

Q1 2016 Earnings Call

Company Participants

- Carlos Aníbal Fernandes de Almeida, Executive Officer-Paper Business Unit
- Walter Schalka, Chief Executive Officer

Other Participants

- Alan Glezer, Analyst
- Daniel Sasson, Analyst
- Lucas Ferreira, 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 results of the first quarter of 2016. All participants will be in listen-only mode during the company's presentation to be made by Mr. Walter Schalka, CEO of the company. Afterwards, we will have a question-and-answer session when further instructions will be given.

I would like to mention that each participant will be allowed two questions only.

We would like to inform you that some statements in this presentation are 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 those expected results.

These risks include changes in future demand for the company's products among others, and changes in factors that affect domestic and international product prices, changes in the 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 and the emerging markets, and international markets.

Now, I would like to give the floor to Mr. Walter Schalka who will start the presentation.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It's a great pleasure to be with you to present the results of Suzano Papel e Celulose for the first quarter of 2016. I would like to mention that we have Carlos Aníbal, our Commercial Director for Paper and Pulp; Carlos Griner, our Human Resources Officer and Institution Relations; Alexandre Chueri, our Forestry Officer. Today, we do not have Marcelo Bacci, because he is undergoing a small procedure, nothing very serious, however, unfortunately he was not able to join us today. He will be available as of next week to answer any questions that you might have to him.

I would like to start the presentation by saying that this was a very positive quarterly results in all the areas of the company. We saw significant progress and internally an exception made to the pulp price that frustrated (2:55) the expectations out of all us, which because it was lower than

what we expected, we saw evolution in all the areas of the company. I would like to mention three fundamental points. The first one is leverage; we reached a leverage level of 2.3 times net debt EBITDA with 2.9 times gross debt EBITDA. This was a goal that we had established to be achieved after the Imperatriz project was concluded.

And I had always said to the market that this would depend on the speed of pulp prices and the exchange rate and these two factors stayed with us for a long time and we were able to meet our expectations before the timeframe that we expected for 2.5 then we are already lower than 2.5. This shows the financial strength that we have, and this shows the future perspective of the company, on the other hand.

And I would like to highlight how much paper has been important in our strategy. Paper has been showing the anti-cyclical use of the margins in pulp, and with a significant contribution to our result in this quarter, and this has to do with the strategy that we adopted in the past in the company of seeking a higher base for our sales and also being closer to our clients. With that, we're able to have better margins and a very positive situation of sustainability in our results and more specifically in this quarter, we had an extensive gain of market share in coated paper.

And lastly, but not less important, is cash cost. We have been telling the market that we had a greater reduction in the distance, and the use of third party was in liquidity and this will bring about benefits in our cash cost. Our cash cost went from BRL 706 to BRL 654 in this quarter, and we continue to give you this outlook that our internal objective is to reach \$150 of cash cost in 2018, and a \$125 of cash cost in 2021, considering a dollar rate of \$3.80, because in the most important figures, a very important thing among the multiple records that we achieved is its operational cash generation, which is the most important, more significant variable in our evolution.

In the last 12 months, we had BRL 3.7 billion of operating cash generation which is EBITDA minus the sustaining CapEx and this metrics is the one that we will be tracking all the time.

On the EBITDA side, we had a record EBITDA of BRL 4.93 billion in the last 12 months and BRL 1,269 for the quarter with a 47% margin in the quarter, 46% in the last 12 months. Record revenue BRL 10.8 billion that I have already mentioned sustainability of the paper segment and the advancement of the Suzano go-to-market project in Brazil and it will continue to bring about new progress in the next few quarters.

The cash cost reduction in the quarter I would like to highlight the fact that we continue about with our philosophy of success of liability management and we launched the CRA with BRL 600 million with 98% of the CDI and this was settled in April, therefore it is not included neither in cash neither in our indebtedness.

