

Q3 2013 Earnings Call

Company Participants

- Alberto Monteiro, CFO and IR Director
- Alexandre Yambanis, Head of Pulp Business Unit
- Ernesto Pousada, COO
- Unidentified Company Representative, Unknown
- Walter Schalka, CEO

Other Participants

- Carlos de Alba, Analyst
- Jon Brandt, Analyst
- Juan Tavaréz, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpcao, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to the Suzano Papel e Celulose audio conference to discuss the results for the Third Quarter 2013. At this time, participants are in a listen-only mode. And we'll hear presentations by Mr. Walter Schalka, Chief Executive Officer.

Next, we'll open a questions-and-answer session when further instructions will be provided. I would like to highlight that each participant can only ask two questions. (Operator Instructions)

This release may contain forward-looking statements and projections, which are subject to unknown uncertainties. Therefore, such expectations may not materialize or differ materially from the original projections.

These risks include changes in future demands of the Company's product, changes in factors affecting domestic and international product prices, changes in the cost structures, changes in seasonal patterns of markets, changes in prices started by competitors, exchange rate variations, changes in economic environment in Brazil, changes in emerging and international markets. I will now give the floor to Mr. Schalka, who will make his presentation. Thank you.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. I'm Walter Schalka. It's a pleasure to be with you for the quarterly results conference of Suzano. Today with us here are all officers of the Company, with the exception of Alexandre Yambanis that is not in here, but is joining us through the webcast in Switzerland. And we are going to talk about the third results -- the Third Quarter results, the Maranhao Project, and other important subjects for the Company.

I would like to start by thanking our employees on behalf of our officers. I'm making a public announcement, and I also talked to them in private because of the results of the Third Quarter. The Company had a significant increase compared to the Third Quarter 2012, with EBITDA of BRL503 million, an increase of 52% over the same quarter of last year, reaching an EBITDA of 33.1%, 8.7percentage points higher than last year, which was 24.4%.

It's also important to mention that we had an evolution of EBITDA of a bit more than 42% compared to year-to-date -- against year-to-date last year. The EBITDA was a result of an increase in pulp and paper prices, especially pulp in the Third Quarter, and that had a positive impact of the exchange rates.

Hello? I'm sorry but the line had dropped, so I don't know exactly where the presentation stopped. But anyway we had an adjusted EBITDA of BLR503 million, an increase of 52% over last year, with an EBITDA margin of 33.1%. Also important to mention is that year-to-date, we have benefit from margin of more than 30% and an evolution of more than 42% compared to the first nine months of last year.

The EBITDA was a result of a series of fractures. First, prices, we had an increase in pulp and paper prices. And the exchange rate had an impact on that. We had an average rate of BRL2.29 million [ph] this, quarter which favored our EBITDA and did not have a negative impact on our indebtedness, since there was a small evolution of 30th -- June against 30th of September.

Another positive point is that the Company, despite an increase of wood prices of BRL44, we could maintain our cash costs against 583 [ph] without downtime in the Third Quarter of last year. That has to do with a higher operational efficiency in the plans, lower consumption of raw materials, and also higher productivity. We had higher productivity this quarter and therefore, we have better fixed costs.

Another important criterion was the reduction in general administrative expenses. We continue to have positive expansion there. We have, year-to-date, a reduction of 7% compared to last year, even taking into consideration inflation. This is the result of the efforts that we have been making in the Company.

The Maranhao Project is good news. We are going to go on as scheduled in the Third Quarter -- in the last quarter of this year in December, and the investment is therefore within schedule and with investments as previously announced. The Company continues

to be quite solid financially. We closed the quarter with BRL3.6 billion in cash, and with we still have substantial amounts to be funded by the BNDS for the Maranhao Project.

And to conclude, we could maintain our leverage at the 5.1 times level, due to the increase of EBITDA we had. So we have an increase in the Company's net debt, but that has been offset by the increase in EBITDA, so we could keep the level of 5.1 times.

On the next page, we look at production. We had a production in the quarter that was quite positive. So with an evolution over last year, 2.2%, and we have year-to-date, 3.9% of increase in production, especially in pulp and especially in the Mercury plants in Suzano's units. We reduced the production of paper every now and then to have a higher volume of pulp production.

Sales volumes, we had very good quarter in terms of sales. Our sales grew by 3.7% compared to the Third Quarter of last year. And we are minus 1.3% year-to-date compared to the first nine months of 2012, especially because of the payoff paper to the external market, which was lower than last year. In terms of destinations, we had no substantial changes compared to previous quarters.

Economic and financial performance on the next page, you can see that we had an evolution of 11.7% in revenues. We reached BRL1.520 billion of net revenues in the quarter. Year-to-date, we are with 8.2% growth, totaling BRL4.028 billion. As for cash costs, without the downtime, as I mentioned before, the Third Quarter was below last year, but year-to-date, we have 2.1% below the inflation of last year, although we had an express set increase in the prices of wood.

As we have announced to the market, due to the Mercury units having higher volumes of third parties and also a higher distance from third parties, leading to an increase in wood costs, that has been offset until now by the inputs less specific consumption, higher production, and expense control.

