

Q2 2014 Earnings Call

Company Participants

- Carlos Aníbal Fernandes de Almeida, Executive Officer-Paper Business Unit
- Ernesto Peres Pousada, Chief Operating Officer
- Marcelo Feriozzi Bacci, Chief Financial Officer and IR Director
- Walter Schalka, Chief Executive Officer

Other Participants

- Alan Glezer, Analyst
- Carlos F. De Alba, Analyst
- Jonathan L. Brandt, Analyst
- Lucas Ferreira, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpção, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Suzano Papel e Celulose Conference Call to discuss the second quarter of 2014 results. All participants will be in listen-only mode during the presentation to be made by Mr. Walter Schalka, CEO of the company. After that, we'll have a question-and-answer session when further instructions will be given. I would like to remind you that each participant will be allowed two questions only.

Certain statements in this presentation may constitute projections or forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the expectations expressed not to materialize or the actual results to differ materially from the expected results.

These risks include changes in future demand for the company's products, changes in factors that affect the domestic and international product prices, changes in cost structures, changes in the seasonality of markets, pricing actions by competitors, foreign currency fluctuations and changes in the political, economic environment in Brazil, in emerging markets or internationally.

Now, I would like to turn the floor to Mr. Walter who will start the presentation. Thank you.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It is a pleasure to be with you to disclose the results for Suzano in the second quarter of 2014. Here with us, we have all officers of the company, Ernesto Pousada, Marcelo Bacci, Carlos Aníbal, Carlos Griner and Alexandre Chueri. And also our team from RI, Tiago Fernandes and the whole team.

I would like to start saying that we had an important growth of EBITDA in the second quarter of this year vis-à-vis the same quarter of last year of 28%, that was due to the starting of operation of Imperatriz that increased substantially our volume.

And that has represented an EBITDA of R\$521 million, with an increase of 7% vis-à-vis the prior quarter and 28% vis-à-vis the second quarter of 2013. Nevertheless, this growth is below our expectation. And we have four reasons to explain that.

First, something that is out of our control, it is the FX appreciation. It has dropped 6% vis-à-vis the first quarter of 2014. And with that currency appreciation, we had a drop in our revenues.

The second is the reduction in the pulp price for us during this period of time has decreased and comparatively to last year also, there was an important decrease. We had another problem, because we have distinct geographic regions.

We ended up having an even steeper drop than the average of the market. We made a decision, and right now, we are informing the market that the second quarter of 2014 we had a reduction of production in Line 1 of Mucuri Unit of 30,000 tons and the objective there is to improve the average profitability of our operations in order to have less pressure on the market.

The energy cost also represented an important impact in our operation. For those of you who do not know, we purchase energy in Suzano and we sell energy in our unit of Imperatriz. The combination of two factors, price and volume, impacted our results in the second quarter.

In terms of price, the prices of the submarket in the north and the submarket in the southeast detached from each other in the period of time, so we had an additional value in terms of energy.

And then the second impact is that the ramp-up of our operations in Imperatriz is increasing our generation and our energy export, but only in June, we're able to balance operations between production or better energy export and production in Maranhão and acquisition of energy in Suzano, so in April and May, we did have negative effect in terms of volume. So that combination of volume and price have impacted our results.

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To mitigate that in the second half of the year, we (05:29) energy in Imperatriz and we acquired energy in Suzano almost at the same price and 70% of our volume for the second half of the year is already contracted. So we are just exposing 30% to this matter of price difference. And additionally, we are increasing the export of energy in Maranhão, while production increases.

We already have a surplus there in July. So we have already addressed the energy issues. And in July, also, we started exporting energy in Mucuri as well. That's the project we had already defined to connect Mucuri to the grid.

Another important highlight here is the reduction of the net debt over adjusted EBITDA. We closed at 4.5 times in June. The figure was from 5.2 times in December, 4.8 times in the first quarter and now 4.5 times. Obviously, this is impacted by the FX in June, which was too many and we will have to follow that habit closely on each quarter. And we are working on cash generation on the one side and the development of EBITDA on the other side and the reduction of the net debt of the company as well.

The net income for the second quarter of 2014 was of R\$97 million and it has been impacted especially by non-recurring items in the financial results. We had another liability management round and we prepaid some debt that had high rates.

