

## Q3 2014 Earnings Call

### Company Participants

- Carlos Aníbal Fernandes de Almeida
- Ernesto Peres Pousada
- Marcelo Feriozzi Bacci
- Walter Schalka

### Other Participants

- Alan Glezer
- Carlos F. De Alba
- Jonathan L. Brandt
- Juan G. Tavarez
- Leonardo Correa
- Lucas Ferreira
- Marcelo Aguiar
- Marcos Assumpção
- Milton Sullyvan
- Thiago Lofiego
- Vincenzo Paternostro

## MANAGEMENT DISCUSSION SECTION

### Operator

We would like to welcome everyone to Suzano Papel e Celulose Earnings Conference Call to Discuss the Company's Third Quarter 2014 Results. We inform that all participants will be in listen-only mode during the company's presentation to be made by Mr. Walter Schalka, CEO. After the presentation, there will be a question-and-answer session when further instructions will be given. We would like to inform that participants should ask no more than two questions.

Before proceeding, let me mention that some statements that may be possibly made during this conference call are subject to risks, both known and unknown, and uncertainties, which may cause expectations not to materialize and results to differ materially from those expressed in such statements. These risks include, among others, changes in the future demand for the company's products, changes in factors which impact products' prices in both the domestic and international markets, changes in cost structure, market seasonality, changes in prices of competitors, foreign exchange fluctuation, economic and political conditions in Brazil, in emerging markets and international markets.

Now, I would like to give the floor to Mr. Schalka to begin the conference call.

## Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It is a pleasure to welcome everyone to Suzano's conference call to discuss the third quarter 2014 results. I would like to mention that we have here Marcelo Bacci, Carlos Aníbal, Ernesto Pousada and our IRO, Tiago Fernandes. At the end, we will all be available to answer your questions.

I would like to start this presentation saying that we are quite satisfied and happy with the performance in the third quarter 2014. We were able to reach record marks in this quarter. We achieved a significant all-time high revenue, given the higher volumes of our Imperatriz operation.

We achieved an EBITDA of R\$615 million, an all-time high in this quarter, a 22% increase compared to the same period of last year, 18% versus the second quarter 2014 with a margin of 31%. In the third quarter 2014, our adjusted EBITDA by tons was very similar to the prior quarter, practically no variation there, R\$513 per ton, although we have a higher pulp volume in this quarter.

Another very positive piece of news is the pulp cash cost. We had a cash cost with no downtime of R\$502 per ton. This was driven by two main factors. First, higher volumes in the Imperatriz unit that now has the lowest cash cost in our system, thus with higher volume it contributes to bring the number down in the weighted average.

Secondly, but not less important, this is surplus energy sale, particularly growing volumes of energy sale in Mucuri. Mucuri started selling energy in June of this year and have gradually been increasing the surplus energy sale in the system. We were benefited by a non-recurring contribution of energy prices that we are having in the Brazilian market now.

Another very important point that should be highlighted is the fact that we achieved a record high SG&A on net revenues of 8.3%, again, a record mark. A little while ago, some quarters ago, we were at 12% but quarter-on-quarter this number has been declining. And in this quarter we achieved the record level of 1.2 million tons sold, 8.3% of SG&A. We also have to celebrate the fact that we maintained our net debt over EBITDA ratio despite the negative impact of the foreign exchange fluctuation. And here I would like to digress, during the second quarter this year the average dollar that we had was at R\$2.23 per dollar, an average dollar price that we used to post our sales. But in the third quarter the average dollar was R\$2.28.

However, the dollar that we used to post our debt in June 30 was R\$2.20. On September 30, it was R\$2.45. This R\$0.25 depreciation led to a significant effect, to a significant impact on our financial expenses that led to a loss of R\$362 million. Despite this impact, we continue to maintain our net debt over EBITDA of 4.5 times. This number will continue to be reduced as we continue to capture value from Maranhão, as we continue to deliver structural competitiveness actions in higher structural organization, which is our main

focus. With a depreciated dollar, the value to generate cash in the company increases in a substantial fashion.

Let's move to Slide 4. In pulp we had a very good performance. Our production was 63% higher than in the same quarter of last year. Sales volume grew 79% compared to the third quarter 2013. This is due to our Imperatriz operation. We're very happy with the ramp up of Imperatriz. In a number of days we have achieved the nominal production of the plant and a gradual reduction of specific chemicals in Imperatriz. All of that has led to an increase in volume and to a reduction in cost simultaneously.

The only negative point to highlight in this quarter is the pulp price reduction. Again, pulp price reduction in dollars fell comparative to the prior quarter, minus 3%. This however, was offset by the R\$0.25 that I mentioned in the foreign exchange depreciation in that period, 2%. So the pulp prices remains very similar, but again this pulp price does not adequately remunerate capital. We understand that with the closing of capacity that we had abroad.