It is important to mention that for 2013, we are going to continue having a higher average ranges [ph] of the wood from third parties in the Mercury units, and that will have an impact in the cost of wood and should lead to an increase in our cash cost. And also, within the philosophy of continuing having a retrofit in our operations, in our investor operations, we are going to have a downtime in line one of Mercury.

It's basically a reduction of capacity, because we have three chippers, and one of these chippers is going to go through aggressive prints in the Fourth Quarter. And therefore, we are going to have a lower level of production in line one of Mercury.

And also we have the washing of our boiler in Mercury that was performed in October. It was very successful. We had two downtimes for maintenance in the Third Quarter -- Limeira for general downtime, and also line one of Mercury. And we do not have any scheduled downtime for the Fourth Quarter.

FINAL

Bloomberg Transcript

FINAL

Looking at the economic financial results on the next page, the Company is still evolving. We had 33.1% margin EBITDA with BRL503 million. YTT, we have BRL1.238 billion, an evolution of 42.7, an EBITDA margin of 30.7, more than 7percentage points vis-a-vis the accumulated results for last year. The net results, we had a profit of BRL43 million this year.

As you all know, the net results are highly dependent on the exchange rate variation. So (inaudible) for the last business day of the quarter in this quarter specifically, we were positively affected. This is because the exchange rate was more or less the same as July 30 of a slight difference. So we had a result of BRL43 million, 171 [ph] increase in EBITDA vis-a-vis the Third Quarter of last year from 331 [ph] to around BRL503 million led to the maintenance of the leverage of the Company.

In the net debt on the next page, you can see that our debt has been growing in -- liquid debt in the investment in money. And due to the increase in the Company, we have a demand for more capital. But we still need a very robust cash position of BRL3.6 million. We have the horizon of more than 60 months, and we have financing for Maranhao still to be dispersed an amount of BRL960 million from the BNDS.

As far as the Maranhao Project is concerned, on September 30, we had the electro-mechanic setup with 83%, to be commissioning 33%. The project is solely on track in terms of schedule. We're going to start up the plant in December, but let me repeat here that even more important than the startup is the fact that the commissioning fees [were made].

So many people ask, do you have a projected date? We don't want to give any guidance about the date exactly because we don't want to have the date as the most important factor for us. The commission is more important.

So [it will incur] in December, but we want to make sure that the commissioning is well-structured in terms of quality and it is structured in debt. It's also important to highlight that we had announced a CapEx in -- for December, BRL3 billion in CapEx. And that BRL2.3 billion would be for Maranhao.

And due to our management of the project and the payments [ph], we're going to have a carryover for next year. So we are going to have a revision of more than BRL400 million, which should be left for next year in terms of payment. That should not impact the startup of the plant in December.

The next slide show pictures of landmarks in the Maranhao Project with dryers. They have two dryers. Number one is already operating with water and will start operating with pulp on November 10, i.e., in two weeks. The next slide shows recovery boiler. We had planned to have the first oil to happen next week, but actually we did it on October 25, last Friday. So that's another landmark for the project. As to the biomass boilers, they're already operated with biomass.

The wood yard, in the next slide, is already operating. We have already obtained the FSC certification. So the first pulp production in Maranhao in December will already be FSC certified. We also started harvesting. We already have wood in the yards to start operations. All utilities are available, as you can see on slide number 12. We have a control room, the lands operating.

Everything -- steam, power, water, compressed air, everything onsite. In other words, the commissioning process is very much aligned with our expectations. And the fact that little by little, we are reaching the landmarks that we had set for ourselves, also is very positive.

On slide number 13, we would like to announce that we have concluded the current site production in Mercury concluded in August is already in operation. We are already selling cut sites via Mercury and the other projects, the biomass boiler for Mercury, we started with oil in October and November, we're going to start operating with biomass. So totally in line with the schedule that we had.

The wood chipper in Limeira we're going to have the startup in February next year. We go on with standardization and upgrade of the harvest peak, startup scheduled for 2Q 2014. And the Chichester Suzano plant, we're going to have the startups scheduled for the Second Quarter of 2015.

This is our presentation on the results. Very positive results. We know there's still many opportunities for improvements in the Company, and we'll go on working and structuring projects in terms of improving management too. Ladies and gentlemen, I will start the Q&A session. (Operator Instructions)

Questions And Answers

Operator

Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

I have two questions. The first one is about cost. This is something that has been very impressive in this quarter. How much in terms of the cost gains are sustainable from now on? In other words, that were not related to the strong production in the quarter?

We also had discussed in the last heavy mass that you needed to decide whether you're going to buy third-party wood at once, and if that was to impact the cost prior to the beginning of 2014, or whether you were going to do it gradually. And this was something that was up for the market.

Could you please update us on that? What is your expectation in terms of the impact of costs with this increase and relying on wood from third parties in the Mercury reach?

FINAL

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Lucas. This is Walter Schalka. In answer to your questions, first one in terms of cost. Our productivity has been evolving favorably in the plant, and this has been a big help in reducing specific costs.

And the filter production increase has also helped, in terms of increase [ph] in the cost, and improving our operations and leading to a reduction in the cost. This favors the cash costs, but we believe that we won't be able to offset more remains not through cost evolution. We won't be able to offset the wood prices in the next quarters.

As to the second question about the wood reliance, yes, we have increased our purchasing from third parties. We have an important logistics issue to deploy. We want to increase the average age of woodcutting in Macclenny. So we are going to buy wood from third parties, and this will have an impact in 2014 and also in the last quarter of 2013, this will impact the results.

