Q2 2013 Earnings Call

Company Participants

- Alberto Monteiro, CFO
- Alexandre Yambanis, Pulp Business Unit Officer
- Carlos Anibal, Paper Business Unit Officer
- Ernesto Pousada, COO
- Unidentified Company Representative, Unknown
- Walter Schalka, CEO

Other Participants

- Alex Sciacio, Analyst
- Carlos de Alba, Analyst
- Juan Tavarez, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Viccenzo Paternostro, Analyst

Presentation

Operator

(Interpreted) Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Suzano Pulp and Paper earnings result audio conference to present the results for the Second Quarter of 2013. At this time, participants are on listen-only mode and will hear Suzano's CFO Mr. Walter Schalka's presentation.

Next we will open up for questions and answers when you will receive further instructions. I would like to highlight that each participant may ask only two questions. (Operator Instructions)

This release may contain forward-looking statements and these statements are subject to known and unknown risks and uncertainties that can lead such expectations to not materialize or to differ materially from expectations.

These risks include change in future demand for the Company's products, changes in factors affecting domestic and international product prices, changes in cost structure, changes in seasonal patterns of markets, changes in prices charged by competitors, foreign exchange variations, changes in the political or economic situation of Brazil, and changes in emerging and international matters (sic; see slide two "markets"). Now I would like to give the floor to Mr. Walter. Thank you.

Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Good morning, everyone. It is a pleasure to be with you in this earnings conference call of Suzano for the Second Quarter.

Today with me are the executive officers of the Company, Alberto, CFO; Carlos Anibal, Paper Officer; (inaudible) that is Forest Officer who took over -- he will take over as of the first of September; Alexandre Yambanis from Pulp; Ernesto Pousada from Industrial and Logistics; and also with us Godard Fernandez [ph], Investor Relations Officer, and Renato Tyszler, Controller.

Now I would like to start the call by saying that the Company had a result evolution in the Second Quarter this year. We had adjusted EBITDA of BRL408 million. And this is the first comment I would like to make; as of this quarter, we are going to start to disclose our results as adjusted EBITDA and no longer accounting EBITDA, therefore excluding nonrecurring items.

In this quarter specifically, we had an accounting EBITDA of BRL515 million, but because most -- a good part of that is nonrecurring items, we are excluding that from the analysis.

So we are going to think of adjusted EBITDA which is BRL408 million. We had an increase of 37% over the same quarter of last year and our EBITDA margin was 30.6%, with an increase of 8.10 [ph] base points compared to the same quarter of last year.

In order to achieve these results, the main drivers we had were an increase in pulp prices with an increase of 2% compared to the First Quarter in 2013 and also an increase in the prices of paper at 3% over the First Quarter of this year.

Also a very important contribution to our results was a reduction of cost. We had a reduction of cash cost. It was BRL568 million (sic; see slide 5, "BRL568 per ton"), 2% below the same period of last year.

This is due to a high usability of our plants that started in the second half of last year and that has been consolidating a long time. So we had excellent quarter in terms of production in our operations, which leads to a lower fixed cost, a dilution of fixed cost, and a lesser consumption of chemicals and raw materials which improves our results overall in terms of cash cost.

You are going to see that we have an increase in the price of timber. This is going to continue to happen even more so in the next quarters due to a higher percentage of acquisition of third parties' timber because they are far away from our Mucuri operation.

In terms of G&A, once again we had good results. Year to date, we are 6% below the same period of last year.

Also we are announcing today that our Maranhao Project continues on schedule as established by the Company, so we are going to have plants commissioning in the last quarter of this year, and within the investment expected, there is no major observation as compared to CapEx guidance that we gave you last quarter.

The Company's cash position is even more solid. Today we are a bit below BRL4.5 billion in terms of cash, and as you are going to see further on, we are in a structured position in terms of debt that is very well consolidated.

Leverage ratios grew by 5.1 times, going 5 to 5.1 despite our cash exchange rate effect and the Maranhao Project in the quarter. We already started and we are going to announce to you today our second liability management. This is a program that we had worked with in previous months to reduce the cost of our debt and increase terms.

And finally as a highlight of the quarter, we have the conclusion of the divestment in the Capim Branco Consortium. We sold our share for BRL311 million.

Talking about operating results in the next slide, I think it's very important to highlight the gains in productivity that the Company had, approximately 4.7%, very much concentrated on pulp with an increase of 8% in terms of higher production quarter on quarter -- I'm sorry, compared to the first semester of last year to the first semester of this year.

