Q3 2012 Earnings Call

Company Participants

- Alberto Monteiro, CFO and IR Director
- Alexandre Yambanis, Officer
- Antonio Maciel Neto, CEO and Strategy
- Carlos Anibal, Executive Officer
- Ernesto Pousada, COO
- Renato Tyszler, Controller, Director
- Unidentified Company Representative, Unknown

Other Participants

- Andre Pinheiro, Analyst
- Juan Tavarez, Analyst
- Lucas Ferreira, Analyst
- Roy Yackulic, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper 3Q12 earnings conference call. All participants are in a listen-only mode during the conference's introduction that will be made by a director of the Company. And later, we will conduct a Q&A session when further information will be given.

We inform that each participant can make only two questions. (Operator Instructions) Now, I'd like to pass the call over to Mr. Alberto Monteiro, CFO and IR Director, who will begin the conference call. Thank you.

Alberto Monteiro {BIO 1527328 <GO>}

Good morning, everyone, and thank you for participating in Suzano's conference call to discuss Third Quarter 2012 results. I would like to start this presentation with Q3 2012 highlights on slide three where Maranhao Project advanced as planned on budget and on schedule.

Funding and debt rollover operation totaled BRL1.6 billion including export credit note operations concluded in November, with an average term of six years to lengthen the debt profile.

Another one was short-term debt, which accounted for 22.6% of gross debt in Q3 2011, decreased to 11% including export credit note operation concluded in November.

Another one, cash and cash equivalent, BRL3.8 billion at September 30th, 2012, saw huge and solid cash position.

Net revenue of BRL1.4 billion in the quarter. The EBITDA of BRL331 million in the period, an increase of 24.8% from Q3 2011. EBITDA margin of 24.4% in Q3 2012, an increase of 2.8 points percentage from Q3 2011.

Net debt to EBITDA ratio of 4.7 times on September 30th, 2012 and a higher share of domestic sales in the paper sale mix of 71% versus 63% in Q3 2011.

Another point that's important, the higher market pulp and paper price in the Brazilian real. Announcement of $30 per ton increase in pulp price as of October. In September, Suzano joined the Bovespa and IBrX-50 index.

The next slide, I will comment on our result in the Third Quarter of this year on slide 4. Suzano sold 447,000 tons of market pulp in the quarter in line with the Second Quarter of this year and an increase of 2.6% compared to the Q3 2011.

Suzano sales in the year to date totaled 1.3 million ton of market pulp, 3.3% higher than the first nine months of 2011 due to consolidation of the Limeira Unit.

The main destination of the Company shipments were Asia with 37%, Europe with 32% and Brazil with 22%. The share to Asia included from the previous quarter driven by the resumption in Chinese demand due to the inventory rebuilding trend in the region and the new paper capacity coming online.

Suzano's paper sales totaled 350,000 tons in the Third Quarter, in line with sales during the Second Quarter of 2012 and decrease of 1.6% comparing to the Third Quarter 2011. Suzano's paper sales in the year to date totaled 979,000 tons, around 5% higher than the first nine months of 2011.

Domestic sales accounted for 71% of the total sales in the Third Quarter, compared to 63% in the Q3 2011. South and Central America, Suzano's main markets, accounted around 84% of the Company sales in the quarter.

The next slide on 5, I will comment at the consolidated results of the Third Quarter. Net revenue was BRL1.4 billion including 2.8% from the Second Quarter driven by stable market in pulp and paper sales volume comparing to the Second Quarter of this year, increase of 2.9% in the average net pulp price in Brazilian real, comparing to the Second Quarter of this year, increase of 3.7% in the average net paper price in Brazilian real in comparing to the Second Quarter of this year.

Increased share of the domestic market in the paper sales mix and exchange rate variation, Brazilian real depreciated by 3.5% from the prior quarter, with a positive impact on exports revenue.