Q - Lucas Ferreira {BIO 16552031 <GO>}

One question about CapEx. In the BRL500 million going to 2014, do you have any projections as to the CapEx for 2014? And what's the recurring CapEx from now on?

A - Walter Schalka {BIO 2099929 <GO>}

We still don't have projections for CapEx for 2014. I cannot give any guidance. We'll do that certainly at the beginning of next year.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you very much, Walter.

Operator

Thiago Lofiego, Bank of America Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

I have two questions. The first about the Maranhao Project. If you could give us some estimates in how many months the line is going to get to 100% of utilization, and what sales volume we should expect for next year? And the second question is about the supply and demand scenario for the next two quarters, if you could comment on that and talk a bit more specifically about China, if people are really starting to buy for inventory?

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay, Thiago, this is Ernesto Pousada speaking. Our forecast is to get to value our production in the next 12 months of 1,150,000 tons. And this estimate is 8 to nine months to run in full production. That is along the second half of next year.

Bloomberg Transcript

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. Thank you very much.

A - Alexandre Yambanis {BIO 16470785 <GO>}

Thiago, this is Alexandre Yambanis. Good morning. As for your second and third questions, well, first, supply and demand for the next two quarters well, there is a strong startup in the capacity of paper.

And if you get rock and tribe, that they are bringing 6.3 million tons of new capacity. Of course, you have to consider conversions, restarts, closings, but still you have 4 million tons. Most of it that is more than 4 million is tissue. So the 5 million tons of tissue, most of it is going to be for China.

So your second question was quite fortunate because it did ask about China. So these capacities are being installed to the Chinese tissue market, although very competitive, and having a huge potential of repressed demand. So the capacity is being installed and we believe it's going to operate for sure, especially because you're going to have closings on the other sides -- the closing of smaller obsolete plants, integrated plants with pulp in China, and so on.

So the new paper machines are generally large machines. You're talking about 60 tons a year of tissues, that demands prime quality pulp. And eucalyptus for tissue is the premium pulp. And we have been developing it a lot by means of cloning, and we have progressed a lot in the fiber along the decades in Suzano. So we are quite comfortable in terms of supply and demand for the next month.

Not exactly because we know that the competition is having a delay in their restart up, but because of supply and demand. We see a quite heated demand due to those new capacities. You see in 2013, it was a great surprise.

We had four tissue machines starting in the US, which is a mature market, but new producers, especially for tissue, have been starting up new machinery. And we see supply and demand for the coming months in a very comfortable position.

We believe that all catastrophic estimates of new capacities affecting prices in the short-term will not come true. We are quite confident that we are not going to have a boom in terms of prices, but we are not going to have any catastrophic decrease as some would predict.

As for building inventory in China, this is a very interesting question. Because there was a movement for softwood inventory levels in China before the summer months and, I would say, in spring.

And in summer, the traders that basically stock softwood, they started very aggressive sales of their inventories, for a very simple reason -- softwood supply has been restricted

FINAL

Bloomberg Transcript

due to operating problems in Canada, Russia, and so on. So traders have not been able to restock. And this would explain the increases we have heard that softwood is going to have.

As for hardwood inventory levels in China are normal in the hands of clients. We just sell to end clients, and hardwood basically is sold to end clients. Because the Chinese are not being able to restock softwoods, prices are going up, and this is positive to us. Because it encourages them to replace softwood with hardwood.

So we see that the difference is higher. It's about \$65. It was \$111. So that is an incentive for them to replace fibers. So we see that this is very good. Higher softwood cost is very good and restocking is not happening in China.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Perfect. Thank you very much.

Operator

Hernando Antonis, Brazil Purl [ph].

Q - Unidentified Participant

Thank you for the opportunity. The first question is about the domestic market for paper. How do you see the demand scenario for the year-end? Do you have any projections for 2014? We've seen some changes in prices. The quarter itself showed good realized prices. If you could help us see what the future holds, it would be great.

Then talking about costs, I'd like to understand a little bit the Third Quarter, Walter talked about BRL44. I would like just to confirm whether this was the greatest impact, and was there any impact on the energy costs on Latharta? So before the startup of (inaudible), you said before that there could be an impact in the -- or from the power. I'd like to know what the effects were. Thank you.

A - Unidentified Company Representative

This is Carlos [ph]. Starting about -- on the question about the Fourth Quarter, the current expectation is to have a demand close to what we had during the Third Quarter with some considerations. The first one, cardboard will still perform very well. We expect a strong month in October. And also for November, we expect the demand for cardboard will be above what we had.

In printing and writing, the expectation is not exactly the same, not with the same intensity, but we do expect something close to or slightly below that -- the one we had in the Third Quarter, especially due to the imports in -- especially into ship paper. 2014, there are two factors which drive the use of paper -- The World Cup and the elections. So right now we are expecting something around 3% to 3.5% for the whole year, something close to the GDP.

FINAL

A - Walter Schalka {BIO 2099929 <GO>}

This is Walter. Regarding the cost -- yes, the impact of the wood cost was BRL44 per ton vis-a-vis the Third Quarter of last year. And we offset this due to the efficiency gains and decrease in fixed costs, and also gains with input. But these BRL44 is not only about third-party wood but also the distance traveling to Mercury.