In sales and in our operation in the United States minus 600,000 tons annually and the significant reduction in pulp inventories which were announced just last week from 46 days to 40 days of pulp inventory despite the fact that Suzano has 34 days of inventory at this point. And with the seasonal growth in demand in the fourth quarter, we believe that we will be able to implement the price increase that we announced. We believe we'll manage. And with this, we're going to have a better price. With a better dollar price, there will be a double positive impact in the fourth quarter.

Moving to Slide 5, paper, we also had an adequate quarter. We had a volume of which was similar to that of last year, but growing more in the domestic market, we reached 73.4% market share in the sales volume in the domestic market. And we are increasing our prices in the foreign market, which is also very positive. These two factors together gave us a price which is 9.5% higher than in the same quarter of 2013.

Looking at the operating performance of the company compared to the revenue, we posted a significant revenue increase. As I mentioned before, we had an all-time high revenue result in the third quarter, reaching almost R\$2 billion. And on the cash cost side, we had a reduction in cash cost stemming from Imperatriz although we have a wood cost which is higher in Mucuri and we also had the impact, the positive impact of specific consumption, improving our operations as a whole.

This has been very positive, and we have perceived, we are identifying a very positive trend in all of our plants cost wise. It's important to mention that the Suzano unit continues to buy power in the spot market and this impacts the cost of paper because we have the benefit of a power surplus in Mucuri, Imperatriz but we have a higher cost of power in Suzano. While we benefit in pulp because Suzano basically produces paper and we trade pulp in the units of Imperatriz and Mucuri, but we have the partial negative offset in the Suzano unit.

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Talking about the company's CapEx, we continue to estimate our CapEx for this year at R\$1.75 billion. In addition to that, we have the payment of Vale Florestar, which was not initially in the budget R\$48 million, so we will get close to R\$1.8 billion. If that number is not reached, it's because we are managing our carryover of payment to the first quarter of 2015, but we will not be saving or having savings in this total value spent or we might have a reduction in the total value paid. But the total value employed continues at around R\$1.8 billion if we include Vale Florestar.

Another very positive news in the quarter is that we had an operational free cash flow which was positive in R\$210 million. When we removed the sustained CapEx and the interest expenses, we still had a positive cash generation in the quarter. We are working for this to be a recurring effect. This, coupled with a gradual increase in EBITDA should lead to a reduction which is even higher in our debt level which is a fundamental point in our strategy.

I would like to speak a little about some of the figures of the company. Let's talk about unit cost of goods sold. We were on Slide 7, but we are now on Slide 8. We had a reduction in units COGS. This is only natural because we had Imperatriz startup. This brings costs down on one hand, but it's also the result of actions in other plants.

We have operating efficiencies, structural competitiveness, gains both in the industrial part, logistics, commercial sides of the business and this has been leading to gains in all of the line items of the budget. This is also happening with sales expenses and administrative expenses.

SG&A in the last 12 months was 9.9% and it has been declining quarter-over-quarter, and it will continue to decline. This markedly reached a record value of 8.3%. This is a very low number and it stems from significant sales volume of 1.2 million tons but as a trend, the matrix budget program which is being deployed for about three years in the company is bearing fruit and having a gradual impact in SG&A.

Adjusted EBITDA of the company has been showing some good results quarter after quarter. In the last 12 months ending in December 2012, we have R\$1,270 million, in quarter-over-quarter this number is increasing. In the last 12 months, we reached R\$2,169 million in adjusted EBITDA. So we are very satisfied with the performance that we can see happening.

And, hopefully, we will continue to increase our structural competitiveness in all of our operation. We have new investments that we are making, that we are planning to make next year. In May of next year, we will have the new digester in the Suzano unit and there are other units that we are adopting to gain value, add value, capture value in the system and this has been gradually bearing fruit in terms of our performance - our performance that we are delivering to the market every quarter.

With this, I end the presentation and myself and my team are here to answer your questions.

## Q&A

### Operator

[Operator Instruction] Our first question comes from Mr. Milton Sullyvan from Brasil Plural.

#### Q - Milton Sullyvan {BIO 19085202 <GO>}

Good morning. I have two questions. Firstly, I would like to speak about costs, I would like to know if you can give us some color in terms of the cost breakdown of the company in this quarter, more specifically how the energy and wood cost behaved in this quarter, and how do you see this looking forward.

And my second question still on cost, could you tell me how much more you can gain in terms of a cost reduction and when will the Maranhão cost go back to growing due to the average radius, average systems of the first increasing overall.

#### A - Walter Schalka {BIO 2099929 <GO>}

Milton, good morning, this is Walter. As per the costs in this quarter we have a mix of items that lead to a cost reduction. Wood cost in Mucuri higher than we will have in a recurring session in the future, this has been announced to you before.

We believe that in the third quarter of this year, we achieved the peak in the wood cost in the Mucuri unit. As of 2016, we will see a reduction in the average distance of wood in Mucuri and this will improve the results of the company. As for wood in Maranhão it is the opposite. Actually we started with a smaller average radius because we hadn't regularized the Vale Florestar.

Now that we closed the deal of Vale Florestar with all the legal aspects involved, well, we started getting some impact but very mild in the third quarter. The impact in the fourth quarter will also be mild. We'll start seeing a higher impact as of next year, that's when we'll start having a more average radius and with that this will impact the cost of wood in Maranhão.