This is an expressive gain and leads again to higher feasibility and greater -- better costs in the Company. As for sales volume, we had two different points in time basically in terms of paper. Our sales volume in the domestic market continues to grow and our sales in the foreign market, especially those markets in which we have unsuitable margin, are being decreased in terms of volumes.

And in pulp in the domestic market we continued to sell as expected and we lost a bit of sales volume especially in Asia in the Second Quarter and also in Europe, but our sales concentration continues to be approximately 68% in the Brazilian market and again growing compared to the same quarter of last year.

In terms of economic and financial performance of the Company, we've had a growth of 0.8% in revenues in the quarter and a growth of 13% compared to the First Quarter of the year, and consolidated numbers year-to-date growth of 6.2%, that despite the fact that we had in this quarter an exchange rate of BRL2.03 that does not significantly reflect the exchange rate impact on our sales.

Compared cash cost, we have had ex-maintenance downtime. We have a comparison to the Second Quarter of last year with a reduction of 2.3%. Year to date, we have an increase of 3.4%, therefore lower than inflation, and as you can see on slide five in the bottom part to the left, that despite an increase in timber costs that increased by BRL42 per ton (sic; see slide five "BRL43 per ton") compared to the Second Quarter of last year.

So the Company has been working very hard to decrease raw material costs and input costs, and therefore we have been mitigating the increase in the prices of timber. Again, timber costs are supposed to continue to grow because of a higher volume of wood bought from third parties and longer distances that we have from our plants.

Concerning general G&A expenses, the Company has a rate for the year, year to date, of 6.1% till June, which is below than last year. So this shows that the productivity project that started last year and has been developed this year through the implementation of the budget has been incrementing and improving the results and it is a work we will be carrying on, and we have understood that we have achieved a certain amount already.

On page six, I would like to talk about the EBITDA results. We had, as you've seen, BRL408 million result with a 25% increase concerning the First Quarter of this year. It's important to state that we are very happy with this.

According to EBITDA per ton, we had an evolution in the First Quarter of this year, an EBITDA per ton of BRL460 which is an important development concerning last year's average, and in the Second Quarter was BRL540 EBITDA per ton.

So this takes us to a margin of 30.6% of EBITDA for the quarter and year to date, 29%. Therefore, we have been regaining the margin. Comparative EBITDA with last year developed across all the points. We had an evolution of the net income. We had a reduction in G&A and gains in others as well.

So the Company is developing in terms of results, around a BRL110 million in EBITDA margin and the adjusted EBITDA for the last 12 months totaled BRL1.471 billion, therefore an important evolution compared to last year what was BRL1.252 billion. So we had a development of around BRL200 million.

The net income this year was affected significantly due to the lower exchange rate in the Second Quarter. The exchange rate went from BRL2 to around BRL2.26. So that is an expressive change. This affects our debt because an important part of our debt is marked according to the dollar.

But I would like to say that we are very at ease concerning this because the Company has made an analysis -- and I'll share it with you in a minute -- and we did a monthly analysis and in the next six years, the Company will not have any month in which it will be experiencing -- the revenues in dollars would be less or lower than our dollar payment.

So in every month we receive more dollars from our clients than what we have to pay to our suppliers, on debt service as well as principal. Therefore, the Company is doing very well, and so it's very well-positioned concerning this. And we have long-in [ph] dollar, and we will have a successful quarter again.

In the next slide, we show the debt of the Company, around BRL7.5 billion in terms of debt, which is 5.1 times EBITDA. And this again is the adjusted EBITDA. If we use the EBITDA would be -- the conventional EBITDA would be 4.7 times, and this would also show a conservative position.

Our cash position, as I said, is around BRL4.5 billion. And I would like to show and talk a little bit about the financial area at work that has taken us from 4.5 years in average to 4.7 years as an average term for the debt, and a reduction of the debt in reais which went from 8.7% to 8.9% (sic; see slide seven "7.9%") and in dollars from 5.6% to 4.7% a year.

The Company has a cash position which is very robust. We are maintaining our liquidity horizon above 60 months. And additionally we have a balance in the Maranhao Project and we are expecting to received BRL900 million from BNDES in the second half of this year.

Concerning the Maranhao Unit, this is a very grandiose project. It's very relevant to the Company. We are on schedule. We will be doing the commissioning of this plant in the last quarter of this year according what we have already announced to the market and according to the investments we disclosed.