The question about power -- yes, we've been acknowledging ever higher costs in power. As you all know, we sold Capim Branco. And after the Second Quarter this year, we started having energy costs above those that we had before.

So the differences are calculated in the results. And as of next year, we are going to have excessive energy in Maranhao, and part of this energy will be used, then we're going to reduce or mitigate the impact.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you.

Operator

Marsella Diaz [ph], Goldman Sachs.

Q - Unidentified Participant

Well thanks for taking my questions. Congratulations on your results. My first question is again about third-parties' woods. Walter, just first, to have an idea on wood consumption of your Third Quarter was divided in what ratio, between your own and third parties? And what is the mix going to be like for the next quarter and 2014?

Also, I would like to ask about Maranhao. I have heard two things about your startup in Maranhao. One is that the commissioning of the effluents would be more complicated because you were a bit delayed in construction, and the other is that you would have had problems with clones in Maranhao because of a very long drought period. So could you talk about these two points? Thank you very much.

A - Unidentified Company Representative

This is Alessandra Esuelen [ph], and I'm going to talk about the wood in Mercury and then the clones. I'm going to talk about the biology part of your question. So as for consumption of third-party woods in Mercury in the Third Quarter, it was 57%. And that opposes to the dogma that we have, which is not to use more than 30% from third parties in the long-term. And therefore, we did have an impact on costs.

As for the clones in Maranhao, we started planting in Maranhao in a region to the south of our trees, which is an area where we have less rainfall, and therefore, the possibilities for forestry growing is below what we have in the north of Maranhao, because this is closer to the Amazon biomass, where we have the rainforests. And so we use the South and the North areas, and we have corresponding productivity.

Bloomberg Transcript

And it's important to mention that we have wood from Maranhao in the two first years, as we mentioned, but we are also looking for third-party woods so that we can use it. So although we have an availability of 100% of our own wood in the first years, we'll almost certainly use third-party to work with that a long time.

The other question you asked about the Maranhao Project, that is about the effluents treatment stations, well, you know that this is a project with more than 10,000 people working and there are different critical paths to follow.

The effluent treatment station is one of the critical points we have on the site, but the good news is that we are going to get the startup of the treatment station on the 17th of November, which is much before the startup of the plant. So it is a critical point, but it is not going to be a limiting factor for the production of Maranhao.

The pay construction, that is quite significant. There are other areas that are also critical and on which we are working, but we are quite confident that we are going to have our startup in December and we are going to be producing pulp.

Q - Unidentified Participant

Just as a follow-on, still not very clear to me the issue of clones in Maranhao. So if you expect to have better performance in the first year in an area that you were counting on for the future in this plant, and then things didn't work out, my fear is that we have something similar to what happened in Mercury, which was for the opposite. It rained too much, and two years later, we have worst performance in specific wood consumption because of that.

So if you could elaborate a bit on that, is that something that is going on? Are you going to have to look for more third party wood because of that? Are you going to be planting in other areas? And perhaps one year of growing in other areas wouldn't be enough?

A - Unidentified Company Representative

No. This is not the reality. We do not have any problems with our clones in Maranhao. Clones are meeting our expectations. What Alessandra wanted to say is that in the north of Maranhao, we have a different climate than we have in the South, but we were counting on that.

There is nothing different about that. That really does not change anything in terms of our estimates. Buying wood from third parties has to do with protecting ourselves for us to have a 100% of our own wood, but then gradually reducing it. So we decided to have a bit of third-party wood right from scratch.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Congratulations for the results. First question is about pulp production. What do you expect for 2013 in terms of production? Is this figure sustainable due to the nominal capacity for the Company?

A - Ernesto Pousada {BIO 15951890 <GO>}

Marcos, this is Ernesto Pousada. These figures we posted are sustainable for pulp production. As we have already said, we expect a smaller production in the last quarter, vis-a-vis the last quarter of last year. One of the reasons being that the downtimes that we had, these were scheduled downtimes, but this will lead to this happening.

But the figures are indeed sustainable along with the times. Line 2 of Mercury production should reach and exceed 1 million tons. So we're going to close here above 1 million tons. And we are indeed very hopeful and expecting to be above [100 -- 1,100,000] by next year. So these figures are sustainable.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

For the Fourth Quarter last year, you produced more than 500,000 tons. If we considered something around 500,000 in the last quarter, we would be talking 1,950,000 tons. I guess people would consider this a lesser number looking forward. But the increase of production, the Mercury operating stability should enable us to produce more than 1 million -- 1.9 million tons for the next years, right?

A - Ernesto Pousada {BIO 15951890 <GO>}

From the industrial perspective, I repeat -- for the next quarter, we should have 40,000 tons less than last year because of the downtime that Walter mentioned during his presentation.

But the figure that you're talking about from the industrial perspective is strongly sustainable. Of course, it will depend on market conditions and some other factors, but in operating terms, the unit is doing well. And the bottlenecks are moving and we can now go further in terms of productions.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Great. Second aspect, regarding production costs -- pulp production costs for next year, you said that after the Fourth Quarter of 2014, there is a greater impact on pulp -- or rather wood from third parties.