Net revenue in the first nine months of 2012 increased 6% comparing to 2011 mainly due to higher volume of pulp and paper. The second reason is paper price increase and the third reason is FX up 17.5%.

The consolidated cash cost as you can see in the chart. The cash cost of market pulp production was BRL583 per ton in Q3 2012, flat comparing to cash cost in the Second Quarter.

Line one after the Mucuri units and Limeira units underwent scheduled maintenance downtime during quarter -- the Third Quarter in 2012. And for 2013, Suzano is planning to take one units in maintenance downtime per quarter. The First Quarter of the next year will be line 2 at the Mucuri, Second Quarter will be Suzano. The Third Quarter will be line 1 at Mucuri and the last one, the Fourth Quarter, will be Limeira.

EBITDA was BRL331 million, as I have said, up to 25% versus Q3 2011, and up 11% versus Second Quarter of 2012. EBITDA margin went up from 22% in the Q3 2011 to 24% in the Q3 of 2012 as a result of three reason.

The first one is the increase in average net price of pulp and paper in Brazilian real. The higher paper sales volume in the domestic market and the last one the depreciation of the Brazilian real against the US dollar.

The graph -- the pulp price shows a recovery in pulp prices in 2012. It's important to highlight that Suzano market pulp price increased $30 per ton in October in all regions.

The next slide on slide six, I will cover the composition of Suzano debt. And here I would like to call your attention to Suzano's other great debt profile which has competitive costs in reais are around 9.1% per year. And in dollar, it's 5.2% per year in an average term of 4.5 years as well its comfortable liquidity horizon above 60 months.

In September 2012, Suzano's gross debt was BRL9.8 billion and the increase in gross debt was mainly due to the new contracting signings, in line within the period. Note that the Company mentioned its debt profile with the funding and debt rollover transactions in amount BRL1.6 billion including the export credit note operation concluded in November.

This renegotiation was extremely important for lengthening the debt profile. The debt profile evolution graph shows the short-term portion of debt decreasing from 23% in September 2011 to 11% including the export credit note operation concluded in November. The net debt to EBITDA ratio ended the September at 4.7 times with a cash balance of BRL3.8 billion.

The next slide shows Suzano's main cash inflows and outflows as of October 2012 until December 2013. It is starting with September 2012 with cash position of BRL3.8 billion. The outflows are BRL1.8 billion on debt amortization and interests, BRL2.9 billion on CapEx that includes the investment on Maranhao Project, the sustained CapEx in the investment to sustain the forest in Piaui.

The inflows are BRL2.1 billion on the remaining BNDES loan contracted, BRL1 billion on funding through export credit note operation, and the last one is BRL1.7 billion of EBITDA considering the last two years average excluding the non-recurring items of the nine months of 2012 EBITDA. So this is not an EBITDA guidance, it's important to say.

And the inflows and outflows shown leaded the Company to a BRL3.9 billion cash position in December 2013 adding the stand-by credit line that may or may not be withdrawn. The cash position would be around BRL6 billion; it's another huge amount and gives the Company a comfortable situation.

On slide eight, shows the debt amortization schedule. The cash position at the end of 2013 will be enough to pay out debt until 2016. The first scenario does not consider the withdrawing of the stand-by facility whereas the second scenario considering this withdraw on the BRL2.0 billion of stand-by facility.

The cash position in December 2013 in the first scenario of BRL3.9 billion and in the second scenario is of BRL5.9 billion. Both scenarios show that the financial (inaudible) structured by Suzano even in a stressed scenario strengthen the Company liquidity. The cash position without withdrawing the stand-by available up to March 2014 will be enough to pay out debt until 2016.

It's enough to the Company. The debt amortization does not include either operational and investment cash generation or interest expenses. The financial shield packaging aimed at liquidity and mitigate the refinancing needs until 2016 as I have said to you.