Paper is a very important highlight as well. We had the Brazilian - well, there was a 6% loss according to Ibá, I-B-A, and sales growing by 12% in the internal market. If we include - which was transferred to Ibema until we had an important gain in market share and the sales evolution in the federal market, which is the Brazilian market. We also saw an evolution of our sales in the export market in this quarter vis-à-vis the first quarter of last year, and the gradual price increase that we implemented partially in February in part, in March and April, it reaches the total of the increase that we had already announced to the market and when we compared the price of April to December, we will see the total price implemented in the cardboard line, in coated line and offset, things like that.

Pulp. We had a very good quarter 905,000 tons. As we didn't have any downtime, our average production was about 10,000 tons per day of pulp. And if we annualize this figure, we will reach a level of 3.5 million tons per year, which is what we did in the last 12 months, 3 - 489 (9:11). We had record historical sales of 906,000 tons, but with the concentration of sales at the end of the

quarter and this led to a weighted asset price, which was lower because the price dropped during the quarter, over the quarter.

The market, as of the end of March, shows to be quite favorable. We see already an important increase in the sales volume in several regions mainly in Asia, and we are very bullish regarding the fact that the price has already reached its bottom in March, and so, there is a possibility of the prices going out as of now.

Looking at our COGS cash cost, we saw a very important evolution as I mentioned from BRL 706 million to BRL 654 million, but more important than that is the trend that we will see in the gradual reduction of mix and distance for the supply of wood in Mucuri and this leads to an evolution in our cash cost. And COGS showing that the decisions that we made last year of using more third-party work was very effective and is bringing about satisfactory results to us during the first quarter and will continue to give us this in the next few quarters.

Looking at the COGS, we currently - we are below inflation in the period and this has to do with the operating - record sales that we have been carrying out in all our plants and the evolution that we see in our harvesting and wood transport costs, and the evolution that we see as well in operating efficiency in all the areas of the company.

SG&A per ton also growing less than inflation regarding the first quarter of last year. We had 3.7% evolution vis-à-vis an inflation of 9.4% in the period, which shows that the program that the company has been establishing on the expenses side has been bringing about consistent results, and this leads to an increase in our margin, both operational margin and cash generation. We have BRL 3.7 billion in cash generation, adjusted EBITDA of BRL 4.9 billion and BRL 1,269 in the quarter and the units BRL 1,076 (sic) [1,075] (12:06) the adjusted EBITDA and the same amount of BRL 10.75 (sic) [1,075] (12:14) per ton in the last 12 months.

Looking at the CapEx side of the operation, the good news is that we have already contracted all the projects, all the significant projects, all the equipment of 5.1, the bottlenecking of our plant in Imperatriz and Mucuri and reduction of cost reduction basically what we call 5.1, which mean 5.1 million tons that we want to reach in 2018, and we have already bought the equipment for the two plant for Mucuri and Imperatriz. We have already acquired the tissue machine both for Imperatriz and Mucuri. And the Lignin Project, all the equipment already contracted basically. So we are on time, on budget in all the projects and we are on budget regarding CapEx as planned. We had given you the estimate that we would have a CapEx, so a little bit less than BRL 2.4 billion during 2016 and we maintained this projection for this year.

Now looking at our indebtedness. We have excellent news to impart; in March 2016 our debt in reals, 83.5% of the CDI, the weighted average of our debt, and in dollar, 75% of the total debt at 4.1% a year. Net debt adjusted EBITDA ratio, the metric has a constant evolution both in dollars and in reals, 2.3 time net debt EBITDA ratio and growth debt EBITDA 2.9 times.

We have a very robust cash positions right now at BRL 2.8 billion, this before the CRA. So, with the projection, this would be BRL 3.4 billion if we consider the same flow, so a very comfortable cash position. And therefore, we're very comfortable regarding the financial front of our company for the next few periods.

To conclude the first part of the presentation, I would like to say that we are very pleased with the evolution of the internal dynamics of the company and the engagement of the company, and brining new alternatives to us, so that we may continue to deliver better and better results from our programs and we put everybody together to work hand-in-hand in construction projects, in solutions, and out problems and opportunities that we identify, and this all generated a very good energy in the company, and this has been leading to very good and consistent results to the company.