Specific costs in all of the units are moving in the right direction, we are evolving in the consumption of specific chemicals. In terms of power consumption, our surplus energy sale is increasing; we are increasing our sales volume in Imperatriz, increasing our sales volume in Mucuri. And as of next year we will reduce the purchasing of energy in Suzano with a project of parallelism among the lines, this will be implemented as of May of next year.

So we are still at a positive level. The price of power is something that is not under our control. And we haven't sold or purchased energy for the future. As for a general trend, we will not be giving a guidance in terms of our cost for next year. We should not give a guidance, but I understand that the company is energized seeking to continue to drive down costs. We can still envision some cost reduction opportunities all over the company.

## Operator

Our next question comes from Thiago Lofiego, Bank of America Merrill Lynch.

### Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, everyone. Congratulations on your result. I have two questions, one about the market strategy in Mexico for paper. You have been increasing the mix of sales to Brazil in detriment of exports this quarter. Again, you increased your exposure in the domestic market. I would like to understand what your strategy is. We understand that the margins here are better. I would like to understand your strategy, is there more room to increase the mix?

And perhaps Carlos Anibal, could you comment on the expected demand for the - for next year, for the second half of the year and next year? My second question is about CapEx, what should be the expected CapEx in the end of 2014? What can we expect for next year?

### A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

Thiago, good morning, this is Carlos. If we look at the market as a whole, the market has been retracting 10.5% stemming from a significant drop in paperboard and a slight increase of P&W paper, printing and writing paper. We understand that if it weren't for delays in the governmental program, we would have had a higher demand for printing and writing paper. In the case of paperboard, we understand that this reduction - the variation between the second and the third quarter for paperboard is about 10%.

This year we had 5%. But in our understanding this can be the result that the consumption industry as a whole is working with a low visibility of demand and this reflects in the whole chain. We had a good performance in coated paper, in our coated paper line given a reduction in exports, and this was due because we were more effective in our actions. You cite the problem we had with the tax exempt paper.

We believe that we still have room for growth so for the coming quarters I see quarters - I see opportunities for coated paper, which will allow us to migrate volume of uncoated paper, which would be exported to coated paper sold in the domestic market with a higher margin. In paperboard, we've been quite successful.

Firstly, picking up a space created by a reduction in the exports of paper - in the imports of paperboard, they were imported being tax exempt, so we took up that space. Secondly, we have an important action in paperboard specifically white paperboards for the pharmaceutical industry and cosmetic industry. Two factors are continuing to grow this helped us despite the fact that the market was retracting, so we are having a higher market share.

So in a nutshell, we see an important space to grow coated papers, maintaining this performance in the pharmaceutical and cosmetic segment we have room for white paperboard. And in uncoated paper we have to see what will be the demand from the

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government and demand in the cut size for the corporate market. Our expectation for the fourth quarter is that demand as a whole will be close to what we had in the third quarter, volumes slightly higher in uncoated papers given the delay in the government program.

**A - Walter Schalka** {BIO 2099929 <GO>}

And as for CapEx - Thiago, this is Walter. We are not giving a guidance of CapEx for 2015. I would only like to tell you that conceptually we have three lines of CapEx. One is sustained CapEx, which will continue normally. Secondly, we have a CapEx to revamp and to have a retrofit of our plants, operations and other actions. And thirdly, a third CapEx group, which is the growth CapEx. In the growth CapEx, I believe we'll be doing very little next year. So basically we will be operating in the first two CapEx subgroups. That's where we will be concentrating our actions.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Perfect, Walter. Carlos, I want to go back to you. I just want to understand in a more structural long-term fashion. Can we imagine Suzano going to a mix of 80% exposure to the domestic market vis-à-vis export? I just want understand the strategy of the company. If you continue to manage to grow more in Brazil than in the global market, will you be redirecting volume to the domestic market or do you want to maintain your strategy for foreign sales?

**A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

Well, we have a well-defined point strategy for every line of product, Thiago, but conceptually as the domestic market increases, we will be absorbing a good part of that growth. In some specific lines such as coated paper, for example, the idea is that we'll grow more than the market because we will be taking up that demand that is being created, we will be supplying that demand that's being created related to the tax exempt paper. So we want to grow our sales in the domestic market, secondly in the Americas. And so leaving behind those regions where our profitability is lower.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Thank you very much. Perfect.

**Operator**

Our next question comes from Leonardo Correa, BTG Pactual.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Hello. Good morning. My first question has to do with cash generation and working capital. We saw that you had a good deal of working capital release particularly in the line item of suppliers. I would like to understand that if this favorable result in working capital is sustainable. Do you have any measures in place to support these lines looking forward?

And my second question has to do with the paper business; I just want to get a sense of price trends for paperboard, in the possibility of debottlenecking the capacity of the

paper business.