Around 90% of the work is in overall physical progress. We are developing very well in the electro-mechanical assembly, so by July we have had 69% of the electro-mechanical assembly ready and we have already started the commissioning of the Company at a 16% rate.

This plant will -- as of next year will generate 1.5 billion tons and will definitely add a lot of value to the Company's EBITDA and leverage the Company -- this project will leverage the Company. And as we have already disclosed as well to the market, we are working on our productivity projects.

There are two. We have projects which are smaller projects at the plants, and they give more freedom to the plant manager and to the industrial directors to look for opportunities in cost reduction and we have been calling this small projects because they are very interesting projects.

And we have at a second level larger projects which we are also implementing. At this time, we are finishing the installation of the cut size in Mucuri, and as of August, we will be selling cut size for the northeast in Mucuri, and this will increase the level of service to our clients and our margins, and of course will -- due to the reduction in logistics.

We also have the Mucuri biomass boiler. We also have the digester at Suzano, and we'll be starting to operate in 2015. We are negotiating with suppliers already. We are also announcing to you a project that has already been started, with a startup scheduled for February 2014, which is the wood chipper in Limeira which will reduce the cost of timber in Limeira and will start operating at around 3/17.

And we're also finishing at this time the standardization and upgrade of the harvest fleet which will cut down on our harvest costs across our units in order to fulfill the Maranhao limit and looking for in Bahia and Limeira the reduction of other costs in terms of harvest.

So this was the presentation I had to share with you, ladies and gentlemen, at this time. And now I'll be happy to take your questions. Thank you.

Questions And Answers

Operator

(Interpreted) We will now start the questions-and-answers session. (Operator Instructions) Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(Interpreted) My first question is with regards to the cash cost of pulp, Walter, if you could comment on that. I think it was a positive surprise that the cash cost is really doing well and that undoubtedly shows the evolution and the stability of the operations in Mucuri.

I would like to know how you see that for the second half of 2013. You said that the impact of the woods problem should be a bit worse in the next half of the year, so I would like you to give a bit more color on that.

And also I would like to know about the level of production of pulp in the Second Quarter and the first half of the year which was much better than the last year, if we exclude the downtime of Mucuri in the First Quarter compared to the Second Quarter, but still it was a very good production.

And I would like to know if you think that this is the normal level of the Company from now on. I think it's even a bit below the nominal level. And also I would like to welcome (inaudible). I've worked with him before and I wish you all the best. Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Okay, Marcos, thank you for your questions. Well with regard to cash cost for Mucuri and cash cost as a whole for that matter, well, this is an important work being developed in all plants, Suzano, Limeira, Mucuri, in terms of having an operational evolution in the plants.

This is something that is enabling us to reap good results further on in the collection of goods, logistics, input, stability in terms of operations of the plant and we are very pleased with the results that Ernesto and his team have been reaping for the Company.

However, it is very important to say that timber cost in Mucuri, more specifically not from Limeira or Suzano, but in Mucuri it will go up because of this longer distance that we have.

We are buying wood from third parties. We do not want to disclose any guidance in terms of numbers at this point, but it is a warning that we would like to make to the market.

We are trying to mitigate these costs, continuously evolving the operations in all areas, and again collection cost in Mucuri have been -- or harvesting costs, I'm sorry, have been decreasing and that really brings us good results. We are also working with logistics to decrease the cost of transportation even in further areas and that is also a gain to us, but it is inevitable that we will have an increase in our cash costs from here to the end of the year.

The other part of your question in terms of the operational stability of plants, well, we do understand that our plants are evolving continuously and we believe that these numbers are sustainable. We can replicate the numbers that we had in past months and past quarters.

We don't see why we should lose production compared to what we have today. Of course, given the complexity of the plants, we have to continuously work on that, but we do understand that the level that we have today is quite sustainable.

Operator

(Interpreted) Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted) I have two questions for Carlos Anibal. Carlos, looking at the average price for paper this quarter, it was very clear of the increase in paper and the effect of non-foils [ph]. And I would like to know how about the announcement of Ipea of an increase of 80% per ton? Is there room for new increases in the second half? That is my first question.

A - Carlos Anibal {BIO 19090865 <GO>}

(Interpreted) We would like to -- we announced in July an increase of 5% in cut size which was an expectation that we will be implementing this throughout the Third Quarter. And for the other lines, what we see is a certain instability in terms of all the prices around the second half.