In relation to the financials of the company, just to end the presentation, we understand that we have all the parameters complied with. So, that we may have an upgrade on the part of the rating agencies. And of course, this is a unilateral decision on the part of the rating agencies, but we understand that we have a very good evolution and very good evidence for these agencies because of the consistency of our strategy and the operational efficiency that we are delivering consistently. All this shows very clearly what we have defined as our objective a while ago - the - all these objectives have been met, so this is what I had to say.

And now, I will be available to you to answer any questions that you might have addressed to me or the other officers of the company.

Q&A

Operator

Now we will start the Q&A session. Our first question comes from Karel Luketic from Bank of America Merrill Lynch.

Good morning, everyone. This is Felipe (16:32) (16:32) from Merrill Lynch. I have two questions, the first one has to do with the pulp market. Could you say a few words about Daltex (16:39)? You talked about the scenario of price recovery, you believe that the bottom has already been breached, so could you talk about these dynamics? Do you see a possibility of price increase because we have been reading something about that?

And my second question has to do with paper prices. The average prices have already gone up a little bit in the first quarter, and is there an effect of the mix that helped this price increase? And how much could we expect in terms of price increases for the second quarter? Thank you.

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

Good morning, everyone. Thank you, Felipe. This is Carlos Aníbal. Let's start by pulp. As Walter said, we had a very strong quarter both in production and in sales. We sold 906,000 tons, 22% increase vis-à-vis the fourth quarter, 6% increase vis-à-vis the first one.

And we see in most sales correction of prices of pulp. This started last year in China, and it was extended to the other regions as well. We understand that the fundamentals for softwood will be more balanced now, to the extent of producers in many regions being announcing already price increases in April, and we see a new wave of prices announced for May.

So, the behavior which is different between hardwood and softwood. Hardwood going down and softwood going up. This creates a bigger spread between the two fibers. And today, we're talking about \$100 in China of less price and 83 in euros. And of course this spread ends up favoring or spurring a higher consumption of hardwood.

In China, more specifically today, we already see a difference between the net prices of hardwood and softwood of about a \$100. And we have been seeing a movement on the part of Chinese values that reflects this change in more orders placed for hardwood. And we believe that the prices of hardwood eucalyptus fiber have already reached a minimum in China. And the figures of PPC that were published yesterday confirm that 1.2 million tons to China in March with a 23% rose (19:18) vis-à-vis March 2015 and shipments to China with 527,000 tons, 34% increase vis-à-vis March 2015.

Today, we have this protection of a sound demand from all the regions: China, North America, Europe, we see that buyers are very active and even higher than our expectation for this period of

the year. Recently in China, we had two announcements of price increases. Hardwood produces more \$20, and we're evaluating what we will be doing in the next few days.

In Europe, we do not have the month closed yet. The prices are usually announced in the last or the one before last day, and prices in Europe have been dropping, but more slowly than in China. And we say that markets are always looking for convergence of values, always taking into account via logistics, there we have variables, of course.

From the demand, two points. We have a very positive reading of the situation for the next few months, and we see now the beginning of the period of scheduled downtime in the Northern Hemisphere, which brings the limit to the availability of softwood, and we have important downtime for hardwood as well. So we believe that the market starts to look for a balance between supply and demand for hardwood.

Paper, as we've said though our sales, we saw a major growth in our prices, 9.5% vis-à-vis the first quarter of last year and 5.6% vis-à-vis the fourth quarter. And answering specifically your question, in the first quarter, we had an unfavorable mix effect because we had an excessive growth in the sale of coated paper, and this was the only line for which we did not announce a price increase for the first quarter. If we had to exclude the coated paper line we would see more than 5.6% hike.

We are very disciplined and we are very rigorous in the implementation of our price increases. And these increases were established, respecting our commercial strategy and these specifics of our product sales channels and seasonality. And as we told you during the last calls, our expectations is to see a hike in the average price for the second half, unless, we have an expressive change in our mix or channel. The expectation is that in the second quarter we should see an additional increase in average prices for the domestic markets.