I was saying that the net income of the second quarter was of R\$97 million, impacted by non-recurring items in financial results. We prepaid a long-term debt with high interest rates and that was the liability management work that we have been doing that ended up bringing higher expenses.

In the financial income now, we only have R\$30 million that are recurring. Regarding financial expenses and Maranhão expenses that now will no longer be capitalized but will be included in the financial income.

About pulp, we had a ramp-up from Imperatriz. According to our expectations, there was an increase in production in the second quarter of 48%. Also, sales volume with an increase of 59% vis-à-vis the same quarter of last year and despite of that reduction that I mentioned of 30,000 tons in Line 1 in Mucuri. And also, we had a pulp price deterioration in reais of 10% vis-à-vis the first quarter due to the drop in the pulp price. And also to FX variation, we still keep our guidance to the market of production between 1 million tons and 1.1 million tons of pulp and Maranhão sales of 100,000 tons below that, which is inventory building.

Paper, we had a good performance. We had an increase in the market price in almost all paper lines. The volume of sales in the second quarter of this year had an increase of 2% vis-à-vis the same quarter of last year. And we also had an increase of the average net price in the domestic market of 7.5%, plus 1.6% vis-à-vis the first quarter of this year. I believe that paper still has a very positive performance.

Now, turning to the main information of operating performance, we had an increase of net revenue due to that higher sales volume, reaching R\$1.7 billion of net revenue in the

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second quarter of this year. And the cash cost was a positive one. We have a cash cost of R\$565 per ton that nominally is very similar to the cash cost of the same quarter of last year, which was R\$568 per ton that was leveraged positively by the energy sale in Maranhão and lower cost of inputs and cash cost of Maranhão as well that is in a very positive figure, a dilution of fixed cost, because Maranhão is growing again. And on the other hand, as you can see in the presentation, we have an increase of the wood cost, especially in Mucuri, due to higher third-party wood mix and average distance.

Now, for our operating performance on the next slide, we had a marginal increase on COGS in this quarter and the last 12 months that is due, as we already said, to logistics costs that were higher. And we had those in Maranhão. And let me remind you that Maranhão started up the plants in December 30 and only March 11, the railway was started.

So we had to work with contingencies during certain periods of time with road transportation instead of having 100% of railway transportation. And you also had to use two ports and Itaqui did have a ramp-up process as well. So part of that had to go through Vila do Conde. All of those matters are being addressed a long time, but they did have an impact in our results in the quarter, which also has impacted COGS and the site of energy issues.

The good news on sales expenses and administrative expenses, the figures are dropping. In the last 12 months, we have 4.3% in sales expenses and 6.1% in administrative expenses, totaling 10.4% in these two. But we have reached below 10% already in this quarter. So the work that we've been doing in terms of matrix budgeting is very important, and little by little, it is being very fruitful. And we hope that we still have good results from that work in the next quarters.

For the adjusted EBITDA in the last 12 months, it is increasing, and in the last 12 months, we had R\$2.057 billion for our results.

I would like to mention some of the structural competitiveness items of the company. First, we have Energy Efficiency Program. All our main plants for Suzano, Mucuri and Imperatriz, they do have a program to reduce import and/or to increase the export of energy. We understand that energy topics can impact our results in the medium and long-term and we are working on all the plants, improving investments and taking operating actions to develop that in all plants.

We also have concluded Mucuri's connection to the grid that has been done in July and we are already providing energy in Mucuri. This was a project we had started last year. That volume will be a growing one a long time, quarter-on-quarter, and will bring additional benefits to the company. And we also have approved, in Suzano Unit, a project that lines parallelism between generators to be able to reduce the total consumption of energy there. This project is going to be operational from January of next year on.

In this quarter also, we could highlight the conclusion of Vale Florestar in this last week. This operation has been approved by the anti-trust agency and we have started and paid

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already the first installment on August 8. And from now on, we are operating on leased areas from Vale Florestar and starting the harvesting process.

Also, another highlight is the 3rd Liability Management. This provides a lot of structural competitiveness to the company. And we have done several operations to roll over debt to reduce interest rates in our loans and this is a continuous program. And we are taking that level of the company to a lower level. Therefore, we are able to improve the figures of the company and that is fundamental to improve the results for our shareholders.