You said 57% from Mercury from third parties. Can you tell me how you expect this to occur last year? Yes. There's pressure that might mitigate costs in the Maranhao startup. How much do you expect in terms of average cash costs from Maranhao Project 1.1 million for the first 12 months?

FINAL

Bloomberg Transcript

A - Walter Schalka {BIO 2099929 <GO>}

Hi, this is Walter. Mercury's wood cost increases, not only due to the fact of being third parties, and that should not impose a great increase, but because they get further and further. So the freight costs are higher. So you're not providing guidance for next year in terms of wood cost, but we expect to have higher costs, both in the Fourth Quarter this year and next year.

And vis-a-vis Maranhao, this is a unit that, after the normal rampup of the operation, the period that Ernesto described, going from six to nine -- eight, nine months after this period, we'll operate with a very low cash cost.

Because we have a state-of-the-art plant, we'll be operating with wood, even though part of it is going to be bought from third parties, but there will be a significant one from our own wood. So the cash costs will be very low. We still don't have the bond [ph] for next year. We don't have the blend and the total cash costs for the Company. But we assure you it's going to be positively impacted and will be reduced with the startup of Maranhao.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Two other questions. In terms of the downtime for modernization for the Fourth Quarter, is there any estimate in cost? And finally, what was the pulp inventory in the Third Quarter vis-a-vis the Second Quarter?

A - Ernesto Pousada {BIO 15951890 <GO>}

This is Ernesto. In terms of the downtime, especially Line 1 for the wood yard, this is put in the CapEx. Nothing outside of the CapEx. And line 2 is also within the cost. The costs were minimal. There's nothing relevant to note here vis-a-vis these two downtimes.

A - Unidentified Company Representative

This is Alessandra [ph]. We don't give inventory guidance for pulp in relative terms or accurate terms, but these inventory at the end of the Third Quarter were lower than those at the end of the Second Quarter. And there is a very simple reason for that, in that the Second Quarter, inventories had risen up slightly, especially at the end of the quarter due to our price discipline.

We decided to keep our prices unchanged, at the end of the Third Quarter. The market was more favorable -- at least our target markets were more favorable. And this helped us to decrease inventories, especially September when market conditions were more favorable.

One small adjustment, general inventories of the Company didn't falter. They dropped in the Third Quarter. But they dropped especially on paper. Pulp, if you track the evolution in sales for pulp in the Third Quarter, we see an increase of 15,000 tons in our inventory, which is marginal, negligible. But so that you have the accurate information you need.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you very much.

A - Unidentified Company Representative

I'm referring to the beginning to the end of the half year, but Walter is totally correct. If you consider the end of the second and the end of the Third Quarter, is totally correct.

Operator

Alex Viasi [ph], Santander.

Q - Unidentified Participant

My first question is about CapEx. Based on this new guidance that you are giving for 2013 of [BRL10.5 million] in disbursement, and thinking that so far, you had BRL1.6 billion, is it reasonable to think that the disbursement of CapEx in the Fourth Quarter is going to be like BRL1 billion? And should we keep this number for CapEx in the Fourth Quarter?

A - Walter Schalka {BIO 2099929 <GO>}

Well. Good morning, Alex. This is Walter. We are indeed thinking of a CapEx of approximately BRL2.5 billion this year. But our CapEx numbers show more than [BRL1.8 billion] in the Third Quarter, not BRL1.6 billion as you mentioned.

But anyway, we do plan to get to roughly BRL2.5 billion this year, if possible; if we don't have to spend as much, we will. If we can postpone payments in the project without financial burdens for the next year in the Maranhao Project, this is going to be positive.

Q - Unidentified Participant

Okay, Walter. The number I got from BRL1.6 billion in your cash flow in the line of asset additions. So perhaps there is a slight difference based on the number you gave me. But just to make clear where the number comes from.

My second question is about expenses. Looking at your release on page 9, you say that you have other operating revenues of BRL55 million. If you could give us a bit more color about these revenues, where they come from, I think that would be very useful.

A - Unidentified Company Representative

Alex, just to have it clear, could you repeat the second part of your question?

Q - Unidentified Participant

On page nine of the release, you have a chart where you have (inaudible) just to have a bit more color about these revenues where they come from, since there was an increase compared to the Second Quarter about BRL20 million in the Second Quarter, BRL55 million now. So I would like to understand why this increase? Did you get that?

FINAL

Bloomberg Transcript

FINAL

A - Walter Schalka {BIO 2099929 <GO>}

Well Alex, these are recurring issues of expenses and revenues, and relative to amortization that we have been having. It's important to mention that when we buy wood from third parties, we buy part in pellets. And therefore, part of it stays in exhaustion. So that tends to grow because of this wood that we have. So we have biological wood, but we also have that. But it's all recurring. We are not talking about anything that is nonrecurring.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Carlos de Alba, Morgan Stanley.

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

My first question is regarding working capital. We saw a deterioration in all three lines -- higher inventories, higher account receivables and also lower payables. Could you please talk about what happened with (inaudible) -- and it was mainly driven by changes in working capital that I highlighted.

Q - Unidentified Participant

Hello, hello? I'm sorry, I'm going to answer your question. If it's not exactly what you asked, please just correct me and you ask again, because the line was cutting. There was a difference in the working capital of BRL250 million from the Second Quarter to the Third Quarter because of three factors.