Q - Operator

Thank you very much Carlos.

Our next question, (22:20), BTG Pactual.

Good morning. I would like to know the evolution of discount vis-à-vis the list price in the quarter. It was different from the fourth quarter and we understand that. It was because they were the most concentrated in March when the price mix dropped more simply. Do you see this discount be repeated and going back to historical levels of 20%, 25%? And with leverage close to two and the strong cash generation, the strong cash position, could you say what are your top priorities regarding cash allocation, capital allocation, if you are going to increase payout in the short run, or looking for a green field or an M&A opportunity?

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

Hello Kyle (23:17), good morning. Thank you. This is Carlos Aníbal. I would like to take the opportunity to put this issue into context.

In fact, we saw a drop in our prices explained fundamentally by an expected correction of the list price of AKP in the regions. But we understand this calculation is commonly used by the capital markets in order - it will be by the average peaks in Europe.

And in the market with most seen variations, there are some intersections that could distort conclusions totally. These intersections could be related carriers, to the experience in the speed of priced offers in the geographic mix, the mix of clients, and we saw an important participation of China, and this participation in China was fundamentally in March.

And then March, we had another effect that was equally important. Because we had the lowest average exchange rates in the period, so in spite of all the points that I have mentioned for 2016, certainly we will see discounts mainly in North America and Europe, because of the inflation that we have been observing in the last few years, caused fundamentally by the fact that these markets do not show any growth in demand.

And in the last few years, we see an increase in supply, mainly coming from Latin America in these markets. So not differently from the last years, we see a renewal in the signature of contract last year, at the end of last year with an increase in discount inflation not different from the previous years, and this will certainly be reflected during this year.

A - Walter Schalka {BIO 2099929 <GO>}

This is Walter. Thank you for your question about our leverage and the consequences of reduction in our leverage. We have been discussing this very extensively and in a very conservative fashion due to the possible volatility that the exchange rate could bring to our results and the issue of the pulp price that is not adequately signaled yet. Because of all that, we decided to have a less aggressive dividend payout policy right now. If the scenario becomes more favorable, we could have additional dividend being paid out at the second half of the year, depending on cash generation and depending on positions regarding price pulp.

And looking to the future of the company, the company believes that it could be possible to work in the three pillars. We will be reinforcing our position in the three pillars, looking for structural competitiveness in line with projects that bring about cost reduction, structurally bringing return, a better ROIC for the organization, these are just continue, either way we will continue to explore adjacent businesses in order to create other revenue sources for the company.

ROIC scalability and the third that is the redesign of the industry, we're working and we will continue to work in this alternative. We do not consider, Kyle, the possibility of green field right now. It is not in our plans to work in greenfields right now. So, this is the dynamics that we are considering in our financial strategy for the next few periods. If you have a more benign situation, most probably we will be more benevolent, so to say, regarding our dividend payout policy and we will be more aggressive in the redesign of the industry - of the company.

Q - Operator

Perfect. Thank you very much.

Daniel Sasson from Itaú BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, everyone. Thank you for the questions. My first question is a follow-up on Irai (28:06). This is spread between the fibers. Probably, this will encourage the use of hardwood fiber, so how do you see the volume in April as at the end of March? This was quite strong. Do you believe that the trend will continue in April? And as some competitors have announced price increases in hardwood for this week, are you considering any price increases as well? Do we intend to announce any price increases in the next few days or not yet?

And my second question has to do with fluff. If you could give me more details about the projects and I think you are about to begin to sell the product. So could you give us an update about the stage of the fluff project. Thank you very much.

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

Daniel, thank you. This is Carlos. The sales in April occur in line with our expectations in our regions reflecting our understanding of our sound demand in all markets. Our expectation is that we will be

signing our contracts in China. I would say a little bit higher than the historical average, reinforcing our understanding that the prices today are at a very low price. And our clients, Chinese buyers, have been tapping into the situation.

