

Q2 2016 Earnings Call

Company Participants

- Carlos Aníbal Fernandes de Almeida, Jr., Executive Officer - Pulp and Paper Business Unit
- Marcelo Feriozzi Bacci, CFO & Director-Investor Relations
- Walter Schalka, Chief Executive Officer

Other Participants

- Caio Ribeiro, Analyst
- Carlos F. De Alba, Analyst
- Daniel Sasson, Analyst
- Felipe Hirai, Analyst
- Jonathan Brandt, Analyst
- Juan G. Tavarez, Analyst
- Lucas Ferreira, Analyst
- Thiago Lofiego, 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 2016 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 will have a question-and-answer session when further instructions will be given. I would like to remind 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 some uncertainties that could cause the expectations expressed not to materialize or the actual results to differ materially from those expected results. These risks include changes in future demand for company's products, changes in factors that affect domestic and international product prices, changes in cost structure, changes in the seasonality of market, pricing actions by competitors, foreign currency fluctuations, and changes in the political and economic environment in Brazil, in emerging markets, or internationally.

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

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It is a great pleasure to be here for the conference call for the second quarter results of 2016 of Suzano Papel e Celulose. I would like to start introducing our officers. Here, I have Marcelo Bacci, CFO and IR Officer; Carlos Aníbal, Pulp and Paper Business Unit Officer; Carlos Griner, our HR Officer; Alexandre Chueri, our Forest Business Unit Officer; and Diego Barreto, our Treasury Officer. After the presentation, we will be available for questions and answers that you might have.

I would like to start the presentation by saying that this was another quarter in which Suzano has shown two main items. First, about the improvement in operating activities, both in transformation as well as routine management, and we did have good results in all of these areas, and we'll share those with you.

On the other hand, we focus strongly on capital discipline as well as value generation for our shareholders. We understand that this is fundamental for Suzano to deliver value and return on invested capital for our shareholders, and that's how we have been working.

We have a cash generation in the quarter of BRL 723 million, totaling in the last 12 months BRL 3.8 billion. And we understand that this is the best KPI, the best indicator that measures our industry. We have a sustaining CapEx that is high in the industry because we have forestry replanting (3:43) and, therefore, it generates operating cash generation.

As a relevant indicator, we also had a reduction of our debt of 5.2 times (3:57) Imperatriz project and in a consistent manner reaching 2.1 times now in the second quarter. We had an EBITDA of BRL 967 million in the quarter and year-to-date in the last 12 months more than BRL 4.9 billion. Adjusted EBITDA per ton of BRL 803 per ton that shows resilience of the paper industry and how important the paper industry is in Suzano's equation.

A continuous performance in cash cost and once again a lower cash cost than the cash cost that we had in the first quarter of this year with a drop of BRL 18 from BRL 654 to BRL 636. The unit COGS with an increase of only 0.5% vis-à-vis the same quarter of last year. Therefore, we offset almost everything and the inflation (4:56) SG&A lower nominally to the second quarter of last year.

And in terms of liability management, a continuous structuring of our financial soundness in terms of our debt with several liability management. We had new CRA fundings done totaling BRL 900 million operating below CDI. We also had as a subsequent event in July incoming funds from the Green Bonds we have issued for 10 years of \$500 million. And in July, we decided to do the debt dollarization and we are very close to 100% of our debt dollarized, therefore, protecting the company from eventual appreciation of the FX.

In paper, we had a quarter that was very good in terms of improvement. Brazilian demand is still impacted. We had a drop of 5.7% in the second quarter vis-à-vis the second quarter of last year. We have implemented, as announced, our prices solely (6:16) in printing and writing paper, uncoated, as well for - and paperboard. So all the programs for price

increases that we have announced are already implemented. Prices have increased 6.6% from the first to the second quarter.

We continue working with our Suzano+ Program. This is a very important program and we look for the loyalty of our clients at the end. The number of clients is increasing quarter-on-quarter and it has been very positive for Suzano. We are still working with our market share program in the coated paper segment, replacing imports, and this program is happening continuously and should go on. This is a decision from the company to work so that we can have the larger market share, specifically in Brazil.