The first is an increase of BRL275 million in our Accounts Receivable because of an increase in sales, especially in September, and obviously a higher price that we have. The second point that also contributed to an increase in the working capital is BRL221 million regarding the payment of suppliers.

And obviously, when we are closing the quarter and close to the part of startup of the plant. Also there was an increase of inventory of BRL50 million. All those three factors led to an increase in our working capital.

Was that what you wanted to ask? (Inaudible) it is clear, and if not, please re-ask your question.

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

It is clear. What I would like to understand now and going forward, have you seen capital moving? Now my question -- first question, yes, the working capital (inaudible). The second question is, can talk about price increase recently announced by the pulp producers, both in softwood and hardwood? Have you seen these price increases peaking for October and November?

Bloomberg Transcript

FINAL

A - Unidentified Company Representative

Well to add to your question, how we see working capital, if we can postpone payment in the beginning of 2014, we will obviously have a higher consumption of working capital, because of the payment of suppliers that are being postponed.

As for the working capital of the Company, with the startup of Maranhao, we are going to have the same proportions that the Company has today. Just to add to that previous question.

And this is Alessandra now. As for your question about prices, well, we made an announcement on October the 1st, and several softwood suppliers were with us and also there were announcements in hardwood. It's so early to tell you how this is going to affect the market in the coming months.

What I can say is that we have a very positive perception about the future. And that somehow reflected our prices and the FOREX [ph] rates, the FOREX [ph] prices calculated and cemented, that's already had an increase of \$3.623 in -- last Friday -- Friday last week.

So we see that there is a positive future. As for softwood, especially eucalyptus, we don't think that the increase is going to be implemented in one time. I think it's going to be a gradual increase.

(Inaudible) I don't know if we could answer your questions. Could you hear me? I think that the sound is not perfect.

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

Yes, I can hear you. Thank you very much. Just last question, can you corroborate the volume of (inaudible) for next year in Maranhao?

A - Ernesto Pousada {BIO 15951890 <GO>}

Hello?

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

Yes, hello. I could hear you well. Just I have a follow-up question on the Maranhao volumes for next year, could you mention the number again, please?

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay. This is Ernesto Pousada. The numbers for Maranhao is [one million one-hundred-fifty] tons.

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

All right. Thank you very much.

Bloomberg Transcript

Operator

John Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

Thank you for taking my question. (Inaudible) I just wanted to ask you about your expectations for leverage with delaying the CapEx a little bit into next year. Do you think that we're currently at peak leverage? Or do you think it will continue to increase over the next several quarters?

Then secondly, I wanted to ask you again on cash costs, how quickly do you think Maranhao will be able to offset some of the price pressures that we're seeing in Mercury? Is this something that we probably shouldn't expect consolidated unit cash costs to start decreasing until maybe Fourth Quarter next year, once Maranhao is fully ramped up? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you for the question. This is Walter. Actually, starting by your second question, the cash cost is a cost which will be positively affected next year with Maranhao, not right off the bat because there's a natural rampup of the process, which will occur after December, and during the first and second half of the year. But after Maranhao is stable, it will have a positive contribution to decreased cash costs for pulp.

As to Mercury, wood costs will indeed be higher in the Fourth Quarter this year vis-a-vis last year. And also, in 2014, vis-a-vis 2013 for the reasons that we have already described. As to the leverage -- this was your first question. Next year, we are going to start the deleveraging process. We're going to have Maranhao start up in December.

This will generate a positive EBITDA -- not in the first month, of course, because there is a rampup, and then you have high costs. But then we expect a very positive EBITDA in Maranhao leading to a general EBITDA increase in the Company, which will lead to its deleveraging.

So Maranhao CapEx will no longer exist, and also EBITDA will be ever-growing with the sales of the tons from Maranhao. So next year, we should see a drop in the leveraging of the Company. We still don't have a figure defined. And when we do, we're not going to give a guidance on that.

Q - Jon Brandt {BIO 5506998 <GO>}

Thank you.

Operator

Juan Tavaréz, Citigroup.

FINAL

Bloomberg Transcript

FINAL

Q - Juan Tavarez {BIO 15083199 <GO>}

My first question is regarding wood costs. I know that prices compared to poly have been increasing. And you also mentioned the radius to your forestry has also been increasing. Could you help us understand the dynamics of both of those? Understanding how much has third-party wood increased in terms of pricing? And what is your radius today in Mercury versus the beginning of the year?

A - Unidentified Company Representative

Suzano does not provide specific figures in terms of the distance in wood transportation. We can only say that the distance has increased in this quarter and it should go on increasing in the next ones.

The good news is that in midterm, our forests are going to recover and the distance will drop again. We're increasing the cultivated area in these places, and the increase of this cultivated area should lead to figures going back to normal, and the average radius would fall to normal again.

As we have already said, as of 2015, mid-2015 but especially 2016, we should have the wood issue in Mercury back to normal. As we had already said, this will have an impact in our cash costs.

Q - Juan Tavarez {BIO 15083199 <GO>}

Okay. Thanks. And if you could give us some visibility on the investment some projects or productivity gains, how much CapEx is being allocated to this for this year? And is there any also that has been delayed into next year?

A - Unidentified Company Representative

For this year, we have a CapEx of BRL150 million -- BRL148 million to be more accurate, as we had already said. And we should have a volume for next year.