Nevertheless, we do not have a definition yet about we will be doing the next few days. At the end of this week, we'll have an important event of the industry in Canada, the Market Pulp Association. And certainly, during this event, we will have a more clear view and have the opportunity to have - to make a decision.

A - Walter Schalka {BIO 2099929 <GO>}

This is Walter. Thank you for the question. Regarding fluff, we have positive news. We have already started our sales of fluff in January. We had a marginal sales in December, but stronger in January. And every month, our sales have been going up at very high levels. We have been signing contracts with clients in a recurrent fashion, in a systemic fashion. So, these contracts are piling (30:47) up, so to say, so the volumes are growing month-by-month.

On the technical side, the results is very favorable. We had another very positive information on the technical side of the issue because we had already seen that retention of hardwood for sanitary pads and diapers was better than softwood. And we have concluded technically, studies carried out abroad, that dispersion is always - also better in hardwood fiber than in short, it show (31:26) with this three-segment absorption.

In the other two stages, hardwood is better and we haven't achieving a very high approval levels. Some companies take longer to approve a new technology and new gadgets, and the good news is that those who approved so far are already running with 50% softwood and 50% hardwood and dye it for manufacturers. So, we already have a participation, higher than we estimated before, and this leads us to believe that we will have a bigger market than we estimated globally.

Please do not forget that this global flat market is growing at 4.5% a year and it is 5.6 million tons per year, so this opens a new horizon for hardwood, a very positive one and we are very enthusiastic about the fluff project. Thank you.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you for all this color.

Operator

Our next question is in English. John (32:41) HSBC.

Hi, good morning. Thanks for taking my question. The first, Carlos, I wanted to ask you about the pulp market and your pulp sales. I understand that volumes in the first quarter were concentrated in March. Are you able to quantify of the 900,000 tons you saw during the quarter? How much were actually sold in March?

And on prices, I understand that you think prices could increase over the coming months. I'm wondering, if you could sort of quantify how much \$20, \$40 and what happens with the APP projects when that comes online, specially later this year? Is your expectation that all prices will bounce back wrong (33:30) again?

And my second question, I guess, is for Walter, just a follow-up to previous question about M&A. The M&A, the three colors that as you spoke about it, did they need to be or any M&A activity need to be within Brazil or within North America, or would you potentially look outside of the country or other region? Thank you.

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

John, good morning. This is Carlos. Thank you for your question. We are pleased with the results obtained in pulp in the first quarter, in volume, and as Walter said, a little bit disappointed because of the price drop. It was a very strong quarter end and a major part of this volume were those in March, and our clients in China decided to come back to the market.

I would rather not mention the percentage, because this is a very sensitive information commercially. But a major part of our revenues happened in March, when we had decided the drop of prices in our market, we had an exchange rate real dollars less favorable with EBITDA average of the quarter as a whole.

Many information about the project of Indonesia is not very clear yet. Some people say one line would start at the beginning of this year, and some people say that only next year. There are many doubts regarding the availability of wood in the region, so I'm just sharing with you what I have been hearing in the market, we have no precise information about the project.

A - Walter Schalka {BIO 2099929 <GO>}

John, thank you for the question. This is Walter talking about your M&A question. I would like to clarify something that was published in the newspapers recently. A journalist asked me whether we considered the possibility of an M&A? And I said that we will consider that as we have enough financial strength to do that. And she said, but where, and I said well, it could be either in paper or pulp, either in Brazil or abroad. It could be in the consolidation of verticalization, so John, we are not closing any doors. We are considering all the alternative regarding the potential actions that we have available to us and so far as M&A growth.

Of course, we will never disclose anything before we have material operation, but it's very important to redesign the industry to generate sustainable results. I have been repeating this consistently, and we have a high data in our industry, because the volatility of the exchange rate and our participation is quite small. And volatility of pulp is slower than in other commodities, but it does happen such as in the case right now, so Suzano's position is to see the sustainable ROIC. We had 15.4% last quarter with an expensive spread over (37:02), and we want to maintain a relatively stable ROIC, going up of course, but relatively stable. And it's very difficult with the exchange rate, the volatile exchange rate, so this will be the focus of our M&A activities.