On slide nine, highlight the investment of around BRL900 million in the quarter mainly allocated on the Maranhao pulp units. 2012 estimated growth, CapEx was revised to BRL2.5 billion. Growth CapEx is composed of investment in forest formation and industrial assets at Maranhao units and minimum investment required to maintain forest in Piaui. The BRL500 million difference in growth CapEx will be invested in 2013 and it doesn't impact the startup schedule of Maranhao projects.

I would like to ask Renato Tyszler, he's our Controller, Director, to talk a little bit -- a quick overview about productivity projects in Suzano. And I pass to him.

Renato Tyszler {BIO 19916380 <GO>}

Thank you. We should go to slide number 10. As you can see on slide number 10, the productivity project covers all of Suzano's income statement line as well as the CapEx line related to the forest business. Basically, we have divided the project into six major fronts that cover the forestry, industrial, logistics, and paper portfolio product management areas as well as fixed cost including industrial, forest and SG&A.

Of the six fronts, three are in advanced stage of execution and three are in the final planning phase for subsequent execution. During this process, we had intensive support from the consulting firm called Gradus, which has an excellent track record in executing similar projects in the Brazilian markets and also internationally, and a very -- an excellent track record of delivering sustainable results.

Also as you can see in the bottom, the right side of the slide, we are adopting a simple and very efficient methodology for indentifying opportunities what we call opening the gaps. We have a very high level of participation by Suzano employees. This is fundamental for the success of the program because if we have to buy in from our team it is important for the future commitment of the team for achieving the expected results.

After opening the gaps, we then translate these opportunities or gaps into clear goals that are supported by action plans what we call closing the gaps, and then measure the capture of this gain. After this phase of closing the gaps, then we begin to efficiently control this action plan, and that is done with a high level of engagement by senior management to ensure the gains are captured on time.

And last but not the least we are also linking the target and opportunities of this program to the variable compensation of team managers and executives involved in the project. That is intended to accelerate the capture the gains in the project.

After 10 months of the start of this effort, we are very optimistic on the results due to the high number of opportunities that we identified and that in all areas and allies, and also due to the organization's firm commitment to capturing these gains within the established timeframes.

The initial gains identified are very substantial. However, we prefer not to talk about numbers until all of the fronts have been finalized and on the execution phase, and of course are starting to obtain the expected initial results.

If you go to slide number 11, you can see the detailed timetable of the project's six major fronts. As mentioned on the previous slide, three fronts are already in the execution and control phase, basically the matrix budgeting, the scaling of teams that have been working for five months now, and also the forestry project that has been working since September.

For the other three fronts, we are optimizing the paper portfolio and this will begin the execution and control phase between December and January. Also, the distribution optimization are also in the final phases of the project and we'll start the control and execution between January and February.

The manufacturing front requires a little more time for preparation since many opportunities are related to CapEx and in the cases of CapEx fees [ph], we are analyzing the individual business case and we'll select only the ones with the highest financial returns. Even so we're already concluding this phase of the project and the execution and control phase will probably start in the First Quarter of 2013.

With that said, we should go to slide number 12 that concludes the section of the productivity presentation. Basically, the slide number 12 shows the continuity of the long-term partnership between Suzano and INDG, which is one of the most known management consulting firms in Brazil.

The focus for 2012 and '13 is to improve maintenance processes to achieve a global maintenance level and also the constant pursuit of operational excellence by increasing efficiency on the production line. For this, we are combining leadership and technical knowledge, and also adopting methods to manage day-to-day routine and most importantly the operational discipline will ensure the sustainable financial results.

It is important also to mention that both projects, the one with Gradus and the one with INDG, they are complementary because one, the latter one, the Gradus one is more focused on operating in financial results and the former one with INDG is more focused on process improvements and operational excellence that will sustain those gains.

With that said in terms of productivity, I would also continue on slide number 13 to give you some highlights or, as we call, risk and opportunity that we forecast for 2013. We included in this presentation two important risks and two important opportunities for discussion.