Finally, but still as important, I'd like to highlight the fact that we have concluded in the beginning of the third quarter 100% of our operations now are under a single system. We had a set of different systems. They were legacy systems and now 100% of the company is operating under SAP version 6.0. That standardization of the system, for us, is an important upgrade.

We went through that migration process with no turbulences, and therefore, the company should be able to launch a new project now, which is a project to simplify and to standardize processes, and this should bring additional benefits to the company a long time in terms of costs and expenses. So we are very happy about it and we have gone through that moment, that transition and this makes us very happy as well.

Well, that was the presentation we had to bring to you. Now, we are available to answer your questions. Thank you.

Q&A

Operator

Ladies and gentlemen, we will now start the Q&A session. Our first question comes from Mr. Lucas Ferreira, Banco J.P. Morgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. I have two questions about the market, probably, to Carlos Aníbal. First, the paper market, Carlos, it has been shown very resilient and we see that in your price performance in the quarter. My question is can you provide us a quick overview for the second half of the year and comment, especially about price that some minor competitors have announced? We know that your price for paperboard has increased, but do you have already anything contracted? What is the potential ahead?

And a technical question. I don't know if that's possible, but you know that the market is changing. Do you have any changes in the machines forecasted? Is it something that is more profitable under the technical point of view?

And finally, the pulp market another figure that draws my attention. Is there more sales to Asia in this quarter? But do you see a possible reversion of that and more sales to Europe

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in the second half of the year, because you know that's seasonally best when Europe starts buying a little bit more? Could that help in the average price? Thank you.

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

Good morning, Lucas, and good morning, everyone. Let's start by paper. We do not have data yet regarding July. So we do not have an overview of the complete demand. But we did realize that we have a more favorable business environment, June. What's complicated due to lower number of working days, July was better. Our volumes for July was slighter above of what we had in July of 2013.

As usually happens, we do have an expectation that it's good for the second half of the year. In terms of demand, we should have a stronger half of the year. Always in an election year, we have a higher demand by coated paper and uncoated paper as well.

We have an improvement in the demand of the paperboard this year. In theory, this is the stronger year for the federal government because of the direct programs. We have expectation of good volumes. And about the program, we only have low visibility.

Then so if you remember, this program last year had a delay. This year is even more delayed than last year and the question that we have is that if most of sales is not going to happen in the next 45 days or if we are going to have a higher volume for the beginning of October.

So in general, I would say that the landscape is very positive for the paper market in the second half of the year due to seasonality, due to elections and we see the year as a whole with the growth, as we always say, very close to the GDP growth. Once again, we should have good days for the uncoated paper, offset paper and also for coated papers.

About the question in terms of increase of the paperboard price. In the first six months of this year, in the domestic market, we had an increase of 9%. If you consider domestic market plus exports in the same period, the increased growth was up 14%.

We are analyzing the market. We are trying to understand better what is the dynamics or the demand for the next months. We do not have a definite opinion yet. But if we understand that the market fundamental will support price increases, we will do it. But I say it again, we do not have a clear position about that matter.

About pulp, for July, we had stable prices. And I would like to stress that it is at a level that we recognize that is not remunerating adequately the capital invested by the industry. I am not going to give you any price guidance, but I can tell you how we see the market nowadays. On the supply side, obviously, there were delays on installed capacities in Uruguay and China, which favored a better balancing between supply and demand. We understand that effectively that additional volume is going to be in the market only within two months or three months and that helps in that supply-demand balance.

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Along the last month, we had important downtimes especially in the Asians and we believe that in the first half of the year, at least 700,000 tons have been withdrawn from the market, which also decreases that and balance between supply and demand. We have programmed downtimes in the second half of the year, over 100,000 tons just here in Latin America. This is also another contributing factor.

Producers of high cash cost might stop or we could have temporary stoppages. And just yesterday, there was an announcement from (22:02) an American producer that is announcing there's stoppage for an undetermined period of time here, where we're going to have 200,000 tons of hardwood in the United States. And we've seen an important migration from hardwood to softwood and that is going - we see here a difference of \$200 in Europe. Just to give an example, we see that's happening in Chile. We also see that movement in the American.

