of the pig iron industry in Brazil we buy wood from third parties at a very similar cost of -- to our production cost.

So really the impact is because of the distance. Mucuri we have 60% third-party wood. And we will continue at this level during the whole year. Imperatriz, as Walter said during his opening remarks, one-third and we will continue to have one-third.

FINAL

Operator

(interpreted) Alan Glezer, Bradesco BBl.

Q - Alan Glezer {BIO 17508681 <GO>}

(interpreted) I have two questions regarding the paper business. The first one has to do with the Brazilian market. We saw a drop in the share of imports of 20% in printing and writing to 16% -- 20% to 16% from the third to the Fourth Quarter. And also a drop in paperboard quarter on quarter. So the market is more fragile now and is it because of the paperboard market or the printing and writing market?

And do you believe you will gain share from imports that had a drop in their shares and the difference in margins between domestic market and export market? We have about BRL3 exchange rate now. So could you quantify the different profitability between exporting your products or selling them domestically with a new exchange rate? So these are my questions.

A - Carlos Anibal {BIO 19090865 <GO>}

(interpreted) This is Carlos, Alan. Last year we had a very positive performance in our paper business in the domestic market demand according to the association called Iba, grew 0.3% and our growth net of third-party products was almost 6% and you have this information.

Well of course coated papers are included there where our sales grew approximately 15% on a year-on-year basis. And this growth was achieved based on the imported paper last year. There were measures taken by the government, the federal government and the state government. And because of that, because of these new measures, Suzano was able to gain volume in coated paper and the average price went up by almost 8% due to the drop in imports and then we could sell more.

The more volatility we see in the exchange rate, the more we will see lower imports. And once again we will benefit from that more than our competitors because we have a wider range of products. Imports happen in coated papers cut-size, as said in coated papers. And also paperboard.

Regarding paperboard, as you asked, in the second half of last year we already saw a certain weakness in the segment of users of paperboard and demand dropped by 4.4% vis-a-vis the same period last-year 2013. And we had a similar situation in January and

February. So paperboard is our most sensitive line of product to the changes in the macroeconomic environment.

These two months we had some variation in practically all lines of products. But in paperboard we see a higher correlation with the macroeconomy. Imports dropped in the Fourth Quarter of last year on a quarter-on-quarter basis due to seasonality.

Usually in Q3 of each year we see a more -- a higher inflow of imports. And the drop in the Fourth Quarter is only natural. It was slightly higher than 2013 because in 2013 we saw a strong reduction in imports coming from the law regarding the labeling of the immune paper.

So with the most favorable exchange rate exports should increase. But because of the logistics involved -- logistics are more expensive and because of that we achieve a lower margin in exports than in domestic product. So this spread or this gap narrows as the real devalues and this margin -- I wouldn't like to quantify it. But it varies for each line of product. It's not the same for every line of product.

Operator

(interpreted) Now we would like to close this question-and-answer session. We would like to give the floor back to the Company for the final remarks.

A - Walter Schalka {BIO 2099929 <GO>}

(interpreted) I would like to thank you all for participating. And I would like to continue that Suzano continues to be very motivated to create value to our shareholders and transforming our participation in the industry.

And I would like to say that we are very sorry about what occurred today. Today was the day that the bill should be voted and we had an episode of invasion (inaudible) area where we have our laboratories for (inaudible) and some of our facilities were damaged. The MST did that and we would like to reiterate our position.

Our position is of transparency and in spite of this sad occurrence, we would continue to contact the NGOs and the certifying agencies and state our opinion very clearly regarding GMOs.

We had a public hearing open to the participation of all at (inaudible) and transparency is very important as far as we are concerned. We have nothing to hide and we believe that the move that Suzano is doing is very positive for the whole of society because we reduce the areas necessary for the planting of eucalyptus and for the need of area for generation of wood and releasing these areas for other activities.

And by doing that, we reduce CO2 emission because of we have less wood transportation and harvest will be located within a smaller radius over time and we will continue to do that and we will continue to work in this direction.

FINAL

So this very sad episode does not change at all Suzano's stands vis-a-vis this. I would like to reiterate that we are a Company focused on innovation, on science and modernity. And the philosophy of Suzano regarding FuturaGene is to work in a transparent fashion for science.

The approval of CPNBU [ph], that shouldn't happen today because there was also an invasion by members of the MST in the meeting of the CPNBU in Brasilia. This is clear evidence that Brazil is ahead in terms of technology and that Suzano may bring to society, to our industry, another step ahead regarding competitiveness and reaping benefits to the whole of society.

So this is the message that I would like to leave with you. Thank you, all very much and wish you all a very good day.

Operator

(interpreted) Suzano Papel e Celulose conference call is closed. We thank you for your participation and wish you all a very good day. Thank you.

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