On the risk side, we have the increase in wood costs related to the pulp cash cost. We expect our mix of wood in the cash cost to reach an average of 50%-50% until 2015. In 2016, we will return to the normalized mix of 70%-30%.

The second risk is the increase of inputs, naming the natural gas as the one of the most significant expected increase. It has increased in the last two years and should continue in 2013. On the opportunity side, we expect 2013 to bring cost reduction due to pulp production stability in the Mucuri mill. We are now operating much more stable for the last few months and that should improve even more in 2013.

The second opportunity is the cost reduction coming from the execution of the productivity project we discussed in the last few, last two slides. In 2012, we have already seen some encouraging results and for 2013, we expect it near full scale.

So these are the key risks and opportunities considered for 2013 and where the Company is managing very closely. With that said, I will pass the word back to Alberto who will talk about the Maranhao Project.

Alberto Monteiro {BIO 1527328 <GO>}

Okay. On slide 14, the last one, I would like to update on Maranhao Project. As of September 2012, 98% of suppliers contracted, 61% of overall physical construction reached, 89% of infrastructure construction completed, 84% of equipment manufacturing completed and assembly of metallic structure for boilers has been ongoing since May 2012.

The Maranhao Unit is in execution phase as explained is on time on budget. I would like to ask the operator to start the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Andre Pinheiro, Itau BBA.

Q - Andre Pinheiro {BIO 17114104 <GO>}

My first question is on the pulp market, regarding fiber spreads. We've seen spreads at pretty much low levels but recovering. I would like to ask Yambanis if he is on the call, how do you expect spreads to evolve going forward and what do you think is a more normalized level, given conversion costs? That would be my first question.

A - Unidentified Company Representative

Yambanis, please.

A - Alexandre Yambanis {BIO 16470785 <GO>}

Thank you. Hi, Andre. This is Alex Yambanis and well, the spreads have really reversed course from the past couple of years as you well know and now stand at very, at around $20 to $25, which is -- which is not -- which is quite unusual as well, I would say as unusual as the large spreads we have seen two years ago, a couple of years ago.

I would say a normalized spread should stand between $50 and $70 between softwood and hardwood and that all will -- that all depends on supply and demand dynamics and paper demand. Of the guideline, what I can tell you is that we don't have any new softwood project coming online soon except for the (inaudible) project in Russia and perhaps a couple of divestitures in paper capacity which should free some softwood capacity.

So we see the spread normalizing around $60 to $70, which is a normal more or less what it has trended if you take a long-term past period and we see that maintained for the simple fact that demand for eucalyptus will be sustained for hardwood, especially eucalyptus will be sustained if not go up and there is always a substitution potential going forward.

So one thing with the other I would say the spreads will be maintained at their historical levels.

Q - Andre Pinheiro {BIO 17114104 <GO>}

Great, Yambanis, thank you very much. And if Carlos Anibal is on the call, on the paper market, you commented on the previous call that the import tax increases have had a smaller effect on the cardboard and coded segments. However, on the finished packaged goods side, do you believe lower imports could indirectly benefit the domestic cardboard producers?

A - Carlos Anibal {BIO 19090865 <GO>}

Andre, Carlos speaking, how are you? We do believe that actually we are following some finished product imports through (inaudible) and that we have realized a reduction on boards of things like hygienic products, toys and some kind of foods where we have a very high content of paperboards. So we do believe that we're going to see the benefit in the upcoming months.

Q - Andre Pinheiro {BIO 17114104 <GO>}

Great, thank you very much.

Operator

Thiago Lofiego, Bank of America Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Just a follow up question from the Portuguese call regarding your pulp cash costs for the Fourth Quarter. Is it reasonable to expect costs below BRL600 per ton, considering you don't have maintenance stoppages during the quarter and also what's the rationale behind you guys choosing to perform one maintenance shutdown per quarter versus what you used to do before which was concentrating the maintenance shutdowns in specific quarters. That's the question.