We still don't have the exact figure but we're going to give it to the market when we have the final figure. But more important than the figures, what's important here is the concept. The concept is that we're going to go on, move on, trying to gain structural gains in costs.

As the woodcutter in Suzano and the biomass in Mercury, we are going to invest through retrofitting in structuring projects, and also in small projects to remove the bottlenecks of plants. We're going to go on involving our operating costs. So we want structuring costs to be better, together with the savings in cost. This will lead to more competitive costs along with time.

Q - Juan Tavarez {BIO 15083199 <GO>}

Okay. Thank you.

Operator

Bloomberg Transcript

Philippe Ico [ph], Citigroup.

Q - Unidentified Participant

Thank you for my question. This is just a follow-up in terms of the working capital. You said there will be -- or there was a significant increase. You have already explained, but I would like to understand how much to expect that this should reduce or increase in the next year, due to Maranhao startup and to a higher working capital? And regarding Maranhao volume, you talked about 1.1 million [ph], how much will be for safety inventories and how much will be available for sale?

A - Ernesto Pousada {BIO 15951890 <GO>}

This is Ernesto Pousada. So answering your second question first, we estimate 100,000 tons for inventory along the chain in the first year for Maranhao.

A - Alberto Monteiro {BIO 1527328 <GO>}

This is Alberto Monteiro. In terms of the working capital, it's important to highlight that a large amount of this has to do with what we had already mentioned -- managing working capital to pay suppliers to the Maranhao Project. Naturally then, the tendency is to have a reduction in this volume.

In the previous question, I made a comment regarding the startup in production and sales of pulp. This, naturally, will require working capital for Accounts Receivables. So it is a one-off thing, and I think after that, we're going to see reduction.

Q - Unidentified Participant

If you allow me another question in terms of paper demand for 2014, of course, we're going to have elections and the World Cup. Do you have any idea -- do you have any projections in terms of how much it will increase? I guess, kind of any of those projections are a little conservative, aren't they?

A - Alberto Monteiro {BIO 1527328 <GO>}

Unfortunately, we don't have this correlation available. I'll have to get back to you on that one.

Q - Unidentified Participant

Yes. But the idea is that's going to be more than one time, right? Historically, it's been one time, yes?

A - Alberto Monteiro {BIO 1527328 <GO>}

It's usually one time, except for inventory adjustments along the chain. I would say that due to the Cup and the elections, especially in coated paper, we're going to see an increase.

FINAL

Bloomberg Transcript

Q - Unidentified Participant

Thank you.

Operator

Vincenzo Paternostro [ph], Credit Suisse.

Q - Unidentified Participant

I have two questions. The first one, going back to Accounts Receivable and the increase in Accounts Receivable of BRL280 million seems quite a bit to me. And Alberta said that this is in part explained by sales being concentrated in September.

Could you please elaborate on that, and whether there is something to do with a strategy in terms of papers sales? Something you referred to a couple of months ago, you mentioned that you might want to change your policy regarding paper sales. I wondered if this has anything to do with this strategy?

And the second question to Carlos Anibal, did you manage to increase the cut size prices? And what expectations or what's the percentage? You announced 13% for cardboard. Do you believe that this will be doable -- 13% in November?

A - Walter Schalka {BIO 2099929 <GO>}

Hi, this is Walter Schalka. In answer to your first question, we haven't had any changes in policy regarding deadlines to our clients in pulp or in paper. As to the increase in volume in credit receivables, this has to do with an increase in prices that we practiced this quarter. We do have a concentration of sales in September, as Alberto had mentioned.

There has been no change in the policy, but there is an effort to develop things in the area of working capital. Next year, we're going to have an increase in working capital vis-a-vis what we have now. This is only natural and has to do with the Maranhao operation, because we're going to have more Accounts Receivable. We're going to have inventories of 100,000 tons in the system, thus leading to an increase in working capital.

But all of this is contemplated in the project, in the project constants. Therefore, there is nothing out of the normal happening here. The administration is working to mitigate these increases, which are natural increases, with other actions regarding suppliers, inventories and so on.

A - Unidentified Company Representative

Vincenzo, this is Scott. In terms of increase in cut size, it was deployed according to our expectations. But bear in mind the specificities that we have in terms of product and channels.

Regarding cardboard, we announced 12.7 [ph], we're going to start in November with the expectation of performing this in the First Quarter of next year. In terms of the

FINAL

Bloomberg Transcript

percentages, we'd rather not say anything at this moment because we are still negotiating some final details regarding this deployment. Thank you very much.

Operator

Hernando Antonis, Brazil Parel [ph].

Q - Unidentified Participant

Well thank you very much for your follow-up. I have a quick question to Walter. Since the beginning, Walter, you have been trying to be a bit more disciplined in the industry in terms of capacity.

I would like to know how you, after almost a year, ahead of Suzano, has faced the reality compared to what you expected when you took over? If you could share your thoughts with us, I think this is very interesting to hear.

A - Walter Schalka {BIO 2099929 <GO>}

Well Hernando, thank you for your question. We have two key issues for the Company. The first is to address the opportunities that we have and reap the fruits of what was planted throughout the year, and try to think of evolution of things that's our being taken this year. The Company has been gradually showing better results.

