By Caroline Martin
Special for *O Papel* Magazine

CELULOSE IRANI DISCLOSURE

CELULOSE IRANI CLOSES 2Q2013 WITH POSITIVE RESULTS AND CELEBRATES THE RETURN ON STRATEGIC MEASURES

Celulose Irani posted an adjusted EBITDA* of R$ 31.4 million in the second quarter of 2013, a result 22.1% better than the same period in 2012. Net operating income of the company, which focuses its activities on the packaging paper and corrugated paperboard packaging segments, totaled R$144.6 million, representing an increase of 23.1% in relation to the same period last year. Such figures reflect an increase in sales volume in the two segments, as well as the price recovery in the corrugated paperboard segment in the quarterly comparison.

Gross income also increased 64.3% in relation to the second quarter of 2012, totaling R$50.1 million. Net income for the quarter amounted to R$14 million, compared to a negative result of R$5.7 million in the second quarter of 2012. "In addition to an improved net income, the result reflects a positive variation in the fair value of biological assets in the period," said Odivan Cargnin, Administrative, Finance and Investor Relations Director of Celulose Irani.

In this month's interview to ***O Papel***, Cargnin provides details about this favorable context and reveals the strategies that resulted in positive figures, including recent investments made by Irani.

EBITDA* is the acronym for Earnings Before Interest, Taxes, Depreciation and Amortization.

O Papel – What factors and strategies are behind the positive results for the second quarter of this year in comparison to the same period in 2012?

Odivan Cargnin – This is the result of a series of factors and strategies. They include an increase in net income and a better overall performance in the comparison of both quarters. Another factor that had a strong impact on net income was the positive variation in the fair value of biological assets. Last year, market conditions for wood were not as favorable as this year. It is important to point out that the increase in the US dollar exchange rate is another aspect that contributed to the favorable context in early 2013. We also had the positive effect from leasing the Minas Gerais mill from Indústria de Papel e Papelão São Roberto S.A. The paper production complex is being used to develop activities pertaining to pulp, packaging paper and corrugated paperboard packaging and, since March, has been adding more capacity at Irani. Our production of packaging paper went from 214 thousand tons to 274 thousand tons.

O Papel – What factors led to leasing the São Roberto mill in Minas Gerais?

Cargnin – The leasing agreement is valid for 10 years and refers solely to the industrial paper production mill located in Minas Gerais. A contract was also signed for the operational restructuring and implementation of a new management model for a one-year period, with the possibility of being renewed. This contract encompasses the managing of São Roberto as a whole. At present, we are conducting a business integration process within the Grupo Habitasul. The overall experience so far has met our expectations. It is a joint effort to adjust São Roberto according to Irani's operating standard. This results in benefits for both companies: for Irani, it represents increased paper production capacity by leasing the Minas Gerais mill; and for São Roberto, an interesting opportunity financially speaking, since fixed costs end up being diluted as the Irani team heads management.

O Papel – Investments made by Irani last quarter totaled R$15.3 million. Where was this money invested?

Cargnin – Investments, which came from the company's pocket and financing from the BNDES through agents, were mainly directed towards projects to improve the productivity and maintenance of equipment. In practice, we are expanding the production capacity of paper machine number one, automating the packaging plants and performing some maintenance adjustments. Investments in technology are part of the company's philosophy. In 2008, for example, we invested a total of R$160 million in a major operation project that modernized paper machine number five with cutting-edge technologies. These implementations provided us a very important competitive advantage, allowing us to operate with performance indicators that are better than the sector average.

O Papel – What commercial strategy will you adopt upon expanding paper machine number one?

Cargnin – We aim to increase the production capacity of paper machine number one, since we already have demand for this increase. Even though most of our paper is produced internally, we still buy a portion in the market to produce packaging. Our strategy with this investment is to substitute this quantity acquired in the market for paper we produce ourselves.

O Papel – What are your performance expectations for the packaging paper and corrugated paperboard packaging segments this year and in 2014?

Cargnin – ABPO's (Brazilian Association of Corrugated Paperboard) forecast for this year is for the market to grow roughly 3.5%. We expect to follow this growth rate and even outperform the market average. For 2014, it is still too early to make projections, since expectations are closely linked to performance of Brazil's economy. However, we tend to be optimistic, always expecting a better year than the current one.

O Papel – The potential of Brazil's domestic market has attracted investments of foreign players and promises to be a trend over the next five years. The internationalization and consolidation process of the segment has already started, such as the recent joint venture established between International Paper and Jari Celulose, Papel e Embalagens S/A (Grupo Orsa). Can this represent a challenge for players already present in the market?

Cargnin – I see this as a very positive movement, since the interest of foreign investors demonstrates that the Brazilian market is attractive and full of opportunities. There certainly exist challenges involved. I believe that Brazilian companies need to match the competitiveness levels of foreign players that invest in the Brazilian market in order to do equally advantageous business. In general, these players have greater financial capabilities and bring mature technologies with them. Local companies, therefore, must keep an eye on modernizing their production facilities in order to remain competitive. Irani bets on various fronts in search of maintaining this competitiveness. The high level of automation at our mills and the high standard of productivity are some examples. These are just some of the ways for producing with quality at low costs. ■

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