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

Leonardo, this is Marcelo. Speaking about working capital in the suppliers' line item, we have the reflex of increasing our operation with the ramp up of the Imperatriz unit. In terms of number of days, reduction was not that big, there was some reduction. But the main impact comes from volume and with a number of actions that we have implemented; we've been able to mitigate the impact of volume, both in the client and in the supplier line item. But since we're still going to see an increase in volume in the coming quarters, we'll still need to work more to continue to mitigate that in the future.

**A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

Leonardo, this is Carlos. Regarding the prices in the domestic market for paper, in the third quarter compared to the second quarter we had a 0.8% increase in our average price stemming from a 2.7% increase in coated papers and 1.2% in uncoated. If we'll compare it with the third quarter of last year we had a significant improvement of about 9.5%.

Now, looking forward we announced a few weeks ago an increase of 9.4% for paperboard. We will start implementing this as of next Monday. We want to bring more lines coated and uncoated paper. We're still assessing - we're still working and assessing the demand. Local supply, international supply, foreign exchange and based on that we will define our next step. So what we currently have is again increase in paperboard, an increase that will start next Monday. For the other lines, we will be assessing the measures to be adopted for each one of them.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Thank you very much. So if I understand in the working capital line we can project similar levels to the third quarter. So better than what we expected in the first quarter of the year?

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

believe so, considering that we are going to have a higher increase in volume. It will really depend on the timing of sales of the first quarter how much we sell and how much we'll get paid in that quarter.

**Q - Leonardo Correa** {BIO 16441222 <GO>}

Okay, thank you very much.

**Operator**

Our next question is come from Mr. Marcelo Aguiar, Goldman Sachs.

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



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Thank you. I just want to understand, Walter mentioned the cost of energy in Suzano. Walter, could you explain, you talked about parallelism. Could you perhaps talk about megawatt hours that you're purchasing today, how much you would stop purchasing just to help us project?

And as for costs, I would like to understand in the case of Imperatriz, what is the percentage of capacity that you were able to operate the unit in the third quarter? And now in October are you operating at 100% capacity in a recurring fashion? And my last question is about paper. What would be the level of foreign exchange that you see for coated and uncoated paper in the Brazilian market? I just want to have a sense of the elasticity of the price related to foreign exchange.

#### **A - Walter Schalka** {BIO 2099929 <GO>}

Marcelo, good morning. This is Walter speaking. The question about power, the situation is as follows. We understand that we have a potential to have a higher surplus energy sale or perhaps buying less energy for each one of our plants. So we are working at all of the units to maximize the volume of power yield. In Suzano specifically, we have two actions in place. One is the start up of the new digester that will maximize the reduction of power consumption.

Secondly, the parallelism project between the turbo generators, we have a average acquisition of 41 megawatts in Suzano and we will have a reduction of 4 megawatts as of May with the parallelism between the turbo generators.

In Mucuri, we started with zero in July and gradually increased it 2 megawatts, 3 megawatts now 6 megawatts. In October we are at 14 megawatt hours being exported and we intend to reach 20 megawatts in the first half of next year and 26 megawatts in the second half of 2015. This will help mitigate our total power situation. We will continue to study other possible projects, projects that have not been defined, not approved yet to maximize consumption of electric power.

As for Maranhão, in Maranhão, the number of days, we have achieved a nominal production of the plant. In a consolidated fashion we have not achieved 100%, but we are getting close to 100% capacity at the Maranhão plant. We are very happy with the performance over there.

#### **A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

Marcelo, good morning. This is Carlos. Your question about paper, what we have today in the domestic market is a set of prices which were defined at different timings along 2014 and in the end of 2013. So, we will use different assumptions. We do not have a specific foreign exchange that will dictate the starting point of our prices domestically. Our challenge looking forward is to assess the foreign exchange rate, how demand will behave, how supply will behave both domestically and internationally so that we can define if applicable the percentages to be applied for coated and uncoated paper.

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

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Okay. Thank you.

## Operator

Our next question comes from Mr. Lucas Ferreira, JPMorgan.

### Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone, and congratulations on the figures, particularly Maranhão. My first question goes to Carlos. Carlos, perhaps you could give us an overview of what you have seen in the pulp market. Recent numbers have been good; inventory is close to the average levels of stable market. I would like to know if this is your vision for inventory with these strong shipment figures. What about the inventories of your clients?

I mean, I want to understand how demand for paper is behaving, demand for paper as a whole and how you assess the situation, if we can continue to expect a strong fourth quarter. And if you implement the price increase, if you will be able to implement the price increase that you announced?

And Walter, I'm sorry to insist on the power point, but this has been recurring in this quarter. The energy that you purchased for the paper unit, I understand that the company has a goal to increase their own power production. You want to be selling more power than you purchase power, but it's not clear to me what is Suzano's strategy in terms of the average price for purchase and for selling. Do you intend to reduce or eliminate energy sold at the spot market? Because since we don't have access to this kind of contract, we don't know. Do you think that energy that you purchase would have a price increase which would offset the volume of power sold in Maranhão? I just wanted to understand the strategy of Suzano and its exposure to the electric energy market.