Of course we'll be following the market and of course we will be paying attention to the demand in the international market and if there is an opportunity, we will make some adjustments in price.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted) And concerning the sales mix, internal domestic market and international market, are you updating the channels? Are you trying to focus on more efficient channels? And how about the exchange rate? Since the mix of sales in the foreign market was very stable quarter per quarter, do you see room to grow in this scenario with a lower exchange rate?

A - Carlos Anibal {BIO 19090865 <GO>}

(Interpreted) Our goal, Lucas, is to maximize the allocation of volumes in the domestic market where we have more profitability. And at this moment, in the second half we think that there might be a mix that would be very close to what we have carried out up to now.

Some markets may offer or provide us some room for recovery, maybe in Latin America; we have significant markets such as Argentina and Venezuela where we had many challenges in order to allocate our volume in the first half. And these markets, if they recover, certainly we could have the chance of improving the allocation there.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted) Thank you very much.

Operator

(Interpreted) Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

(Interpreted) Well I would like to ask about initiatives for better productivity. You have already completed the cut size in Mucuri. There are other initiatives.

I would like you to give a bit more color in terms of some modeling guidance and what we could expect in terms of improvements, what kind of returns you were considering and what we can see in terms of CapEx for these initiatives in 2014? This is my first question.

And the second, a more generic question, I would like you to give us an overview on the pulp market with the prices in Europe going down. Reuter last week said that we should expect a bit more discipline in projects in Brazil eventually with the disbursements from the BNDES being a bit more disciplined. So I would like to know what you're considering in terms of markets for 2013-'14? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) As for the first question, thanks Renato, we are not giving guidance on the impacts of projects and we will give our guidance as for CapEx for next year, but not now. We are still not ready until the end of the year we are going to give guidance on the CapEx for next year.

But what I can tell you is that we're going to continue investing in terms of evolving our plants, the retrofit system of some areas. Bottlenecking is something that we want to work on. So the idea is really to reduce our operating costs as a whole.

This is an overview. I'm going to turn it over to Alex Yambanis that is going to talk about pulp.

A - Alexandre Yambanis {BIO 16470785 <GO>}

(Interpreted) Okay, this is Alex Yambanis speaking. To answer your question, this is a very complex question I would say. I will try to simplify my answer. Well 2013-'14 are years that are critical because on the one hand you have new capacities coming in. You have microeconomic challenges that are taking place in the largest markets.

So there is a series of factors -- consumption of paper, production of paper -- so there are several factors that will influence more or less this market. But just as an overview, we are marginally optimistic.

We are quite comfortable in our position, and why is that? Because if you consider demand, you talked about new plants, new capacities; yes, indeed we have a concentration of new capacities coming in including ours, but if you do your math and you think of gradual increase of tonnage, people say, well, there is 4.5 million tons coming in, that's not quite true.

You can say that in the next 20 months you're going to have an extra 3 million tons in terms of new capacities thinking of the learning curve of all plants.

But if you apply the same principle to paper in that the learning curve of a paper machine is much faster than a learning curve of a pulp plant, you are going to have 4.6 million tons of paper being added to the world, and most of it in a paper that requires high quality fiber, fiber that is really looked for the market, which is eucalyptus fiber.

So you have 3 million tons of new capacity to 4.6 million tons compared to paper. So of course not all paper capacity will require a one-to-one ratio pulp-paper. That I would say that because you are talking about higher quality paper, you are talking about 0.8 to 1, 0.75 to 1, which denotes a balance.

Of course you are not going to have this balance in a completely stable manner. Plants are going to increase capacity. There is an increased expectation in the markets.

Clients try to maximize their expectation. And once again I think that this is not the right way to go because we have macroeconomic factors; China is adjusting to an economy including a domestic market, although China's growth is reacting somehow. You have Europe that went through a huge crisis period, but you also see signs of the picking up of economy, especially in Germany and other economies in North Europe.

And finally, you have the United States. Believe it or not, there was a growth in production with new machines in the United States with machines from Kruger and other players. That really surprised lots of people. People would say, oh, the United States is a mature market so they are not going to grow in this area. And there was an expressive growth in this market.

And for all that I really believe that the years of 2013-2014 are going to be quite positive. And I hope I have answered your question.

Q - Renato Antunes {BIO 17439917 <GO>}

(Interpreted) Okay. Thank you very much.

Operator

(Interpreted) Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) I would like to add to the previous question. I would like you to comment on the short term in the pulp market about inventory levels in China, accumulated downtimes that you have for September-October, if you are expecting a more affected market for the end of the year, and a higher impact on prices?