On the demand side, we have an expectation according to the market consulting services of a growth of installed capacity of 1.7 million just this year, a good part of that in tissue. In the first half of the year, the demand in China has increased 5% vis-à-vis the whole market that has increased at 0.5%. The eucalyptus demand has increased 22%. In China, the spread between the hardwood and softwood and still favoring the replacements and other important datas that in Asia, tissue has increased from January to May which is the data that we have available now 5% and Asia is also having a growth of around 2.5% year-to-date in printing and writing paper.

On the inventories side, we understand the inventory is low on the hands of European producers, also low European ports. Inventories, in general, are balanced. We had a drop in June in the softwood, which was very balanced, at stable prices, with the speculations of price increases.

On the side of the hardwood, there was an important reduction of six days in June when compared to May. So there's an expectation as it usually happens that inventories will increase in the next month. It is only natural that this happens. If we consider the historic average from the last four years, five years between June and August, we should have four days, five days of higher inventories.

And another topic that is very important, about the balancing point of inventories for hardwood, we did an analysis and we understand that 1.3 million tons, 1.5 million tons of additional capacity in Latin America, the balance point of inventories for hardwood to be increased in two days to three days. So that is a scenario that we believe is possible, to have an inventory in month of July and August as it usually happens.

So Lucas, this is our vision of the market currently.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you very much.

Operator

Excuse me. Our next question comes from Mr. Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good morning, everyone. Thank you for this opportunity. My first question is about the decision of decreasing the production in Mucuri. Can you give us more details about that? Is the 30,000 tons that you mentioned have already impacted this quarter or we are going to see that impacting the future quarters? And can you tell us about the rationale of that how much of that is the message in terms of discipline or is that a production because you would have a negative margin to the exchange rate or the price of wood?

My second question is about Imperatriz and Maranhão. You have shown a consolidated cash cost that is very good and I believe it's already all accounted for. And I know that you do not provide figure guidance, but can you help me understand how close or far you are or Imperatriz is from your optimum price? Maybe if you can tell us what is the average cost at the end of the quarter, how much better was that along the average of the whole quarter? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Renato. This is Walter. Thank you for your question. About the first question, I will address and Ernesto should address the second question. In terms of the production decision of Mucuri, that has already impacted our results, those 30,000 tons. It's impacted the results of the second quarter. It does have a positive marginal contribution, but the company is managing the company not by the average, but by the event.

And specific events of those 30,000 tons, considering the average distance of wood that we are operating would bring a low marginal contribution to the whole set of Suzano. And then we chose to show the market that we are not happy about the level price that is not remunerating adequately the capital, and then we are not going to operate at maximum capacity going for a maximum volume. But we are going to go for the profitability performance of the company in the short, medium and long term.

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

Renato, good morning. This is Ernesto Pousada. About Imperatriz's cash cost, we feel we have a development process there. I usually say that this is a development process that should be happening along the next quarters. It is very difficult to say what are the variables because there are so many, and it's hard to tell you what is the perspective to have a reduction in the next quarters because we have impacts of several areas.

But we still are, I would say, at halfway of everything that we have to do in terms of reductions of chemical consumption especially. We have room for that. And we'll still see those impacts along 2015. 2014, we'll continue developing that consumption, but in 2015, we'll see consequences of that. We are going very well in that unit. We have good levels of production as we have planned. And in terms of cost, we have a good development. That curve should remain growing up to 2015, I believe.

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Operator

Excuse me. Our next question comes from Mr. Marcos Assumpção, Itaú.

Q - Marcos Assumpção

Good morning, everyone. Congratulations on the results, especially in costs. I would like to check an information. I remember that it was not a guidance, but it was the target of the company to reach 10% of SG&A as a percentage of revenue.

You have already reached that, even below that in this quarter. Looking ahead, with the increase of production of Maranhão and cost dilution of G&A probably, what level can we foresee of that percentage of SG&A from now on?

And my second question is, if Ernesto can tell us a little bit more, comparing cash cost of Maranhão with cash cost of Mucuri, where is it higher, where is it lower? And Maranhão still have room for improvement?

And within the cash cost of Maranhão, can you tell us about energy sale in the second half of the year considering production is still increasing? How does that work? How does it work, energy sales? Can you improve that, if we look ahead?