And also, we wanted to mention other effects of the fire at Suzano mill. It was an event that caused a loss of 15,000 tons approximately between semi-finished and products being produced. That is going to impact the third quarter of this year.

And the EBITDA impact happened in a non-recurring manner because since everything was under insurance, obviously, we'll have to pay for the insurance deductible. And the human side, which is the most important, people that were in the accident, we have only two people that are in full recovery. So we are comfortable there. And these were the financial burden due to the fire that happened in the mill.

Talking about pulp, the quarter had significant sales. It was record high in terms of sales volume with 910,000 tons sold in the quarter. And we have the downtime in the operation of Imperatriz. So that - not only that our annual downtime, but also we started the 5.1 Project implementation, which is the debottlenecking of Imperatriz line.

The global demand for pulp is still robust. We have an increase of 8.7% in the second quarter vis-à-vis the second quarter of last year for eucalyptus pulp. And pulp shipments in general have increased 4.2%. The pulp industry to the market has increased 4.2%.

We also had an inventory reduction in this quarter of 94,000 tons and the production was 816,000 tons. And after Imperatriz downtime, we are doing a slow ramp-up so that we do not usher the volume to the market, because clearly we have an excess of supply in the pulp market, therefore, the prices are not remunerating the employed capital.

About cash cost, we had another improving quarter. As an objective and we still have this objective to normally operate during the year of 2016 with cash costs that are below the ones that we had in 2015 and we are working towards that.

In the second quarter of this year, the cash cost, with no downtime, was BRL 636 per ton, with a drop of, comparing to the quarter of last year of 2.7% and an increase of 1.5% (10:19) last year. This is because of some important facts. The first one we already mentioned before. It is because of the average distance of Mucuri wood.

And because of that, we have operating gains considering the investments we are doing in the plants so that we can have a better chemical consumption - lower chemical consumption and also consumption of other materials, as well as about cost, considering

that there has been an FX appreciation, so chemical costs for us aren't dropping the last month.

The combination of all these effects is causing Suzano to continue in this reduction of a cash cost process. This is fundamental for Suzano. When we analyze the medium and the long run, this factor will determine our structural competitiveness and we still aim a FX at 3.80 that was defined at the time a cash cost of \$150 in 2018 and \$125, at the same dollar 3.80 in 2021. So this is a focus that the company has and we are working towards that goal.

That consistency and cost that we have been showing and expenses below inflation in our SG&A, for instance, was 9% lower than the same quarter of last year for an inflation of 8.8%. And more relevant even is a drop, a gradual drop of SG&A per ton that today is of BRL 171 per ton and the fact that we have in the COGS just with 0.5% of increase at an inflation of 8.8%, which shows our focus and really our obsession in the continuous improvement of our operating results.

Obviously, our sales has been impacted by the pulp effect as well as the FX effect. We have an average FX rate of BRL 3.51 and a continued reduction of average pulp price. Therefore, this is impacting the company's results.

But then, I would like to turn to the next slide and show you the resilience that the paper business brings to Suzano. In the quarter, we had an increase of the EBITDA per ton of (12:56) paper. We have had a base of BRL 1,000 and BRL 70,000 (13:05), 40% more from paper in the EBITDA per ton and a reduction of BRL 257 (13:13) from pulp.

And that combination of prices from pulp and (13:20) exchange rate caused our cash cost to be lower. And also in COGS, we have an impact because of the fire event and also Imperatriz downtime. So, we are very comfortable to show you that paper is stressing the resilience that we have in terms of results for Suzano and the operating cash generation been a fundamental factor for us.

Paper has a contribution that is even higher in the operating cash generation per ton, because it has a lower sustaining CapEx.

On the financial side, we still are working on the elongation that we have a growth that of BRL 14.4 billion already in July and the growth that over adjusted EBITDA of 2.9 times and a net debt of 2.1 times. This figure is in reais. In dollars, our net debt over EBITDA is already in 2.3 times. And in dollars, this is pertaining (14:31) when we consider reais.

So we'll continue to see a drop in our net debt in the company, but we should have a gradual reduction of our EBITDA in the last 12 months. Because of the exchange rate and pulp prices, we have a position of 2.6 years for average debt maturity and a cash position of BRL 4.2 billion.