A - Unidentified Company Representative

Good morning. Well China is an interesting place. Everyone, when you speak of pulp, you have to speak of China. It is the most important market in the world. It is the market that is growing fast and will continue to grow more.

China has scared the world, so to speak, with a growth or the projection of growth that is below a trend line of 7.5% according to the Chinese authorities. But if you take July, the industrial production in China grew by 9.7%; the expectations for the market was 9%. Therefore, China has already surprised us in July.

Retail has grown by 13.2% in China, which is a very, very strong figure and it definitely causes envy to all of us. And China, the Chinese economy has reacted, and has reacted well.

It is a very positive reaction in terms of domestic purchases or that is in terms of retail. This favors, of course, the consumption of pulp because the sales of pulp such as (inaudible) paper where we have a multitude of projects or there are a multitude of projects being launched is positive.

However, let's not mistake ourselves. The paper inventories in China are high. There is an overcapacity in China which is temporary. This super offer is due to a concentration of investments that are being done in 2013 and '14.

Everyone is investing because they are taking advantage of credit lines, which is very abundant (inaudible) up soon, but we also see this as something which is temporary. We see that the inventories will be used up reasonably rapidly and of course the protective measures taken by many countries concerning the Chinese paper, and this has resulted in more stocks in China.

So we see this as temporary and from the outer point of view the stocks are in equilibrium. You see that you have hardwood, which is a stock that is well-balanced because the world has changed.

There has been a change or a shift from the northern hemisphere to the southern hemisphere where you can see that South America is producing a lot and the markets are more focused in Asia where you have much higher lead times and a need of higher inventories. So 40 days of hardwood, we see an average time for inventory term.

There is no need to panic. Obviously you will see small price adjustments. This summer is being pretty hard because it's been challenging in terms of implementing the announced price. But I wouldn't say there would be any great surprise or any shock; we expected all of this. And we see this will correct itself in the second half.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Just going back to what you said about paper inventories, does this mean there would a decrease in the production of paper in the second half and therefore a lower export rate of pulp?

A - Unidentified Company Representative

The answer is no, and I will tell you why. The overcapacity of paper in China, the super-capacity is due to a myriad of new equipments that are being started. These equipments -- this equipment will be operating and have to operate because people have invested a lot in these facilities.

And in terms of the Chinese mentality, the mindset, they have a long-term mindset. It's not like our western mindset where you adjust for the next half. In China, they always think of the next generation. And inventory for them is money, it means money.

And the expectation is that the Chinese economy improved and in July you'll see that there are signs of an economic uptake. And therefore they will continue to not have downtime.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted) Thank you very much.

Operator

(Interpreted) Carlos de Alba, Morgan Stanley.

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

First question is regarding the discrepancy during the production volumes of both paper and pulp that increased year on year and were quite stable. And the reduction in the year on year of shipments that we saw for both as well pulp and paper.

I would like for you to give us just some comments about this discrepancy and if this is something that we should see going forward, and maybe also talk a little bit about the level of inventories of pulp that you have internally accumulated.

Then the second question is on Maranhao. How do you see the ramp-up? So assuming that everything goes well as so far it has and you started production in the Fourth Quarter, how many tons do you expect Maranhao would produce and ship in 2014? This is quite important obviously for the leveraging story of the Company next year. Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well thank you Carlos, for your question. I'm going to answer the first part. This is Walter, and then Ernesto Pousada is going to answer the second part of your question.

Well our focus --- the Company's focus has been on paper as Carlos Anibal very well put it to think of an allocation of volumes in markets that will bring us the right level of profitability. So what we did in the First Quarter is that there was a drop in volume for some specific markets and therefore we increased inventory levels.

Seasonally, we know that the second half of the year is stronger than the first half of the year. So we want to put part of this volume in, in the domestic market, and this is one of the questions that were asked about the lower exchange rate, also competitiveness of margins in terms of foreign market increase because now the exchange rate is lower. So probably we are also going to put part of this volume in the foreign market.

As for pulp, the domestic market show higher volumes than last year. Everything is okay. There is not a concern in the domestic market, but in the foreign market. Again seasonally there was a drop in volume, sales volume in Asia and in Europe.

It's actually because of the European summer and the downtime for machines in the European summer. But we believe that as of August, these volumes are going to pick up again. So it is not a major concern of ours right now.

Now, I'm going to turn it over to Ernesto that is going to talk about the learning curve of Maranhao.