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

Marcos, good morning. This is Marcelo. About G&A, we really were able for the first time to be below 10%. That percentage is still dropping and will drop, because volumes will increase in the next quarters. We have been strongly working in our matrix budget to be able to keep those expenses under control. This is a continuous effort. We do believe that we will grow those expenses below inflation rate. The percentage relating to the revenue is going to depend upon one side the increase of volume and on the other hand, the price behavior. But the trend is to have a continuity of the drop in that ratio.

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

Marcos, this is Ernesto. Good morning. About cash cost, what we see is that, in the general sum and I'm not saying specifically from either one side or the other, but in the general sum, we see, on an improvement perspective, of course, the wood cost has been a strong impact in the cash cost from Mucuri because of the distance and Maranhão still has improvement perspective. So we see that in the average, of course, and then we would have impact on the energy price, because it's very volatile, but in the average, we do see an improvement perspective of our cash cost in all the units.

The energy production, the question also was about what we can expect in terms of energy production. And for the next month, what we see in terms of energy production is that there is a development in terms of energy production in Maranhão. What happened is that the energy production is not something linear. My production is going to stabilize in higher levels and then we have an exponential growth of our energy generation, but on the consumption side, it's already stable, no matter if I am at my full capacity or not. That

consumption increases very little and the energy generation, when we reach new levels of production that has been exponential for the growth.

So for the next quarter, we should see from Maranhão energy production that is even higher.

Q - Marcos Assumpção

Pousada, please another follow-up. A comparison, cash cost of Maranhão in the second quarter, net energy sales has been lower than Mucuri?

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

Yes. It has. It was lower than Mucuri net of energy sales.

Q - Marcos Assumpção

Perfect. Thank you very much.

Operator

Excuse me. Our next question is from Mr. Vincenzo Paternostro from Credit Suisse.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

Good morning, everyone. I have two questions. First about pulp price. That's to Carlos Aníbal. I would like to know if you agree with RISI's perspective that is they say that the price is at the bottom and then we are going to have a price recovery in the next 12 months. More specifically, I would like you to comment on the outlook of the short-term, because that doesn't seem to be very encouraging. As you've said it yourself, we have some plants in Asia that were on downtime for maintenance and they're coming back. We have an additional volume from Montes del Plata coming to the market in the next months. So the outlook, in my opinion, does not seem that encouraging for price, but RISI is very decisive when they said that the price should recover in the short-term. Can you elaborate on that, please?

And my second question is about cost. In this quarter, you were able to offset major parts of the wood price increase selling energy, in Maranhão, of course. I would like to understand if this trend is an ongoing one. You still will have more generation of energy in Maranhão and also price increase of wood in Mucuri in a way that one is going to offset the other or eventually, the energy sales will be higher than the increase in the wood price? Can you tell us what to weight for consolidated cost for the next quarter? Thank you.

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

Vicenzo, very good morning. This is Carlos. I rather not mention the comments about RISI because I do not know the details and what they have considered to make that kind of forecast.

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What you mentioned about additional capacities coming into the market, the comeback of the Asians, we understand that the additional capacity coming from Montes del Plata will only be in the market within two months to three months. And the (35:24), a factory of 500,000 tons approximately, only 200,000 tons are going to go to the market. And we understand that this is going to be in the market as well also within two months to three months.

We have the maintenance downtime along the third quarter in Latin America. Yesterday, once again, we knew about the closing of capacity of 2,000 tons and the current price levels, we know that there are a lot of producers running very close or even below the cash cost on the demand side, we see the increase in China and also, we see new machines coming in especially in China and we have a spread between the hardwood and softwood that, of course, foster a higher use of the eucalyptus.

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

Vicenzo, good morning. This is Ernesto Pousada. It is very difficult to forecast if what I'm going to have of energy increase, if that is going to offset the increase of the average radius of Mucuri and the Mucuri wood price. But what I can tell you is that we are going to increase sales of energy in Maranhão. Obviously, that is subject to price variations of energy.

And our average distance in Mucuri, the distance that we are bringing in, we are starting to see stability and we tend to have not a such a significant increment of that average distance in Mucuri. But that is going to depend on the variable, especially of energy price. We do not control that and therefore, we cannot know how much one is going to offset the other.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Thank you very much.