### A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}

Lucas, good morning. This is Carlos speaking. We have a very positive understanding of market fundamentals, which make us believe that we can implement the prices that we announced for the main regions as of October 1. We understand that the current fundamentals support the beginning of a price recovery process, which is necessary.

As Walter mentioned, the prices are not adequately remunerating the capital employed by the industry. As for our view of supply, demand and inventories, on the supply side, we had two important reductions along the third quarter totaling 600,000 tons. We had delays in the new capacities of China and Uruguay. And we reached the end market at a moment when there was a seasonality of demand which was quite positive.

Last week we disclosed information about the Uruguay project, which is expected to have a reduced production between 50,000 and 100,000 tons by year end which will again make a contribution on the supply side. And there are other minor factors that all together are quite helpful. We had a strike in Spain, that reduced tons by 15,000 to 20,000 tons. We see some smaller producers producing more softwood in detriment of

hardwood. And there are some expected downtimes for maintenance for the fourth quarter.

On the demand side, China continues to consume virgin fiber, pulp. In the last nine months, China grew between 4% and 6%. I like to remind you that specialized consulting firms understand that China will have an additional capacity of about 1 million tons this year according to information that we received last week.

Production grew in the last nine months compared to the same period of last year, the printing and writing paper, tissue and paperboard growing. We had the seasonal pickup of demand in the Northern Hemisphere. Europe grew in the third quarter of this year compared to third quarter of last year, 3% of their demand. Latin America grew demand by 12%, so the prospects are quite positive.

Spread continues high, we are talking about R\$200 between softwood and hardwood which leads to a higher utilization of hardwood in detriment of softwood, a space that has been taken up by eucalyptus fiber. And in Asia, the production of tissue continues to grow, particularly in China. In Asia overall in eight months it grew practically 2%.

On the inventory side, we had a significant reduction in the global number, five days reduction, highlights going to hardwood, six days compared to before. And to-date compared to the closing of the third quarter of last year. In our understanding, inventory has continued to be below in the main ports of China, below the average of last three years. And the same observation applies to European chain, we understand that the chain today finds itself with lower inventories than the average of the last three years.

So this whole set, supply and demand and inventories, makes us believe that we will have a good chance that we are quite confident I should say and I can tell you that in China the price announced of \$20 has already been implemented.

**A - Walter Schalka** {BIO 2099929 <GO>}

As for your question regarding the cost of power, this is Walter speaking. In terms of volume and power we have contracted until the end of this year 70% of the volume of hedged power. We sell power in Maranhão and we purchase power in Suzano. One offsets the other so that we can have a hedge in the sub-market. As of January we have no future energy sales or purchasing. We intend to do it, but we're still awaiting the maximum energy price to be defined by ANEEL, the Brazilian energy agency. Until then the market is closed. We have had no opportunities to purchase and/or sell energy for next year. So for next year we are totally on spot market both in the sales and purchase of energy for Suzano.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Thank you very much.

**Operator**

Our next question will come from Mr. Marcos Assumpção, Itaú BBA.

### Q - Marcos Assumpção

Good morning. Congratulations everyone on the results. Walter, I would like to know if you could comment - when you compare the internal goal of the company to generate cash in the nine months that have elapsed, are you achieving your internal goal, which is important for annual remuneration and bonus of the company?

### A - Walter Schalka {BIO 2099929 <GO>}

Thank you for the question, Marcos. Normally, we do not disclose this kind of information, but I'm going to give you a general guidance. When we set an internal goal for this year a part of this goal was based on assumptions which we adopted related to foreign exchange and/or prices of pulp. As to the pulp price, this assumption did not materialize; we have lower prices than we had initially budgeted. Thus, we have a lower free cash flow than we would have liked.

Net of this exogenous effect of pulp, we are doing well. This is a relevant question in terms of pulp and so we are doing below the expectation. The pulp paper today is at price that does not adequately remunerate capital and this is a lot lower than the third quarter of last year. So we understand that this price increase that we announced and that we are implemented will offset this problem but it would be very difficult to achieve the goal that we had set for our executive committee in terms of the desired free cash flow.

On the other hand, we have a clear understanding that with a price increase and real depreciation that we probably will have in the fourth quarter compared to the third quarter the average foreign exchange in the first quarter was R\$2.28. We understand that the average price of the dollar will be higher than R\$2.28 in the fourth quarter. With the price increase, we will see an increase in free cash flow in the fourth quarter, but still we will probably not fully achieve the goal that we internally set.

### Q - Marcos Assumpção

Perfect. And as for the cost of Maranhão, you said that the plant is running very close to 100%, in some days achieving its nominal capacity. When we were comparing to the third quarter when you still had some highs and lows, but reaching the ramp up, how far is Suzano from an optimal structural cost of this plant, are you 5%, 10% away from the total capacity?

### A - Walter Schalka {BIO 2099929 <GO>}

I think that this range that you mentioned is reasonable in terms of what we still need to achieve in Maranhão. We still have to improve not only our volumes but also the consumption of specific chemicals. We haven't achieved the specific numbers for the project. We are still working on that. I think that this range that you defined would be reasonable as a range to be captured.