A - Ernesto Pousada {BIO 15951890 <GO>}

(Interpreted) This is Ernesto Pousada speaking. We are very well prepared for the startup. As Walter mentioned, we are already in commissioning. We are trying to commission all the equipments very well. And the objective is, in addition to starting the plants this year, is to have a very good ramp-up and we believe we are going to have that.

So we believe that we are going to have 1.1 million tons to 1.2 million tons for next year, which would be quite interesting and good ramp-up.

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

Perfect. Thank you very much both and congrats on the results.

Operator

(Interpreted) Juan Tavarez, Citigroup.

Q - Juan Tavarez {BIO 15083199 <GO>}

Just my first question is regarding the maintenance downtime that you have scheduled for the Third Quarter. Could you give us a sense how much production will be impacted by that? And I guess to tie in to the inventory question, how much are your pulp inventories today and are they at normal levels?

My second question is on your logistic expenses that did increase. I'm wondering if this is partly due to market conditions in terms of freight market or is it part of your initiative that you stated previously of restructuring your paper distribution. And if you can give us a bit color there on how those initial tests of revamping your distribution in paper are evolving?

A - Ernesto Pousada {BIO 15951890 <GO>}

(Interpreted) Good morning, Juan. This is Ernesto Pousada. Talking about downtime for the Third Quarter, we have two major downtimes for the year. They are concentrated in the Third Quarter.

In the end of August, we are going to have the downtime of line one in Mucuri. The specific downtime will have a reduction of production of about 20,000 tons of pulp as a whole, part of that to the market and part of that to the paper industry. So that's 20,000 tons of pulp.

And in the Limeira Unit, we have a planned downtime for September, also in the Third Quarter of the year. And we expect there to have a reduction of 15,000 tons to 17,000 tons in the production of pulp.

A - Alberto Monteiro {BIO 1527328 <GO>}

(Interpreted) Good morning, Juan. This is Alberto speaking. As for expenses, especially G&A, as Walter mentioned in the beginning of the presentation, year to date we have a reduction of 6%. Obviously this is fruit of our productivity projects.

We are not disclosing our guidance for next year, but the idea is to have more and more convergence and continue with this process.

In this quarter, we have a variable because when you have increased sales, you have also increased expenses. And this did not happen because of logistics specifically, but the increase in the quarter was due to, again, productivity that we had.

I did not get the very beginning of your question. I don't know if you are talking about expenses specifically G&A or if you're talking about other expenses, so if you want to elaborate on that?

Q - Juan Tavarez {BIO 15083199 <GO>}

Sure. In the press release it mentions that your selling expenses were partially impacted by higher logistics in the domestic market. So I'm wondering, I'm trying to understand if that's because of the market conditions domestically in terms of truck freight or is that part of the initiatives that you stated previously of maybe targeting changes to how you distribute paper.

A - Alberto Monteiro {BIO 1527328 <GO>}

(Interpreted) Well in fact, the increase that we had with the expenses in logistics in domestic market is very specific because of an increase in the cost of timber, of wood. So we believe that this is going to be diluted and there is not a relevant issue in terms of logistics itself.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) And it's very important to mention, Juan -- this is Walter speaking -- that this program that we have of scattering sales and fragmenting sales in the paper market is something that gradually will increase our domestic logistic cost so we avoid problems in the chain and we have increased logistic cost, but that's paid off for increased revenue. And this is going to happen in both lines.

But in this quarter -- in the quarter, it had an impact because of the domestic market. We still have not captured the new logistic dynamics in terms of scattering sales.

Q - Juan Tavarez {BIO 15083199 <GO>}

Okay. Thank you very much.

Operator

(Interpreted) Alex Sciacio, Santander.

Q - Alex Sciacio {BIO 16118415 <GO>}

(Interpreted) My first question is with regard to your CapEx for the year. We saw that in the first half of the year you had BRL1.3 billion and you were thinking of BRL3 billion for the whole of the year.

So are we going to have an acceleration of investments for the next half of the year or are you going to leave something for 2013? So I would like to know if we should continue to work with BRL3 billion for this year and if you have any idea of what your CapEx for next year is going to be?

And my second question is about working capital. I see that there was quite a high increase in your account of suppliers of BRL400 million. That helps your cash flow a lot. I would like to know why you had such substantial increase and if we should consider that a recurring event in terms of working capital for the next quarter. Thank you.