Operator

Excuse me. Our next question is from Mr. Carlos De Alba, Morgan Stanley.

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

Yeah. Thank you very much. I have two questions. The first one is how much more do you think you can drop SG&A as a percentage of revenues? Is there internal guidance or ambition or aspiration that you can share with us? You already mentioned that is going to continue to drop, but if you can give us a little bit of target, that'll be very useful.

Second is regarding the CapEx for the year. It has been running a little bit below where we expected. I just like to – you can reiterate or give us forecast (37:57) and for next year.

And then finally, with the pressures on wood cost that we're seeing in Mucuri, could you tell us if you believe you can still manage to see cost increases in pulp cash cost lower

than inflation going forward? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Carlos, good morning, this is Walter. Thank you for your questions. First question is about the SG&A. I believe we have to divide that into the first. It's about – asked about sales, where we have an increase of total wood expenses, because part of logistics expense is that we have are under that account, so there, when we increase the volume, we go to the variable part of the cost. Also there, we increased the total value in the side of being working to operate wood freights that are below than the ones that we had.

So you can see by the figures that we are growing and that this commercial expense is below the volume, so that is a natural efficiency gain that we have in the system. And that is going to be there along the time.

And in terms of the G&A, we intend to have a nominal growth below the inflation.

And then on the other side, you can see that the volume that is going to gradually be increasing when Maranhão grows. And the price that you don't know what it is, you can come up to an equation of what could be your G&A for the future. We do not provide guidance, but this is the philosophy that we apply to the different areas.

About CapEx, we still have our CapEx of R\$1.75 billion for this year. We have several events, still Maranhão operations to close or better payments of deliverables than our suppliers have to do by meeting specific targets. And as soon as we have that, we will have agreed disbursements with our suppliers. So we still keep R\$1.75 billion.

Finally, about cash cost. The cash cost in Mucuri is not a single one. We have two production lines, Line 2 and Line 1. Line 2 is a line that has a cash cost below Line 1 and that's why we have reduced the production volume in Line 1 in the second quarter of this year.

And we will continue doing cost analysis to reduce our structural cost in each one of the plans. Remember, from next year on, we are going to be using a new digester in our Suzano operations. After the downtime, that should happen in May of next year, that's going to reduce our cost in Suzano. So that is an implication on reduction of structural cost and that's happening in all plants simultaneously.

We are increasing our capacity to reduce external costs. We are working on energetic efficiency on the wood side a long time if we do not have a result in the short-term, but we will do have result in the average and long-term, and here we are looking for the reduction of the average distance.

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

Thank you.

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Operator

Our next question is from Mr. Jon Brandt, HSBC.

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

Hi. Good morning. Thank you for taking my question. I'm just hoping you can provide some clarity on the 30,000 tons at Mucuri that you're taking offline. Are you taking that out permanently or is that temporary and if we continue to see the pulp price fall, could you potentially take even more production offline there?

And also you mentioned in your press release that the Maranhão maintenance has been pushed off from third quarter of this year until first quarter of 2015. I'm hoping you can just tell us why that is and if what sort of impact we can expect?

And then lastly, I noticed or calculated that there was a pretty big jump in the price discounts that you offered shipments to Asia and I'm hoping you can explain the reason behind that. Thank you.

A - Operator

Thank you, Jon, for your questions. The first one is about the 30,000 tons. We are not going to do that permanently. We are following it up. Actually, we had a reduction of the line feed. It was not a freezing of the line, that is to generate lower volume, so we just reduced the speed. And we are going to follow up the marginal profitability of the tons produced in the company to see what our policy should be.

We are not going to provide guidance on that right now and that applies through the next quarters as well. We'll decide what we will do.

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

Jon, good morning. This is Ernesto Pousada. About that stoppage in Imperatriz, that was a technical decision. The performance of main pieces of equipment and largest equipment of the company are doing - or the plants are very good or doing very well. When we did not need to, we have that general stoppage right now. Therefore, we delayed it till the first quarter of next year. The volume of production remains in the same guidance that we have provided before, between 1 million tons and 1.1 million tons.