### Q - Marcos Assumpção

Okay. Then one final question addressed to Carlos. Talking about this new outlook for the exchange rate of R\$2.40, it seems that we are going stay at that level. Looking at next year, what do you think will happen in terms of the share of imported products in the market? What can we expect next year? Not just the foreign exchange impact but also measures taken by the government to reduce exports.

### **A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

Marcos, this is Carlos. Good morning. Marcos, I believe that import performance next year will depend a lot more on the effectiveness and the efficiency of actions being taken both by the federal government and by the state governments. Today we have RECAP implemented in 17 states of the federation. In most cases, it is fully operational.

In São Paulo, fines have gone - have achieved more than R\$500 million, and we've had an important indicators by the Secretary of Finance showing a dilution of this fiscal issue. And the number of companies registered to operate with tax exempt paper has dropped by 15%, average daily transactions involving tax exempt paper have dropped 30% compared to the beginning of the year. So these are very positive indicators, but this is a continuous fight, and I believe that if we continue at the current level with the actions of both the federal and state governments, I guess that we have a good outlook for Suzano, in particular, particularly in coated paper where we have space and we have the capacity to grow our share.

### **Q - Marcos Assumpção**

Thank you. And one last question to Walter regarding the results of the fourth quarter. Is there any driver that worries you because when we look at the big trends it seems they are all positive? Pulp volumes should start growing because of the ramp-up. The fourth quarter is seasonally stronger, the price will be higher, stronger dollar and the costs are dropping. Is there anything that worries you about the results of the fourth quarter, perhaps a slightly lower spot price of power?

### **A - Walter Schalka** {BIO 2099929 <GO>}

Well, there are many variables, the main variable being the robustness of the market. If the market remains robust as we expect and as we are expecting for November and December, I don't expect any relevant surprises in the fourth quarter, nothing that would worry me. Now, obviously the company is a living body and it needs to work in all areas. We will continue to pursue improvement in all areas of the company. But we don't have all of the exogenous factors under control, they are not under our control, so there always issues of concern but we can do very little about them.

Internally, I'm very confident regarding our internal factors. The company is positively energized. We have really in our DNA now a focus on transformation, evolution, constant change, and we deal with this on a daily basis in the company, focusing on positive results deriving from our actions all around the organization and I'm very happy.

### **Q - Marcos Assumpção**

Thank you very much.

## Operator

Our next question comes from Mr. Carlos De Alba, Morgan Stanley.

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

Yes. Good morning. Thank you very much. My first question has to do again with paper cost. Walter, have you seen any other pressures besides power costs in your paper unit because we have seen for a couple of quarters the implicit paper cost going up?

And the second question, if you could comment about either the level of net debt to EBITDA or net debt that we can expect for the company say by the end of 2015, just your – a range or a level that you have setup as an internal target, that would also be very important. Thank you.

### A - Ernesto Peres Pousada {BIO 15951890 <GO>}

Ernesto Pousada speaking. Regarding the cost of paper, we don't envision any relevant factor in terms of chemicals or operating factors other than the cost of energy that might put pressure on our paper cost. Everything is under control, our efficiencies, our operating stability is quite under control. And in terms of the chemicals, we don't expect any relevant pressure on the cost of paper.

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

Carlos, this is Marcelo speaking. You asked about debt, the debt level over 2015. In keeping with what Walter mentioned in terms of the results of the company as a whole, we are quite sure about everything which is under our control. We are sure that we are going to have a coming year with a strong cash generation higher than we has this year, because we'll have increasing volumes. But exogenous factors play a decisive role in the indebtedness of the company for both the pulp price and the exchange rate. We cannot estimate or give a guidance regarding the net debt over EBITDA for next year. What we can say is that we expect a strong performance in our cash generation.

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

All right, thank you.

## Operator

Our next question comes from Jon Brandt, HSBC.

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

Hi, good morning. Thank you for the call. I just wanted to follow-up on Carlos' question on the debt levels. As you mentioned, you are expecting to be more free cash flow generative, and up until now we have seen the net debt to EBITDA numbers falling primarily due to better EBITDA generation.

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So I am wondering if you could tell us what your strategy is for paying down debt, how much you can do on the liability management side of things? What your cost of debt is and maybe mention some of the more expensive debt that you hope to pay down? And if your free cash flow generation will be used primarily to pay down debt?

And then secondly, the strategy for Suzano up until this point has been to get Maranhão up and running at 100% and then pay down debt and get investment grade rating which depending on pulp prices and currency could happen in the next couple of years. I am wondering post that what the strategy is for Suzano given that, Walter, you've been very vocal about needing higher prices to earn proper returns in the pulp industry. My expectation would be that you would not be starting any new pulp projects. So if you could comment a little bit about what the strategy is post Suzano's investment grade rating Thank you.