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I would like to highlight something very important which is the cost of our debt, we have decided in subsequent event in July to dollarize our debt. We now turn to a debt of 4.4% in dollars. This is a very competitive debt that shows that the company is very well prepared with a very high financial soundness to look to the future. We understand that we might have volatility in the exchange rate in the next months and we are prepared to the possibility of the rate - exchange rate going up in the next month.

Right now, we are announcing a guidance CapEx reduction for 2016. We have said before that the CapEx would be BRL 2.4 billion and we are reducing as a capital discipline considering this market scenario to BRL 2.1 billion. So, this is the CapEx now, it's important to say, but this is thanks to three main reasons. First, the better negotiation of investment in CapEx with our suppliers. Also, this is, thanks to the FX considering that part of our investments are dollarized, and third is we have the results from payment postponement.

It's important to say that this capital discipline that Suzano is reinforcing right now, even having all the financial commissions, that does not impact the scope and the project and all of them are maintained and all the budget is still there. And that flexibility in capital allocation that the company has, the flexibility and operational flexibility between paper and pulp, the possibility of continued working in the structural competitiveness as a fundamental factor of our strategy in adjacent business and that little by little they are growing and they will keep on growing next year on when we have lignin and tissue operations.

We are sure that we'll keep on generating value to our shareholders. So we are very proud about the results that we are bringing to you right now. But we are also very determined to keep on working on our structural competitiveness and also looking for that flexibility of investments that will allow Suzano to have lower results volatility a long time, always creating value for our shareholders. And always, once again, having that philosophy, we should be humble enough to know that we should be better every day and that is the spirit that Suzano wants to bring to our stakeholders with which we have any relationship.

So, I now conclude my initial presentation about the results of the second quarter of 2016. And I, myself, am available and also the whole team, we are available to answer any questions you might have.

Q&A

Operator

Ladies and gentlemen, we will now start the Q&A session. Our first question is from Mr. Felipe Hirai, Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

Good morning, everyone. I have two questions. First, about cost, Walter, you said a little bit about your idea of having a low cash cost in 2016 vis-à-vis 2015. Can you be more specific what do you consider in terms of cost reduction quarter-on-quarter, especially

taking into consideration what you already have today? You already have one of the lower costs of the industry?

And the second question is for Carlos Aníbal. Can you tell us a little bit about the price dynamics, especially in China? Recently we have (19:09) price dropping although you also have announced prices increase. Thank you.

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A - Walter Schalka {BIO 2099929 <GO>}

Good afternoon, Felipe. This is Walter. I will talk about costs. Our cost trend is to have costs that are nominally lower than the ones that we had in the second quarter. And the reason for that is a continuous reduction of the average rate as in Mucuri and the reduction of chemical consumption and we are working on that.

So, we still should have improvements there in order to have lower cash cost in the third and fourth quarters. Considering what we had in the second quarter, we are not going to give you figures, guidance right now.

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Hello, Felipe. This is Carlos. The second quarter was marked by two major events. First, we had Chinese buying again. That started happening at the end of the first quarter and the second quarter as well. And also a strong adjustment of prices both in North America as well as in Europe. We saw in May and by the end of the month of May, an improvement in the (20:25) and that improvement made us announce a price increase for June. We started that price implementation in June. We had different results in distinct geographies.

In July, we had a volume, both in North America as well as in Europe, that was - we didn't expect it. And we found in China a higher pressure in prices. Therefore, we had orders that were lower than expected. So, at the end of July, really we saw a pressure from the Chinese buyers. We understand when we analyze the inventories disclosed by PPC at the end of June, is that we have a balanced inventory level, 41 levels for hardwood.

For us this shows a good balance in the market, but we should consider that there is a perspective of increase of physical inventories in China, maybe in August because of strong shipments that we have from Brazil in June. And also, structurally, we have a perspective of inventory increase in order chain (21:47) in July and August because of lower demand, the seasonality of the North Hemisphere. And also we have the supply side working at full capacity differently from what happened in the second quarter where we had planned and unplanned downtimes that lengthened (22:08) the supply of softwood.