A - Renato Tyszler {BIO 19916380 <GO>}

Hi, Thiago. It's Renato. Yes, for sure, we should expect something below BRL600.

A - Alberto Monteiro {BIO 1527328 <GO>}

The question is about the shutdowns that we have taking shutdowns for quarter, one the quarter instead of our concentrating more.

A - Unidentified Company Representative

Yes, now -- yes, now we tried to dilute which is good because this will make our quarters more smooth from one after the other one and from the standpoint of the cost or anything else, there is no major impact to that.

A - Renato Tyszler {BIO 19916380 <GO>}

And also, it's alignment because it's important that we spread across the year even comparing with for some other shutdowns in the industry as well, so this is very well coordinated to make sure that it does not conflict with other shutdowns as well.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. And just on this point still of -- to Maciel, what's your -- what do you think your normalized cost is after you take all these measures in terms of stability at Mucuri and all of the efficiency gains on the forestry side. What's your long-term assumption for your pulp cash process, more normalized assumption?

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Thiago, this is Maciel. What we have seen is that this level of cash cost is going to be proven in the next quarter as we have discussed at the same level a little bit better due to different reasons. One is that we do not see any shutdowns because normally we calculate and we say that those costs are cash costs without the effects of the shutdown.

However, it's very difficult to measure it, because you need to stop to shut down and normally, when you retake production, always you have additional costs. It is very difficult to calculate all of them. So as we -- when you don't have the shutdowns, this improves a lot.

The second point is that the Mucuri plant, as we mentioned in Portuguese call, the plant is running much better than before. So very stable, much better. We are, very, very bullish about the results that's coming quarters that we are going to see.

So on the other hand, we are going to see some additional costs from the wood side because of the mix that we have seen. So increasingly we have this question. We will have during the coming years as the normal -- this is not for the short term, but we have some CapEx, some investment that we are working on, on our biomass boiler.

We are working on some other automations in line one. We are working in different investments to improve the cash cost that we have in front of us and as we mentioned before, we are going to be back on the right ratio of our own wood versus the wood that we are buying from outside suppliers by 2016.

So it is difficult to -- what we can tell you that you don't need to put in your model is that this is not a normalized cost that we have -- is -- because if you put this in your model, you are going to be extremely conservative and this is not good for you, not good for us, for our own investors as well. To give you the right number, this model, if we had all these actions, or when implemented we are going to see BRL30 to BRL40 lower level than we have today.

However, this is going to be implemented as we move forward. So I can tell you that if you see in the -- in your model for the long run in your model, if asked today, with all the actions we are going to take this will be BRL10 to BRL40 that we are going to take.

So if I will -- you can take your assumptions but for the long run after 2015, in reais as of today, probably you can say BRL560 -- anything BRL500, BRL550, that would be BRL500 to BRL550 you are going to see some things that as -- again, as we have today because we have seen inflation, we have seen personnel costs moving up but as today this would be our range that you can put in your model.

Q - Thiago Lofiego {BIO 16359318 <GO>}

That's great. Thank you, Maciel.

Operator

Roy Yackulic, Bank of America.

Q - Roy Yackulic {BIO 4201939 <GO>}

I am a bit concerned with respect to covenants and waivers and we see estimates from the rate agencies that net leverage next year 2013 will rise between 6.1 to as high as 6.4 times. So can you comment on existing financial covenants in bank debts and potential waivers and what we might expect there?

A - Alberto Monteiro {BIO 1527328 <GO>}

Right now we adjusted the leverage from -- it's an issue in Brazil, the financial covenants are -- it's four times and probably after the end of this year, we are going to reach above these numbers and we are renegotiating with the bond holders and in my opinion we are very comfortable to get waiver or we have a huge and solid cash position to prepay all debts.

So right now the debenture is around BRL650 million and we have right now BRL3.8 billion. So we are prepared to pay prepaid dues with that, just the (inaudible) have financial covenants right now.