Q - Operator

Okay. Thank you, Carlos.

Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. Carlos, you said that you're analyzing the market in order to make decisions regarding your pricing strategy. So, what is the point of concern? Is it the inventory position in the industry? The inventories were very high in Italy and China, and do you believe this prevents prices from going up again?

Is this your main concern, because I understand that orders are being placed and consumers are buying again and we should have two stronger months ahead of us. So what is your opinion regarding the main stumbling block in the past - of prices going up? And in the paper market, the dollar price went down and the exports went down, so when we look at the dollar prices?

To which extent do you believe the export prices continue to go down, and what's the reason for that? Is it because of more competition, or you're going to new market and you have to give

bigger discounts in order to get into the markets? And with the current exchange rate with the new prices, could you explain these views?

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

Hello. Lucas, good morning. Thank you for the question. Let's start by your pulp question. The major part of concern is the fact that we have a very low pulp price today. It took us six months last year to go up or to increase the price \$50, \$60, and we will have even more than that in the last six months.

So, the major concern is prices. And when you look at the inventory, the hardwood inventory closed at 46 days in March, six days higher than the average for the last five years. However, the last five years, we had practically every year, the coming onboard of new capacities in Latin America, and this makes it necessary to have a higher volume of inventories along the change.

So, I would say that the break-even point would be between 40 days and 46 days, closer to 46 days. And today in fact, the point of attention to us is the inventories in Europe, mainly in the south of Europe, where we understand the levels are still slightly higher than historical levels. So, this I would say is the major challenge that we have for the next few weeks and months looking for a balance between supply and demand.

On paper once again, we had a reserve that made us very happy with the performance because we really reaped the fruit of this strategy that we have been implementing over the last few years what we call internally the Suzano (40:47) or the Go-To-Market project, which means that we have to be closer and closer to our clients with important gains in logistics, in operations, and also, increased loyalty on the part of our clients and of course profitability, which was a good quarter if we compare to the market.

The market had a drop of 5.5% according to information, and 6% according to information by IBA. And then the same period, the sales in the domestic industry grew by 5.5%, and we had a major participation in this overall growth, due to the fact that during this quarter, we made great strides in our strategy to maximize the use of our paper capacity - our coated paper capacity, and the strategy is proving right. We are maximizing production and we are tapping into the initiatives of the Go-To-Market project will have a better distribution of the project throughout the domestic market.

Today, we have a model under construction and we understand that this creates a unique competitive position and we have already started to reap the fruit, as I said before, just to give you an idea of the size of that. Today, we can cater to our clients by 2,000 tons, 3,000 tons per month, and even a client that by only 500 kilos, and that's by three times a month.

All of them count on 60 CDLs. These are local distribution centers. These are the older branches of SPC We have four of these centers, of regional distribution, four, and most of these centers have paper conversion operations and cutting Suzano (40:47) go-to-market carried out this capacity getting closer and closer to our clients conversion.

And because of that, we have a unique advantage, because the client can count on higher availability of paper from our inventories in a much shorter lead time. And of course, we continue to service our clients from our four plants. And one figure that draws attention then is very representative of the success of our go-to-market initiatives. Within the last 12 months, we reached over 30,000 clients serviced by Suzano, an expressive growth with of either last two years and Sammy from the implementation of the strategy of having a higher base or bigger base.

Talking about the external market, we saw a small growth in volume and a drop of 5% in prices if compared to the fourth quarter, and this drop can be explained fundamentally by three factors. First, the variation on the geographic product mix that can vary according to the markets and the

regions. And another relevant point was the devaluation of currencies of some countries that are producers in Latin America in the last few quarters.