Q - Felipe Hirai {BIO 15071781 <GO>}

Thank you very much.

Operator

Next question. Thiago Lofiego, Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning. I have two questions. Carlos, can you tell us a little more about the pulp price? Just about the net price, today we see a discount or a premium on the prices, when we compare Europe and China, that's very high. So we are having more discount in Europe, or are you realizing higher prices in Europe vis-à-vis China in a net basis? I would like to understand the dynamics and what is sustainable from now on.

And my second question is about the paper - domestic paper market, considering these price increases of 24%, between 15% and 25% for some lines. I would like to understand, in this new FX scenario, do you already see any customers or client pressure asking you to go back with discount, because of a higher potential domestic price or a differential in the domestic price?

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Thiago, good morning. What we have today and the result of our unmatched average price in the second quarter came from a strong adjustment that we had in prices in North America and Europe and also because of the fact that we had along the second quarter a difference between net prices from China and Europe that were much higher than what we have had in 2014 and 2015. So we have a specific net price than when compared to Europe's price.

It generates that perception of discount increases. That's not exactly what's been happening. It is a fact in our situation because of an important share that we have in the Chinese market. Our pricing process is the domestic price is defined by several variables that include supply and demand in the domestic market, in the international market, prices of paper in the international market, the parity of the currencies especially in countries that explore (24:46) Brazil logistics cost.

We recently have had a significant growth of maritime freight from China to Brazil. And all these variables, analysis makes us believe that right now, we have our pricing in the domestic market just right. But obviously, we are always monitoring all those items. We're paying close attention to the events so that we can adjust our prices so that we can put our strategy into practice.

Obviously, we have to pay attention to the coated paper market where the share of the imported products is higher. But, as Walter has mentioned, we had another quarter in which we're successful in our strategy just to give you an idea, our production of coated paper in Suzano system in the second quarter was almost 40% higher than the second quarter of last year. So that higher production, that strategy of maximizing the use of our assets to produce coated paper has allowed us to occupy successfully that room that was created by the significant drop of imports of paper and specifically the imports of coated paper.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Can you go back, Carlos, to the first question? I understand that despite when you compare to your price, we will have a higher discount. That is only natural. What I would like to understand is the net price that you're having in Europe right now is too different from the net price that you have in China. Is there any type of connection there or if this net prices are already defined?

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Thiago, I will address your question conceptually. In a longer period of time, there is a trend to convert net prices among regions and net profitability among regions as well. In a lower period of time, we might have a difference that ends up being balanced a long time.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much. Thank you, Carlos.

Operator

Our next question is from Marcos Assumpção, Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning. I have two. This is Daniel Sasson. Thank you. My first question is about a possible redesign of the industry. In the last quarters, you were reducing (27:17) diversifying revenue, capitalizing the company with the re-continuation of (27:20). So it looks like today you have a stronger balanced position than you competition and maybe considering your lower dependence on pulp that might be coming in in a more difficult moment, that relative position of balance could even become better or stronger. And under that scenario, the issue of consolidation in the industry, the issue Suzano as a consolidator in this industry, can we go back to see M&A talks about that? Would you be considering maybe to join share or share classes? Is that something that the market always ask you?

And my second question is about the fluff project. It's already up and running since the beginning of the year. So I would like to better understand it now that we already have a few months after start-up, how is that being accepted by clients? How is the demand being - in the prior quarter's call, you said that some clients were starting to use a mix of 50% of softwood and hardwood products, even better than what you were expecting. So, if you can comment a little on the two year or three year perspective of the fluff project, I would appreciate. Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Daniel, this is Walter. Thank you very much for your question. And I will address the first one about the redesign of the industry. We will not comment on M&A operations. It's not up to us to do that. We cannot even do that now. Obviously, M&A operations are (29:20) to industry, because of (29:23) values are extremely relevant. But we rather decline answering the question about the industry's reshaping. About the second question, which is on fluff, we have had a continuous improvement. Every month, the volumes are

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growing. Our sales of fluff are growing and we are very happy about the results. The approval process has been a little bit longer than what we would like to see, but it is very clear that we have had no client so far that rejected our products.