Q - Roy Yackulic {BIO 4201939 <GO>}

And that's the only covenant that's in the concern, is it correct?

A - Alberto Monteiro {BIO 1527328 <GO>}

Yes.

Q - Roy Yackulic {BIO 4201939 <GO>}

Thank you very much.

Operator

Juan Tavarez, Citi.

Q - Juan Tavarez {BIO 15083199 <GO>}

Just my first question is on the Maranhao Project. Just if you can give us a little clarity on when the exact startup or what the exact startup date is for that mill because clearly there is a difference between October 1st and December 31st. It will help us a little bit to gauge your cash flows for next year. And also if you can give us a sense of how fast do you expect that mill to reach full capacity?

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay, Juan. Good morning, Ernesto Pousada speaking. Actually, we keep our startup for that Fourth Quarter 2013. That's what we said from the beginning and we are on schedule but in a project of this magnitude, we prefer not to put a specific date on the startup, considering the only investment, the size of the project, I think, is really marginal talking about within the quarter in itself.

And as we said before, the project remains on track for the startup on the Fourth Quarter of 2013. And we expect like we discussed it before, we have a very flexible set of equipments that we contracted. So we have in some cases, duplication of equipments like in the dryer machines, we have two lime kilns. So all of that together we believe we can get a good startup.

We expect to reach full capacity, let's say, after 12 months. So that's the full capacity. Of course, there's always room for improvement but that's what the numbers we work for the time being.

Q - Juan Tavarez {BIO 15083199 <GO>}

Okay. Great. The only reason I asked was well it's because it clearly would be an impact also for pulp fundamentals depending on the timing of the next startup. So maybe on my second question, if we can touch a little bit on how you are expecting demand over the short-term and how this recent price increase is being implemented, have you been able to pass through 100% of that price?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Hi Juan, this is Alexandre Yambanis. So let me give you a little bit of supply and demand fundamentals. I'll try to be short but I can supply you with detailed figures. The new paper demand slated to start up in 2012 and '13 is of 7.5 million tons out of which 4 million tons are tissue and 3.5 million tons are printing and writing.

Now, out of this 3.5 million tons of printing and writing, 3 million tons are shutting down on the other side of the scale. So you are left with 500 tons net increase in printing and writing. Conversely, when it comes to tissue, out of the 4 million tons; 300,000 tons are also being shut down. So one plus the other it leaves you with a net increase of 4.2 million tons of paper, out of which 3.7 are tissue and 500,000 printing and writing.

And this is all virgin fiber consuming papers, especially for tissue which consume anywhere from 80% to 90% of virgin fibers. So you are talking 3.8 million tons of -- roughly, 3.8

million tons of pulp demand, of new pulp demand to supply this 4.2 million tons of new paper capacity.

If you add to that, 2.8 million tons of conversions and, especially conversions into dissolving pulp, okay. This is a figure coming out from TerraChoice and Hawkins Wright both figures coincide. So 3.8 plus 2.8, you have a demand creation within the period, two years of 6.6 million tons of fiber of fiber demand, which covers and largely surpasses the new capacity coming on stream in the next couple of years which is roughly 5.3 million tons of new pulp capacity.

So we are very comfortable with the supply demand fundamentals. If you add to that, that Asia will -- is the driving force of this demand fundamental and specifically China and if you consider that the Chinese government is going to encourage domestic consumption. See, domestic consumption as a portion of GDP in China it's only 34% as compared to 70% in the US. On the other hand, salaries went up 73% in China from 2007 to 2011.

So all these points to a greater consumer power in China. This will favor paper demand especially tissue. So we see a balanced market, very balanced market, I should say, in the next couple of years and we are very taking it very calmly.

There is a lot of noise in the press about the new supply, etc. etc. We see that that new supply would be easily absorbed. The second part of your question on price implementation, we are implementing our prices worldwide as announced.