We had very interesting results in the First Quarter, then better in the second with 34%, and now 52% over the Third Quarter of last year, which shows that the Company is doing its homework to evolve its operations and work with operating gains. As per the industry, as you mentioned, this is my personal perception; this is not the Company perception, this is a personal opinion of mine, that the industry is so very aggressively trying to seek volume.

And this can be clearly seen that in a quarter of good results, both ours and to our competitors, the return on capital is still unsuitable. We are very much aware of that. On the one hand, we have evolution, but we know that we have unsuitable returns to shareholders, and we have to continue working on that. My personal perception is that consolidation should be a natural results for things to happen.

And Suzano is not involved in any project in consolidation right now, because it has homework to do. But in my perception, this should be the natural path of the industry instead of having substantial increases of capacities, as we are watching right now.

Operator

Marsella Diaz [ph], Goldman Sachs.

Q - Unidentified Participant

FINAL

Bloomberg Transcript

Thank you for the opportunity for the follow-up. Walter, in terms of long-term, you said that the mix should normalize in 2016. In terms of the basis of cost of wood from third parties today, what do you expect to be the reduction in costs and equity after the normalization occurs, when you have the mix normalized between third parties and your own production? What do you expect these drop in prices to be?

A - Unidentified Company Representative

We do have these figures, Marsella, but we don't want to give guidance to the market because this would imply to say what our cash costs results would be further.

But there are two issues which must be understood in total. The first one is the buying wood from third parties. The cost of wood from third parties is always higher than our own, but it's marginally higher. It's just a little bit higher, it's not significant, the difference.

Now, the average distance is the most critical aspect for the process. And we are buying wood from third parties, if you're the fossil to the plant, but we're also find buying from some third parties which are further from Mercury. That might have an impact in the cash costs for the next quarter. So internally we're trying to separate how much means wood and how much means operating efficiency.

As to operating efficiency, I'm glad to say that it's been recurrently better quarter after quarter. This has to do with the work of the plants, the industrial plants doing this very positive job, leading to gains every quarter. Now, in Mercury, the wood that we're buying is far and it's going to be further as the months go by. And next year, also for the entire year.

Q - Unidentified Participant

Thank you.

Operator

Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Well thanks for the follow-up. I have just a quick question about the fluff production attempt that you mentioned during the Third Quarter. If you have any news on the project, any commercial agreement? It seems that it is -- it's still in a very premature phase. But I would like to know when you're going to have more details in terms of volumes, where the pulp is going to be produced, things like that.

A - Walter Schalka {BIO 2099929 <GO>}

Well this is Walter, Lucas, thanks for your questions. Just for an overall context on fluff pulp, this is a project that has been with the Company for some time now. The project has been yielding positive results in the fact that we have been conducting, we have been producing samples for several players in the women's pads market and diapers.

FINAL

Bloomberg Transcript

FINAL

And so we have already received positive feedback from the tests that we have performed about the percentage of exchange of hardwoods to softwoods. These numbers in women's pads are already about 70% of potential for the replacement, and in diapers, approximately 50%. So this is a process that is going to continue in development. We have already tested it in some of our main consumer players.

We are increasing the number of players where we are testing the idea. And the next page in the process is that when one of these players gives us a green light -- in addition to the commercial tests that was already approved -- gives us a green light for a purchase in the medium and long-term, we'll have to have a retrofit in one of our plants -- we don't know which one yet -- for production in commercial scale of the pulp.

So the development, technological development, has been completed. Industrial development as well. And now we are in our commercial development, and we are approving the product with our end consumers. And based on a mid to long-term agreement with one of those clients, we are going to have a retrofit in our plants to be able to produce the pulp.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Okay. And what is your expectation in terms of timing? Is it anything for 2015? After that?

A - Unidentified Company Representative

Well Lucas, it does not depend much on us. We have completed the industrial technological parts but we soon depend on the response of our clients. What I can tell you in a positive note is that clients that tested it are interested in the product, which does structurally softwoods costs lower than hardwoods. And therefore, they would like us to replace short with long. But that will depend on the commercial approval. We still cannot tell you when this is going to happen -- long or short; any.

Operator

This now bring to an end the Q&A session. And I will give the floor to the Company for the final considerations

A - Walter Schalka {BIO 2099929 <GO>}

Let me thank everybody for attending the call, for the questions regarding the call for the Third Quarter. Let me say again reiterate that Suzano is very satisfied with the results, which have been improving quarter after quarter, due to the work that has been conducted with a lot of determination and a lot of energy.

And we do acknowledge that there is still a lot of room for improvement. We have a very challenging quarter ahead of us with the startup, we're planning a very relevant project for us, which covers different areas, not only the industrial area but also in logistics and in the commercial areas.

So we have a huge challenge ahead of us. But being very helpful with a lot of focus and with lots of actions, the Company will go on becoming ever greater and developing. And we also focus on our actions to have recurring positive results. Regarding the internal aspects, let me tell you about the positive satisfaction.

The positive response of the Company regarding the positive inputs and the evolution, and the results are for everybody to see. Thank you very much, and greetings; a wonderful Christmas and a very happy New Year.

Operator

Suzano Papel e Celulose conference call is now closed. We thank you very much for joining us and have a good day.

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

FINAL

Bloomberg Transcript