### **A - Carlos Aníbal Fernandes de Almeida {BIO 16143237 <GO>}**

Carlos speaking. Talking about cash generation and the debt levels for next year, we will have a more robust cash generation than this year as I said and the amount of debt that we have maturing next year is not that big. So our strategy will be to amortize short-term debt and continue to seek opportunities to prepay other more long-term debts which are more expensive and which do not have significant penalties for pre-payment.

As for liability management, we are continuously looking at our debt portfolio in seeking opportunities either to expand or to roll over the debt or to get better terms or both. And with cash generation, we will pursue the strategy of prepaying the short term and more expensive debt.

Jon, as for the strategic question, our position is very clear and I think you touched the right point in terms of our vision. Since last year we have been announcing that we would not resume an organic growth project until we had a net debt over EBITDA of 2.5 times, and simultaneously until we faced market conditions which would be qualitatively attractive so as to appeal to us to increase our capacity. I don't see this happening in the next couple of years.

Next year we will have another pulp producer in the market and getting the full year impact of the startup of Guaíba next year. And additional volumes coming from Maranhão, Montes del Plata, OG. We guess that we will have a period of over capacity in 2015 and 2016 and also with Klabin's action. So in our view there is no reason in terms of return on capital employed, which is the main focus of Suzano to increase capacity even further.

But you are correct, we will quickly reduce our debt. Now obviously depending on the FX condition and the price of coal. But the company will be prepared for any future consolidation movement that might appear. This is not in our radar right now, it's not a focus of the company and the management at this point, but gradually over time we will be closely following this industry dynamics to try perhaps to have a redesign of the industry that will generate value in a structural fashion for the shareholders of the companies, particularly Suzano's shareholders.

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

Thank you.

## Operator

Next question comes from Mr. Vincenzo Paternostro from Credit Suisse.

**Q - Vincenzo Paternostro** {BIO 17670256 <GO>}

Good morning, everyone. Thank you for the opportunity to ask this question. My first question goes to Carlos. I would like him to comment on the much stronger demand that we saw in China since June. Do you think that this is the result of very significant demand increase or it's just because they want to suck up product generated to maybe average monthly consumption of shipments to China according to ETPC (56:20) was 300,000 tons. This June this average has gone up to 500,000 tons. So I want to understand how sustainable is 500,000 tons to China. Is this just a movement to rebuild their inventories or is it a stronger sustainable demand?

Along those lines, regarding pulp, do you think that there might be an impact of a demand from Europe with a depreciation of the euro? I think it will be difficult for non-integrated paper producers to pass through an increase in prices in euro. So could this have any impact on the dollar price of pulp? So that would be my question regarding pulp.

And my second question has to do with G&A. I thought that this year you delivered nominal G&A growth way below inflation, and I would like to know whether in 2015 there is any room for more reductions or if it's likely that we will see an inflation impact in this expense line item?

**A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

Vicenzo, good morning. This is Carlos. Let's start with the Europe question. We don't see. We haven't identified any specific movement, any expectation of a reduction in demand from Europe in the fourth quarter. The fourth quarter is naturally a strong one both for European producers and for us for P&W paper and for tissue and we don't expect that the euro depreciation will significantly impact the demand in the fourth quarter. So we understand that demand in the fourth quarter from Europe will be as strong as it was in prior years and prior quarters.

Looking at China, again I like to stress information over there is oftentimes inaccurate and oftentimes unavailable. The way we see this at this point, is if you look at exports - I'm not just limited to ETPC (58:39) data - imports were around 550,000, 570,000 tons. It varied little over the month.

We had consumption of inventories in March and April and then a beginning of a rebuilding of inventory. Inventories in the main ports of China are below the average for the last three years and production, and this is specifics that were disclosed last year, grew in the last nine months 3.1%. So we understand that there is no additional establishment of



inventory along the Chinese chain. Our expectation is that in the coming months we should see normal volumes being shipped and sold to China.

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

Vicenzo, your question about SG&A. G&A is part of a program that we have called matrix budget, which will continue next year. We were quite successful in 2013 and 2014. Last year we saw nominal reduction. This year we can see a slight drop and given the increase in volume, we are seeing a slight nominal

(60:11-61:20)

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

Hi. Good morning, everyone. Just two question on my side, specifically on cost. I like to understand why the - what drove the R\$79 per ton year-over-year improvement in cost? I know you mentioned energy sales. I'm curious how much of the R\$79 per ton of the year-over-year improvement is pulp cash cost came from the sale of energy. I know you mentioned a portion of that was non - could be non-recurring due to pricing. How much of that do you think will be non-recurring?

The second question is regarding the paper market, just to understand a bit on coated paper, it's clear that you are seeing better volumes there, I'm curious what your current market share is in the coated paper market, and what your target could be moving forward. And connected to that question, would there be any incremental investment needed to reach a certain target market share, or to continue to shift towards the coated paper production?

**A - Ernesto Peres Pousada** {BIO 15951890 <GO>}

Juan good morning. This is Ernesto Pousada talking about your cost question relative to the impact of power. I think that Walter mentioned before, the main item that we have in our cost is an increase in the supply of energy from Mucuri and Imperatriz mainly.