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

Jon, good morning. This is Carlos. About the discount question we had in the second quarter vis-à-vis the first quarter a loss of R\$30 in our net price. Part of the loss is related to the drop of reference prices, the list price, and an important part of that is related to an important change as well that we had in our geographic mix, that is higher sales for the Chinese market.

Let me take this opportunity to talk about China. The China demand has increased around 12% a year, in 2013, it already represented around 30% of the worldwide demand. And

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here we are talking about 15 million tons. Those 30% - seven years ago, we're not 14% even. So it is only natural that under that scenario, where a good part of new capacities of paper are in China, it is only natural that producers are placing new capacities in the market and they are going to increase their shipment to that region.

In six months, the Chinese demand has increased to 5%. As I said before. And the demand for eucalyptus has increased even more. So in the first quarter, we had, in the Chinese market, 37% of higher deliveries, differently from what we have done from 2010 to 2013. China's share was 33% to 36%.

Now, looking ahead for the next quarter, we will try to relocate the new capacity coming from Imperatriz. We were going to try to place in all main global markets and we might have even - up to the moment when we have stabilization of volumes, we might have specific variations in different regions during this period. Our objective is always to look for the best balance between a good geographic distribution and the maximization of our profitability. And we'll always be focused on the opportunities of each one of the regions in which we are present.

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

Thank you.

Operator

Your next question is from Marcelo Aguiar from Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Thank you very much for this opportunity. The question has to do with this mix. When you were planning Imperatriz and doing its construction, the management guidance was that of sales mix for Suzano was not going to change much. Regarding the regions, I would like to understand if that guidance is still valid.

And also on the same question, the number of companies give us the feedback that the discounts for less price in Asia and China are lower than discounts for American and European markets? Doing the math, if we apply this change in mix that you have in the second quarter vis-à-vis the first one, considering the less price that you virtually have increased, so I would like to understand is that increase already is involved the list price and is that due to the fact that you'll have to do higher sales efforts or the quality of the pulp is not there yet or it was something at a level that we would like?

And about Imperatriz, when do you believe that you have a production stability, so arriving in the third quarter, now in August, September, or is that something that's going to happen by the end of the year? Thank you.

A - Operator

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Good morning, Marcelo. Thank you for your questions. I would not like to go into details about discounts, because these are very sensitive pieces of information. What we have now is that our contracted volume, usually, we don't have major changes along the year and the discount levels changes happen, discussions happen. And so, no level of discounts happen.

When you were negotiating a new contract, what I can assure you is that any new capacity whether from a traditional plant or a someone new that is going to be allocated to regions where the demand is not growing like North America, like Europe, the placement of that volume, obviously, is going to happen at higher discounts, because if there are no capacities coming in and the demand is not increasing, so the capacity is going to provide discounts.

About China. What we have seen in the last four months to six months, China is migrating from a model in which it was operating with a list price minus discounts. And in the last month, especially Chinese and the relationship with Chinese has happened in a net-net price. And I can assure you that in China, we do not have any changes in our discount levels.

The same references apply in our contracts to come up to this net-net price. And those variations cannot be attributed to anything in terms of quality. We do not have any quality issue that could cause a movement of lower prices. So what we have is mix. In the non-contracted volume, we have a market condition where discounts are higher than the ones that we would have for contracted volumes.

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

Ernesto Pousada here. Just to complete with my comments. The volume of Imperatriz between July and August, we have already reached that capacity on a point of view - or daily capacity. We are trying to make that perennial. And that should happen now in August and along the third quarter.

What we see is very good. We are happy about it. We are meeting our initial targets for production. And now, we just have to look for that perennial effect of what has been already reached. Thank you.

Operator

Our next question is from Mr. Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, everyone. I have two questions. It's still about production reduction on the 30,000 tons in Mucuri. Can you quantify what is the net benefit that we could expect from that or at least the difference of margin of those 30,000 tons for the rest of the remaining tons?

And my second question is on cost. The cost of paper, I would say that there was a negative impact due to the energy price. What is the outlook ahead? Is there another factor, net of the energy price? Do you have anything else that is impacting the paper price and the wood cost in Mucuri, can we consider that was something that just happened in Mucuri for this quarter?