A - Alberto Monteiro {BIO 1527328 <GO>}

(Interpreted) Alex, this is Alberto. We will continue with the investment that will be in CapEx, BRL2.3 billion in the Maranhao Project, BRL358 million (sic; see earnings release page 11 "BRL558 million") for sustain [ph], and BRL148 million for the initiatives that Walter mentioned concerning improvement projects, which we'll be doing this year and next year.

In this scenario I would say we have, of course, keeping the investments for the second half and some of it may go to 2014.

And this starts answering your second question concerning the increase to our suppliers. We have some actions in terms of our working capital management and we try to capture this and this, of course, benefits us. And consequently this may go on to the future concerning what we would call the operational risks and we don't know how much would go to 2014.

And I'm not even saying it will. I am saying that it might. So it's important to stress that this working capital management does not affect the physical aspect of the Maranhao Project. The startup is kept for the first half of this year and therefore the physical aspects and the financial aspects and we will maintain the BRL3 billion in investments.

Q - Alex Sciacio {BIO 16118415 <GO>}

(Interpreted) And how about for next year, Alberto, do you have any figures?

A - Alberto Monteiro {BIO 1527328 <GO>}

(Interpreted) No. We do not, because this depends on what will happen in terms of payment. We will try to optimize things. These are operations which are not long and therefore I believe this fine adjustment will take place in the last quarter and that's when we'll be able to tell.

It's important to know that our budget here, what we have on the budget, is to fulfill the budget and the financial aspect may not happen and may go on to the 2014, but then we will only be able to say this in the last quarter.

Q - Alex Sciacio {BIO 16118415 <GO>}

(Interpreted) Okay. Thank you.

Operator

(Interpreted) Viccenzo Paternostro, Credit Suisse.

Q - Viccenzo Paternostro {BIO 17670256 <GO>}

(Interpreted) My first question concerns G&A. I would like to understand if we can expect a reduction in G&A again because I believe this first moment you have a negative impact with a higher cost of certain divestments.

And concerning the strategy for pulp production of next year, well, with the Maranhao Project this higher cost you were having with timber in Mucuri, do you expect that the Mucuri production will be maximized, will it have a higher cash cost or do you expect to reduce production in Mucuri more and buy less timber from third party?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) This is Walter. Thanks for your two questions and for joining us in this call. Well with regards to the first question you asked about G&A, this is a constant effort of the management to try and suit this number to the size of the Company, to the revenues of the Company, and to the type of operations that the Company has, its geographic positioning in pulp, and also our penetration in the paper market.

We intend to continue to work with this matrix budget model. We believe that we got to relevant reductions. We do not believe that we are going to have any more major reduction as of now since in the end of the year we are going to start our Maranhao operation which should have a marginal growth on our G&A because of operations themselves.

Of course, the percentage G&A is going to drop substantially as of next year with the startup of Maranhao, but in absolute numbers it is going to be higher than today.

As for your second question, and this is a very interesting question about our production strategy for next year, well, that will depend a lot on market conditions. Of course, there is going to be a dispersion of cash cost, quite big in our operations.

The cash cost in Maranhao for next year is going to be very low because we have a plant with state of the art technology of wood very close to the plant with a very low harvesting cost, so we are going to have a very low cash cost. And we are also evolving with the cash cost of Mucuri.

At some point, if we are going to reduce our production, we have to study where to reduce it. But this is not in our scope of model right now, but it is something that we are constantly analyzing.

Q - Viccenzo Paternostro {BIO 17670256 <GO>}

(Interpreted) Okay. Thank you very much.

Operator

(Interpreted) Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(Interpreted) Concerning the imports of paper, if Carlos could say a little bit about your expectations looking at the Second Quarter, even for 2014, with this new exchange rate and with the new government measures to avoid paper import. Thank you.

A - Carlos Anibal {BIO 19090865 <GO>}

(Interpreted) In the last quarter, the import in total demand was around 18% to 19% with the highlight for re-vested [ph] paper which is around -- with coated paper, I'm sorry, and with the dollar -- with the import cycle, it goes around 90 days to 120 days, the import cycle.

And what we have seen is that there is a trend in terms of exchange rate volatility for an expectation in demand that there might be a drop in the following month, especially in the coated paper line, because this line started growing about 10% compared to the same period of last year and in the first half, it is more or less negative in terms of volume.

We have only recently had access to the numbers of coated paper and it dropped by 30% in terms of July of last year. And our expectation is that this figure will drop in terms of the inventory and the accumulated product in the chain.