So either the products are already approved or are under approval, being approved, but no client said that they do not want to operate with hardwood. Obviously, those have very good benefits in the operations. The energy consumption is much lower than the softwood. And the hardwood has two advantages in terms of the final product, which is a liquid-less version and also liquid-retention. (30:34) has been proven to all of them not only in the lab, but also that have practical effects that is shown with the test that we have done with clients and that has been recognized.

Therefore, the acceptance level was increasing. Specifically today, we are producing fluff. We have been doing long campaigns for fluff, because the demand is increasing gradually. And we intend to continue growing volumes for the next quarter. So the speed of improvement for sales has been a little bit lower than what we expected, but - because of the approval process that happened, but the acceptance level has been very positive. Therefore, we are very happy about it.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you very much.

Operator

Next question in English from Carlos De Alba, Morgan Stanley.

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

Yes. Good morning (31:35) first question has to do with CapEx appearing very positive, but budget for this year came down. But I'm going to ask you if these reductions that we saw has any implication for higher GAAP actually in 2017 and if you already have a view or guidance of what 2017 CapEx numbers look like, it would be helpful?

And second question is, the cash remunerations (32:04) in the quarter was a little bit on the weak side and this is versus our expectations. And it seems to have been driven by working capital increasing a little bit more than what we have modeled. And what are the expectations going forward in terms of cash remunerations (32:22) particularly in the working capital? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Carlos, thank you very much for your question. This is Walter. I was talking about CapEx. As I have mentioned, the CapEx reduction for this year represents our focus and determination to have capital discipline and to have a cash generation that will cause a continuous reduction of our debt levels or net debt levels in the company.

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By doing the payment postponement of BRL 300 million in cap, part of that is reduction and part of that is payment postponement. The reduction comes from better negotiation with our suppliers to reduce the total CapEx of the project.

And also we are benefited from the FX rate because part of the investments are dollarized. I think that a small share of the BRL 300 million that we are reducing that year should have an impact last year, which are the payment postponements and that might happen next year or in 2018. So our focus in capital discipline in having a cash generation that is significant and constant a long time is determining - determined in our CapEx process, so this has been our focus.

So I'll turn to Marcelo Bacci that is going to talk a little bit about cash generation.

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

Good morning, Carlos. I don't know exactly what is the math that you have done to mention that weak cash generation, but for us, we had a cash generation that was adequate for the EBITDA in the period and even a little bit better because of the working capital reduction effect. That is also not very relevant because they happen because of a negative FX variation in receivables and also variation in our inventory level.

So, for us, (34:31) we have a cash generation that was adequate to the EBITDA minus the CapEx that we had and a little bit of a mismatch in our financial accounts, because the interests that we have paid in the period are higher than the accrued interest that's in the period. But this is something that just happened at this time and will be offset a long time.

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

All right. So maybe just temporary differences. Thank you for that. If I might add another question, Marcelo, (35:05) the rationale of dollarizing 100% of the debt when the company still has around 30% of industry in the domestic market? Do you feel confident that the domestic prices will be in line with the currency, sort of basically 100% of the revenue will be dollarized?

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

This is a great question. Thank you, Carlos. In fact, we do have one-third of our revenue in reais. Basically, that is the revenue from paper and the domestic markets. On the other hand, we have around 85% of our costs and total expenses, including pulp that's also in reais. So, when we annualize our cash generation and also our CapEx, all of that is in reais.

When we annualize cash generation (35:55) net cash generation is all in dollars. So what we receive in reais is lower than what we pay in reais in our costs and expenses. So, in terms of the net costs, it does make sense to have 100% of our debt in dollar.

And also, to make it clear, when we say that we are at 98% or 100% over our debt, in dollars, we are talking about net debt. We still have debt in reais that are in lower or in

various level reais cash position. But the slow situation will continue as it is for the future, because we are net dollar generators.

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

Thank you very much.

Operator

Our next question from Caio Ribeiro, BTG Pactual.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good morning, everyone. Thank you for this opportunity. I just would like to know if you can tell us about your expectations about PPPC project. If you do expect that the price adhering and how much do you expect to have in terms of additional volume entry this year?