Q - Juan Tavarez {BIO 15083199 <GO>}

Great, that was very helpful and just to follow up on that point on China, so would you say that this new tissue capacity being added would be easily absorbed or could we expect some maybe pricing pressure in tissue in China, which could maybe start to pressure some pricing for you as well. Were you not concerned about that?

A - Unidentified Company Representative

I've been -- I've been in China couple of weeks ago and I visited four tissue producers and two out of the four are investing and increasing their capacity by 500,000 tons each.

So both are buying seven to eight brand-new tissue paper machines producing 60,000 tons each. If you listen to what they say, if you -- and if you believe what they say, they don't foresee any, although they are many of those machines are starting out at the same time.

They don't foresee any difficulties and in placing the product and I buy that -- I buy that thesis for the simple fact of what I mentioned. The Chinese government and the new members of the Politburo that have come in now will definitely encourage domestic demand.

They have no choice but to do that to face a declining export potential for China due to the big crisis in Europe, United States and so forth and also to hedge against political risk in China. So domestic consumption is the key word for China and I believe domestic consumption will go up considerably in the next 12 to 20 months or so. So I see this tissue demand being absorbed very, very easily.

Q - Juan Tavarez {BIO 15083199 <GO>}

Great, thank you very much, very helpful.

A - Alexandre Yambanis {BIO 16470785 <GO>}

You're welcome.

Operator

Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

I have two questions. The first one about Maranhao Project. In the past, you discussed with investors, I think, two alternatives to reduce your disbursements. One of them would be outsourcing part of the CapEx and the second one would be even with bringing up a partner in this project. Do you continue to be open to these possibilities since we are now much closer to the startup of the plans? This is my first question.

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay, Lucas. Good morning, Ernesto Pousada. Yes. In the past we discussed the possibility of having a third party making the CapEx and operating some of our areas of the new. What we're doing right now, we are not considering the operations of this area.

Instead of that, Alberto and the team, they're working on some finance alternatives to finance that in a different capital structure, specifically for some areas that we mentioned before like water treatment and effluent treatment, et cetera.

So I think those are -- those are not any more under consideration for operations, but yes, we are considering different financing structures for some of those areas.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you, Ernesto. And my second question I think is for Yambanis. You mentioned about a growth of the tissue market in China. How much you think it's at least for let's say two, two years of sustainable growth rates, finance growth rates for Chinese demand for BEK? Thank you.

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes, hi, Lucas, well, Chinese demand for BEK as you know present sometimes an erratic factor. It has grown -- it has -- just to give an idea, it has been plus 13% in the -- versus the

Third Quarter of last year and plus 38% versus the Second Quarter of this year. So it's -- which is huge and of course, it won't grow 38% or if you wish, 13% or 15% per quarter.

This being said, we see demand for -- the trend demand in China if you take it in the last years or so has been around 15% growth, 10% to 15% growth per annum and that encompasses softwood and hardwood.

We see that being maintained easily in the next couple of years and even accelerating in the ensuing years after the next couple of years due to the -- what I mentioned in the previous question, the Chinese leaders will definitely invest heavily in income distribution and in enticing consumer domestic consumption and that will have a direct impact in tissue demand and tissue demand means eucalyptus fiber today. The new paper machines simply cannot run at the required quality without using eucalyptus fiber.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay. Thank you, Yambanis.

Operator

The question-and-answer session is now over. I would like to pass the conference over to the Company for final considerations.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

This is Antonio Maciel. I'm taking here just to make a very brief comment at the end of this call. First of all, I would like to thank you everyone to -- of participating today. We will continue being available through our team, the investor relations department to work out on the questions that you have after this call.

I have three main comments for -- to give you the three highlights of this quarter. First of all, it's about Maranhao Project. The Maranhao Project is on budget and on time. We are moving forward with a very, very complex project in excess of 7,000 people working in the site and (inaudible) they have worked very hard to make everything to move forward as planned and so far, we have a very, very good perspective. This is an outstanding project.