It is, however, difficult to determine what will the behavior be concerning the exempt paper. We will -- there is a law that requires labels to exempt paper for domestic consumption and for imports, and we are trying to implement them as of July, the other requirements. And that would be a new tool that will contribute to reduce some of the rates.

I believe these expectations are quite positive for the end of the year and I think that this would be the same for 2014.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(Interpreted) Thank you, Carlos. Concerning the liability management, could you comment on the cost that is expected and when will we see this in the results, because in this quarter we see that there was a reduction in the debt cost and the lengthening of the debt period? What is your timing?

A - Alberto Monteiro {BIO 1527328 <GO>}

(Interpreted) This is Alberto. Marcos, the capture is immediate because the agreements have been signed and consequently you see a sharp drop. In the calculations we have shown is that we have a debt in reais -- 45% of our gross debt is in reais, and this we're going to a 7.9% rate. And this means a gain of 0.7% and this means that we have contracted all of it.

In terms of dollars, it went from 5.6% to 4.7% with a gain of 0.9% as well and that means 56% of a gross debt of BRL11.9 billion is in dollars. So we have a payment flow in terms of interest payment less than the cost reduction.

Obviously in terms of financial expenses throughout the year, since we are disbursing these new amounts, especially the BNDES where we have BRL900 million, to capture this you probably see an increase in the financial expenses of this new investment, especially when there is an increase of the gross debt.

With the increase in investment, as Walter said, the peak of our leverage is one day before the startup of Maranhao. Consequently, when we finish the investments this year, we will have an increase of our debt, and consequently a higher financial expense.

Objectively speaking, Marcus, we capture this through the contracts that have been signed which took place in the last quarter and this calculation means BRL101.7 million in operations from now on, a decrease in that number.

And all the conditions of the market, we can see that the Company has a risk perception which is very attractive to the financial market and this made it possible for us to lengthen the periods and reduce cost.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(Interpreted) Thank you, Alberto.

Operator

(Interpreted) Juan Tavarez, Citigroup.

Q - Juan Tavarez {BIO 15083199 <GO>}

Just one follow-up on your wood cost since you mentioned that you expected to continue to rise due to the third-party wood and the higher radius, could you comment on what is your current percentage of third-party wood and where it could end up by the end of the year? And the same question in terms of the radius as well, what's the current radius and where could that end up by the end of the year?

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well Juan, thanks for your question. This is Walter. (Inaudible) is not answering the question because he hasn't take over yet, but he will answer your questions at the next quarter. But today we have a growing share of third parties. This is -- now more than 60% in Mucuri are third-party timber, and not only we have more third parties, we have longer distances.

As I mentioned in previous calls, what's going to happen is still in the year of 2013 and 2014 and partially for 2015 within the policy that we have been adopting is to try to increase the average cutting age of our forest because of the tonal [ph] problems that we had last year.

And with that, we tend to have lower costs for the future and more competitive costs for the future. But it's important to mention to you that this ratio is something that has changed in the period. It is going to continue to change, but structurally it's not going to be true for the mid and long term.

Q - Juan Tavarez {BIO 15083199 <GO>}

Okay. Thank you.

Operator

(Interpreted) Well we are now closing the Q&A session. I'd like to turn the call over to the Company for its final remarks.

A - Walter Schalka {BIO 2099929 <GO>}

(Interpreted) Well I'd like to thank you all very much for joining us. I would like to say that the Company is very happy with the evolution it brought this quarter. But we still recognize we have many challenges ahead of us and with the determination of our team, we are full of energy to continue capturing better and better results for future months to come.

We are fully aware of the challenges that we have ahead of us. We have the Maranhao Project to be within the right term and cost and ramp-up.

And I would like to say that the most important thing that we have had so far is a guarantee that we are going to have a quite well-structured ramp-up for the Maranhao plant. So we don't want to speed up time to just have problems in the future. We want to be very strict in terms of developing a good job.

And we want to continue capture good results in all Company areas, logistics, pulp, paper, transportation, continue to work with our back office to improve operating efficiency.

I'd like to publicly announce to you all that we are launching a program to standardize our public relations SIP program. And we are going to start operations in the 1st of March of next year, and also standardize the whole of the Company on the 1st of July in all our plants.

So we still have much work to be developed and we are going to continue focusing on capturing value from our asset-base and concentrating on seeking better and better results for Maranhao and for the whole Company.

And I would like to publicly thank and congratulate the team on the results we had. And thank you very much for joining us. Thank you.

Operator

(Interpreted) Suzano's conference call is now closed. We would like to thank you for joining us. And have a nice day.