And second, how do you see Chinese clients' appetite to re-stock? The figures from June seems to be very strong in terms of Chinese demand, but do you believe that this is sustainable for the next month or do you see a trend to wait to see if the PPPC project is going to come in or not this year.

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Caio. This is Walter. I will address PPPC matter. We do not have intelligence on that. That is much better than the marketing challenges. We have heard the whole set of information from several sources about it and that should be very similar to what the market already have heard as well. And we rather not comment on something that we have not enough intelligence to discuss.

So, it is very difficult to speculate in a call about something that we don't have much information, know more information than what you have. So we would like to decline any comments on PPPC's entry because we do not have better view than you would have. So I'll turn to Carlos to talk about the Chinese market.

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Good morning, Caio. The best information that we have and that allows us to understand the inventory's movement in China are data from Chinese customs import. And the analysis of hardwood and softwood import in the first six months of this year when we compare to the six months of last year show a slight growth of imports there, very compatible with the organic growth of the demand. That makes us believe that in addition to information that we have from our local team that inventories in China now are or at least at the end of June were at a level that was very close to normal.

Now, we have in China, especially in July and August, this as a period of seasonality, and we have also - the market works with an expectation of pulp coming from Brazil in August

FINAL

because of the shipments that we had in June. And as you well said, these shipments are reported in the PPPC (39:40) number.

So, we have Chinese buyers that need to buy to adjust their inventories so that we can have that demand coming back, and that should happen in mid-September. So we expect that at some moment we will see a higher movement. In July, as I said, we found some pressure. The pressure actually started with a movement and a drop of the price of the softwood, and a producer of hardwood that announced a reduction of prices there, and that caused some stress in the market. And once again, analyzing all the bases, the inventory positions in the chains, we have decided to work with a volume that was lower than we expected to close July.

So we expect that at a certain moment in the next month, we will find the Chinese coming back differently from that concern that we had in the beginning of the year. China did have a significant growth in the first quarter. PPPC's number show the demand reaching almost 6.6 million tons, a growth of 15.5%, and a growth in the demand of eucalyptus shipments in 27%. So structurally, we are preparing ourselves to have in the second half of the year a regular demand from China.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Perfect. Thank you very much.

Operator

Our next question in English from Jon Brandt, HSBC.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good morning. Thanks for taking my questions. First, I wanted to ask you just about net debt, you're at 2.1 times. How comfortable are you with that? And should we consider that to be your target net debt level?

And secondly, I wanted to ask you. I know you don't want to comment on M&A, but conceptually, does it make sense or would you be interested in doing acquisition or mergers with companies or assets outside of Brazil? And then conversely, I'm wondering if there's any comment from you on the potential removal of foreign ownership limits and what impact that might have on new pulp capacity in Brazil. Thank you.

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

Jon, this is Marcelo. Thank you for your questions. I will go back to the net debt topic. We had a significant reduction of the net debt over EBITDA along this period, reaching 2.1 times. And this is a figure with which we are very comfortable about, but we have to recognize that the trend for the debt is to increase a little bit in the next month.

We had an year-to-date EBITDA in the last 12 months that were close to BRL 5 billion, and the trend in current FX prices and pulp prices is that the year-to-date EBITDA will

decrease. So even if the net debt as a whole goes down, but net debt-EBITDA ratio should convert to a figure more or less to 2.2 times, 2.5 times, depending on the FX in the next quarter. That figure, around 2.5 times, is a figure with which we are very comfortable and this is very sound also to face a possible difficult moment of the industry in the next quarters.

A - Walter Schalka {BIO 2099929 <GO>}

Jon, this is Walter. I will talk about the M&A topic. Conceptually, Suzano analyzes the reshaping, the redesign of the industry. M&A is one of the leverages here. And we see eventual possibilities that might come up. We do not have the sanctions in terms of geographic regions, in Brazil, outside of Brazil, about that matter.