Logistics will be best in class, railroads from the plant in terms inside the plant up to the port, deep water port in at least [30 ports], very close or at least closer mill to the markets in Europe and in US. So best-in-class technology, very well trained people.

As you know, we have mixed the team there using a big piece of the key managers from our existing mills, mixing up with new people being trained in somewhat highly in the market. So this is a big and outstanding project and that's moving forward as planned.

The second comment is about the leverage versus the financial shield as we have mentioned during the follow-on that we completed in June. Deleverage as was mentioned before, we will continue to grow. We probably, we are going to be in excess of 5 in coming quarters.

However, as we have presented, during the follow-on, the -- our strategy to mitigate the leverage problem was to develop the financial shield. We have been very vocal in the discussions related about the key issue of leverage. Everybody knows that we have a deleveraging project -- program. This will happen very fast after the launch of the Maranhao Project at the end of next year.

So after that -- okay, from here about 12, 13 months we are going to -- we are close, we have almost one year off the date the start up of the plant and consequently of the deleveraging process.

However, after that we would -- we could have had problems or we would face problems with the banks to roll over the debt that we had before. So this was the key concern and this is the key concern for every one with high levels of leverage.

Our financial shield at June -- at the end of June, beginning of July was implemented using the standby facility that we have contracted with BTG Pactual bank. And with that, we would be able to go up to the end of the year of '16, 2016, without any banking debt.

So we have had a deadline implemented in financial shield that regardless the level of the leverage that we would have, we would be able to pay everything or to be in compliance with all the commitment that we have signed in the past.

Now after that, Alberto and the team, they have been able to improve that financial yield by BRL1.6 billion with a rollover of the debt and rolling over the BRL1.6 billion as we speak now. So the timing of our financial shield up to the end of this being now is guaranteed without the standby.

And if we put standby on top of it, this will be better than 2016. So the deleverage issue that had been a big issue for us in the last two years now is -- it is still there and, however, we have this financial shield fully implemented to protect the Company for any event banking grant that could show up in the near future.

So this is our second message with leverage. We will continue to work out on the deleveraging. We have our hydraulic mill, Capim Branco, now Amador Aguiar that we are trying to sell. We have banks mandate to that. We are working on this one. However, we don't need it to maintain our sustainable financial position up to the 2016 or three years after the startup of the Maranhao plant.

And my final comment is that the results, operational results are improving as well. We have seen in Mucuri plant, [lime kiln] that's more stable producing with lower cost and improving the performance.

Our productivity program is being implemented with full involvement of the Company and we have those numbers that you are seeing that improved in our EBITDA, little bit better than what we had internally planned as well. It's coming also from this respect.

Paper business, now with the exchange rate that we have, our export margin improved. Overall, the international market, they have maintained or increased a little bit the prices. We have seen big efforts from the government in all fronts to -- not to protect the industry like our finance minister said yesterday.

We are not -- government is not to protect our industry because it is not the case to protect, it is the case to have, to implement, to guarantee a fair competition with the imports from different perspectives.

So with that, regardless that we have seen some huge costs going up in some chemical or, let's say, items like natural gas that's completely different from the foreign investor that are participating here because everybody see the natural gas prices going down. In US, they are going lower ever, prices of natural gas.

Here, we are still seeing cost increases. This is impacting our outage [ph] the cash cost. This is -- we are talking about overall costs because the gas, the natural gas is impacting more our costs here in Sao Paulo because in Mucuri, we are just as tightening the utilization of natural gas. That's more indicator, not in the cash cost fully because of these (inaudible). However, this is in the overall results of the Company.

So with that, we -- I will stop here to thank you again and invite you for the coming days to continue the conversation. Thank you very much.

Operator

Suzano Pulp and Paper conference is now over. We thank you for your participation. Have a nice day and please disconnect your lines.