And when considering the two, the energy prices that have been quite high in the second half including the submarket of the north remaining at the cap throughout the period. We are not giving any detail about the impact of - about this impact on cost, but it was quite substantial, particularly given the high cost of energy that we had along the second half of the year.

**A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

Juan, good morning, this is Carlos speaking. Our accumulated market share for coated paper is something between 40% and 45%. And we have an opportunity to increase this. We have installed capacity in our Limeira unit where we can produce more coated paper in detriment of uncoated paper that is exported. So always trying to do this, as long as we can sell coated paper in the domestic market in conditions which are profitable for Suzano as a whole.

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So do we have faith, do we have additional capacity? Yes. And this will happen depending on the efficacy of the federal and state governments trying to fight tax exempt paper. So we have room for growth, we have room to increase our capacity and thus to increase our market share.

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

If I may just a follow up to that - that point on market share, so how would you prioritize strategy within coated paper, is it to gain more market share or would you - in detriment of maybe pushing through more price increases or how do you see the dynamic there between your volumes and pricing in coated paper moving forward?

**A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

It would be a combination of both. We'll try to gain the market share and take up the space that is being left un-served by import. But we want to gain market share with minimum profitability conditions that we have defined. It's worth remembering that we are comparing the profitability of coated paper in the domestic market with the profitability of uncoated paper for exports. This is what will make us decide on using more OS or by installed capacity in the Limeira unit.

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

Great. Thank you.

**A - Carlos Aníbal Fernandes de Almeida** {BIO 16143237 <GO>}

You also mentioned the price increase in coated paper. We still have a good share coming from imported product prices determined by the international market. If this price increases, we will have room regardless of the equation mentioned before to increase our prices in the domestic market.

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

Perfect, very helpful, thank you.

**Operator**

Our next question comes from Mr. Alan Glezer, Bradesco BBI.

**Q - Alan Glezer** {BIO 17508681 <GO>}

Good morning. I have two questions. The first is about the volume of pulp - no, in the first place congratulations on the successful ramp up at Maranhão. I understand that the company today has the capacity of 3,420,000 tons per year, if we look by quarter it would be about 855,000 tons. You sold in the third quarter 860,000 tons even not running Maranhão at full capacity. So I would like to understand what fiscal inventory effect, you still have some pulp in inventory and you sold it or perhaps you're running Mucuri at a stronger capacity? This would be my first question.

My second question would be about the maintenance down time at Imperatriz. I would like to understand, why is it – that it was delayed, postponed to the first-quarter 2015? It should have happened now. And any estimates on the cost of this stoppage. These are my questions and thank you for the opportunity.

**A - Ernesto Peres Pousada** {BIO 15951890 <GO>}

Good morning, this is Ernesto Pousada speaking. To answer your first question, actually what happened in this quarter was a reduction of our inventory. There was no higher production in the Mucuri or any other unit. In the Imperatriz unit, we continued with our annual plan of having 1 million tons and 1.1 million tons. And we sold some of our inventory in the third quarter, which is our pulp inventory.

As for the down time of Imperatriz it was initially scheduled to happen in September. We postponed it basically because the unit is performing very well. We didn't see a technical need to do it. This was basically a technical decision. We did not see the need to stop this year. The equipment is relatively new. A number of the machines are still in their natural warranty, so we didn't see the need to stop. So, we postponed the downtime for next year.

You asked about our cost estimates. We haven't got that number fully estimated yet. But we're talking about something ranging from R\$12 million to R\$15 million to be spent in the downtime next year. Thank you very much.

**Operator**

We are now closing the question-and-answer session. I would like to turn the floor back to the company and the management for their final remarks.

**A - Walter Schalka** {BIO 2099929 <GO>}

I would like to thank everyone for participating. As my main message regarding Suzano, what I can say is that, Suzano will continue to pursue our goal to have better return on capital employed. We understand that today the focus of the company is to maximize free cash flow.

We are working to increase gradually our EBITDA with structuring actions and actions to promote efficiency gains in the system. We are also working on our working capital and on our CapEx and on preparing our future competitiveness, investing in our operations, forestry operations, industrial operations, logistic operations for both pulp and paper.

Again, gradually we want to increase the return on capital employed to our shareholders. If we analyze historically what has happened in recent years, you can see a substantial improvement in the ROIC, which will be one of the main KPIs to be followed. However, we are humble and we recognize that our ROIC has not reached the desired level. So, we will continue to produce operating actions and strategic actions aiming to improve this KPI.

Internally, we are focusing on other soft factors related to our personnel, clients, suppliers, the communities where we operate and the environment. We have some innovation driven actions, and the company is very satisfied with the dynamic that we have been adopting both internally and externally to improve our results.

So my take-home message to you is that we are happy with our performance, but we are not that happy as we are with results that have not achieved the desired levels that we expect to have in the future.

That's basically it. I would like to invite you to APIMEC meeting on November 27th. We will be making a presentation to the market. And I wish you a great weekend. Thank you very much.

## Operator

This does conclude Suzano Papel e Celulose's conference call. We would like to thank everyone for participating. And have a good day.

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