We do understand that this is an industry with a volatility of results that is not proportional to invested capital, that of the industry is very high. And if you compare the situation six to eight months ago, you will see that your tax rate and the pulp conditions were totally different from today's and Suzano's position is to have financial soundness, is to be prepared for volatility scenarios on the one side. And on the other side, we also should be prepared for eventual changes in the industry where Suzano intends to be a long time a protagonist. But obviously, we'll not comment on operations or any specific opportunity.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Okay. Thank you. And just to follow up on that, is there any concern about if the Brazilian government does remove the foreign ownership limits that you could see foreign pulp producers or pulp and paper producers coming in and having to overcome after you (45:11)?

A - Walter Schalka {BIO 2099929 <GO>}

Yes. This is Walter again. We do support the request that is being done to the Brazilian government to remove that limitation. We do not understand this as being fundamental for national domestic producers. We understand the free trade as being basically a natural matter. We do not understand, on the other hand, that there is a possibility of placing no capacity in the market in an environment where we have an excess of supply right now. So we do not understand this is a risk to the company...

Q - Jonathan Brandt {BIO 17988091 <GO>}

Okay. Thank you, Walter.

A - Walter Schalka {BIO 2099929 <GO>}

...in terms of the removal of the foreign rights to have land in Brazil.

Operator

Next question from Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. For a series of reasons but maybe because of the real depreciation, probably the company will generate a higher taxable profit. My question is that if you have reviewed your perspective for tax payments for the next year, we should see higher tax payments? And along the same lines, what is the situation of dividends? We'll be paying more dividend following the rule of the 25%, but do you have room to make that more flexible? And if you can comment on that, and even considering that message of capital discipline.

And my second question is for Carlos Aníbal. Carlos, you have already talked about the Chinese scenario, but I want to go back there. I would like to understand what you have in terms of feedback from your clients in terms of paper demand. So how is the paper market and how do they see the demand from now on? We have seen several commodities that are growing weaker. And if you analyze Chinese producers, also there was a change, and that also impact in the market for you and the perspective of your clients, the clients that you serve in China. Thank you.

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

Good morning, Lucas. This is Marcelo. I will talk about the profit and taxes and dividend. Yes, in fact, we have high profit, especially because of the FX variation in that and also derivatives that we have contracted to protect the revenue. And that profit has caused an income tax provision that is high, but our provision so far was low, especially just in the controlled companies which are small ones.

We should not have in the second half of the year regardless of the FX also significant payments for income tax. That is because of the fact that we still have part of the accelerated depreciation of Imperatriz still in our figures. We used a lot of that in the first half of the year, but we also have a large amount to be used. We also have a significant number of tax loss carry-forward that can be used as well.

Always remember that we have an income tax reduction in our activities in the North and Northeast that reduces our tax bracket (49:05) 75% in income tax, but not in total contribution. And finally, we have also in the second quarter a reduction that we can use to offset tax payments. So, in the second half of the year, we'll not be paying taxes. Obviously, in the next year, depending on the FX scenario, we will gradually increase our cash tax payment, but we have no forecasts for next year. But for this year, we should not have payment there.

About dividends, we intend to cease (49:46) dividend payment according to the cash generation of the company. So we are starting this matter that you just mentioned. This is very important, that a long time we should balance the dividend payment with our cash generation in the next month. Therefore, we'll go into this matter deeply and we'll bring back a proposal that will then be debated, therefore, inform to the market.

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Lucas, this is Carlos. Our interactions with our Chinese clients allow us to have a very positive vision of the demand for the next years. A natural growth in the demand at lower rate than what we had in the past, but not less important. We see in China today a strong trend in the demand growth by quality paper, special paper, superior quality paper, and this paper will only be produced from virgin fibers. So it is only natural that we see the demand growing strongly for quality papers and those papers will then have an impact in the demand of virgin fiber, especially eucalyptus pulp.

Operator

Next question in English from Juan Tavaréz, Citi.

Q - Juan G. Tavaréz {BIO 15083199 <GO>}

Hi. Thanks. Good morning, everyone. My first question is just around costs. I know you mentioned that you're expecting cash cost to come down over the next few quarters, specifically with third-party wood being reduced and average distance. Could you give some numbers around that? How much currently is, to help your wood cost, is coming from third parties? And also what's the average distance today and if you have a specific target over the coming quarters?