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Thiago. Thank you for your question. This is Walter. About the production reduction, I repeat what I had said before, the marginal contribution of those 30,000 tons we were no longer producing is positive. Therefore, we would not have a negative margin on contributions. But we do understand that there's something broader there, which is the profitability over applied capital.

What we would like to see is that the whole industry would have a profitability level significantly higher than what we have now for shareholders. We, in the market, usually say that we would not like to produce with a low level of profitability. Therefore, obviously, we have cut the worth on in terms of profitability which are the higher distance of wood with higher industrial cost production and higher logistics cost and lower price obviously. But even then, those would have positive marginal contributions.

This attitude is one that we are going to analyze on a monthly basis. We are already doing it and we are tracking our position on how the market situation is going to be so that we do not press the market even more in terms of profitability.

Second, what you said about the efficiency of paper machines. We do have a positive answer, because they are increasing efficiency, and the higher cost has only happened because of energy. There are no other reasons other than energy. For this half of the year, we had ahead of energy between Maranhão and Suzano at a little lower cost and that is going to provide 70% of volume and lower effect. And obviously, that depends on those 30% of the energy cost in the market. So in terms of industrial efficiency, that has a positive development. Energy offsets the industrial gain that we are having, but we are having a positive development there.

Finally, what is that about wood in Mucuri, we are reaching the average distance radius of the system. And we do not believe an increase should happen in this average radius for the next half of the year, so we're very close to reaching our running rate for wood cost there in Mucuri.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Alan Glezer from Bradesco BBI.

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Q - Alan Glezer {BIO 17508681 <GO>}

Good morning, everyone. My first question is about imported paper. We've seen that the share of imported paper in the printing and writing segment went from 20% in 2013, so it's 19% in the first quarter and now 18% in the second quarter. Do you expect that this trend to keep on happening along the year? And can you give us an update about the control of the entry of tax exempt paper in the Brazilian market?

And my second question is about FuturaGene. We know that there is going to be a public hearing now in September. Do you have any expectations regarding the approval of the GMO pulp? Those are my questions. Thank you.

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

Hi, Alan. Good morning. Thank you for your question. This is Carlos. Yes, we did have an important drop of importing, especially in the coated papers. Yes. And we can say that this drop happened due to actions taken in 2013, especially this is a mandatory aspect of the special packaging for tax exempt paper. We believe that those were very efficient measures taken by the federal government to decrease that deviation.

We expect that those measures would still keep on working. The Brazilian Association is still working along with the public powers along with some states also with the Northeast where the RECAP has not been instituted yet that previous recognition of the tax exempt paper. So while this RECAP gains a national placement, things will get better. But let me remind you, we are dealing with a situation that is very profitable for those that violate the laws. And the Association understands that it should be working - still working hard to decrease that type of deviation, and therefore, we have a good expectation for that up to the end of the year.

A - Operator

Alan, thank you for your question about FuturaGene. Yes, we are going to have a public hearing in the next 4th of September. That is another natural stage for the approval process of the bill. We expect to be successful in the public hearing. After the hearing, we should have reports delivered so that those could be voted. We would love that to happen up to the end of the year or maybe in the first meeting that they hold in the beginning of next year. This is an expectation that we have. We have no control on the process there and on the timing of the process.

Q - Alan Glezer {BIO 17508681 <GO>}

Okay. Thank you for your answers.

Operator

We now conclude the Q&A session. I would like to turn the floor to the company for their final remarks.

A - Walter Schalka {BIO 2099929 <GO>}

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Once again, I would like to thank you all for being with us. Our team is available for additional questions and I would like to say clearly that the development of recurring results that the company has had, we understand that we will still have that type of development in the next quarters.

Things that we should address such as logistics and energy, which are topics that have impacted the results of the second quarter, have already been addressed, and now, we have a fundamental topic, which is profitability on pulp and pricing of pulp, which, we understand, have not been enough to provide the correct return or the desired return to shareholders. The company will still invest in structural competitiveness in all our operations. We still invest in operating efficiency and everything once again. And we expect to deliver to the market acceptable results in terms of development for the next quarter.

Thank you all very much and have a nice day.

Operator

The conference call of Suzano Papel e Celulose is concluded. Thank you all for your participation. Have a nice day.

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