And then my second question is around paper demand. Could you give us a sense if you're starting to see any signs of improvement of underlying demand in Brazil? And, I guess, I'm trying to think of the imports that could continue to come through given the BRL appreciation. Could we see some of that being absorbed by local demand? I know you mentioned that your strategy is to focus on market share, so I'm just curious how aggressive you may be in market share gains if demand doesn't come back.

A - Walter Schalka {BIO 2099929 <GO>}

Juan, good morning. This is Walter. I would tell you a little about cost. We did have in the second quarter of 2016 a small reduction of the average distance in our operation and the use of third-party wood, and that should be expedited in the third and fourth quarters, and that's part of the equation to reduce our cash cost.

The second part of the equation is to reduce specific consumptions. We are investing in all plants aiming to reduce specific consumption, especially of chemicals, and also to have energy gains in the operations. Those investments that we have announced to the market in a recurring fashion and that we have already done – just for instance (53:15) we made a biomass boiler in Limeira investment and Imperatriz in the debottlenecking of the plant and increasing capacity, reduction in specific consumption. This is a continuous program that will keep on happening.

Now, in January, we'll have the crystallizer (53:33) working in Mucuri. So these are series of actions being taken that little by little will reduce specific consumption, therefore, reducing cash cost. This is a program that is endless in Suzano. We have established a target of \$150 for 2018. And we understand that it is possible to meet this \$150 (54:00) and that would reach BRL 570 for cash cost in 2018. So we are concentrated on it. We'll keep on working there.

Obviously, in the short term, we cannot tell you how much we are going to reach still in 2016. But the trend is that the cash cost in the third and fourth quarters are lower than what we already have in the second quarter.

A - Carlos Aníbal Fernandes de Almeida, Jr. {BIO 6275986 <GO>}

Juan, good morning. This is Carlos. The data that we have from Ibá show an apparent demand by printing and writing paper and paperboard going down 27% this year vis-à-vis the same period of last year. And the year-to-date, we have a drop of 5.8%. This is the lower drop that we have had in the last six quarters, therefore, we believe that the market has already reached its bottom in terms of demand. These first six months of the year, the domestic industry grew its share in the volume 1.8% and imports dropped 36.5%. And as we have said before, we were very successful in our market share gain.

It's important to stress that this market share gain is based on the coated paper line because of the strategy that we use to maximize the use of our installed capacity is something that we - it was hard for us to do in the past because of high levels of imports and also because of the tax-exempt paper. Obviously, in the second quarter, we have higher demand. We have the expectation for the next quarters or months to have higher volumes being delivered for government programs. And then we believe that we could have demand in the second half of the year that would be better than the demand that we had in the second half of last year. But we don't have any evidence, any elements that really sound that will make us believe that there are signs of recovery of the demand for paperboard and printing and writing paper.

Q - Juan G. Tavaréz {BIO 15083199 <GO>}

Okay. Thank you very much.

Operator

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

A - Walter Schalka {BIO 2099929 <GO>}

I would like to thank you all for your participation in this conference call for the results of the second quarter. We continue to have position for structural competitiveness and operating improvement as basis of our future. Another dimension that is very important is the flexibility of products and the range of products that we have to work with, and that flexibility generates more resilience in our results.

Also, fundamental is our capital discipline. We understand that in an industry with results volatility, it's crucial to have capital discipline, and we continue working there so that we're sure to be delivering value to our shareholders in the long term.

And a fourth topic that is also fundamental is our financial structure and soundness. We have a clear determination to keep on working in a capital structure that will provide an equation (58:08) to the size of our debt, also the cost of our debt and the terms of our

debt. So this very important. The financial soundness is part of our equation and our strategy.

We are happy and we are proud for our results, and also we are very humble when we recognize that we have more to be done and we are concerned about the FX and pulp prices volatility a long time. These are issues in which we are working, and I am sure that a long time we will be delivering even better results to our shareholders. This is our focus. This is the determination of our team and the cultural change that is at the base of this transformation is fundamental really for our process and long-term horizon.

So thank you all very much, and I wish you all a very nice day.

Operator

The conference call of Suzano Papel e Celulose has been concluded. Thank you for your participation and have a nice day. Thank you.

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