We had made the devaluations in Argentina, in Colombia, and in Mexico, and because of that, we had to readapt our prices in dollars in order to continue to be competitive in these markets. And there is a third factor coming into place, which is a real loss in prices because of a more serious competition with products coming mainly from Europe, that is to say, European benefiting from a more competitive Europe and Asia.

And most of the drop that we saw in the first quarter is in the paper board line, and it is related to higher participation of the Chinese in our markets. And also new capacities installed in southern North America that start to look for more important positions in the Americas as a whole and even stronger in Latin America. Thank you.

Operator

Our next question comes from Vincenzo Paternostro, Credit Suisse.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

Good morning, Walter, Carlos, everybody. My first question is to Carlos. You said during the presentation that has the bottom of pulp prices has been reached. Do you refer to this year to the short run or would you say this is valid for the longer run as well because I believe that in the short run it does make sense because there is a strong demand and we really have a more favorable seasonality for the next three to six months. But if you look ahead, we still see oversupply especially with the Indonesia project coming on stream and the Horizonte II Project upheaving the next two years. So I would like to understand if this is valid for 2017 or not?

And my second question is to Walter. It's almost a follow up on what you said before. Walter you said that there was a significant change in some assumptions such as the exchange rate because of the potential political changes in the pulp prices at the lower level than one year ago. I would like to understand how you evaluate this, and how could this impact to turn the strategy from now on once with the variables playing against you, maybe it would make more sense to have paper becoming more and more important in your mix or more focused on your part regarding future investments. Thank you.

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

Vicenzo, thank you for the question. This is Carlos. I said before that we believe that prices in China have already reached their bottom. And we still do not have a definition in Europe, as the business in April will be concluded between next Thursday and Friday, and when we look at the market pulp structure in China, has about 5 million ton of bleach market pulp. And most of this capacity is supplied by ships coming from the Vietnam, Thailand, Indonesia, Australia according to the consultancy companies that cover or sector the cost to ship per ton produced to something the \$330, \$350 delivered to China. And if we add to this amount the chemicals and according to the company, we would have a cash cost of \$460, \$470, \$530, \$520 in China.

Theoretically, let's say the price of ships are maintained and they all barrow as well. It's important to define the logistics of the ships that comes from Southeast Asia and go to China. So let's say the situation is maintained clarity of currencies. We understand that we could configure in the Lignin brand \$470, \$480 and it bottomed for China crisis besides the fact that we know that at this price level, we have integrated producers that will certainly exchange the production of pulp, their own for market pulp. And there in China, two additional elements that could favor a higher consumption of pulp at this price level. The first is a higher consumption of pulp and non-wood, there is no precise figure about the current production of non-wood in China, it's something like between 3 million and 6 million tons, so at this price level, we would have a replacement in part of this volume and with pulp at the current prices, we start to see some clients substituting recycled fibers for

virgin fibers. So the whole dynamic lead us to believe that if the current situation or conditions are maintained, the prices couldn't go beyond \$470 or \$480 with a medium run in China.

A - Walter Schalka {BIO 2099929 <GO>}

Vicenzo, thank you for the question. This is Walter. I would like to highlight our strategy and mentioning to you that we have been insisting on this thesis over the last years. It's the thesis that the company cannot make an extensive investment in greenfield or increase in capacity based on passing price conditions.

Investors four months, five months ago, ask me why I was not doing a greenfield, because it seems obvious to them that a foreign exchange rate at the bulk price that we had, any project would stand up. And now after just a few months, we are discussing that \$3.50 exchange rate and the pulp price that most probably has reached its bottom, just a few projects would stand up. So the company cannot take this risk of volatility regarding ROIC overtime. So I see strategic alternatives for the company and we are exploring them, such as seeking higher competitiveness and seeking adjacent businesses and the redesign of the industry, but always trying to create sustainable value for our shareholders.

We do not want to be a door to the volatility of prices. We want to deliver value ongoing and increasingly and sustainably. This is what we intent to do over time. For our investors and our investment dynamics, will always be, as I am describing to you. So, it's very difficult to make assumptions about the exchange rate in a country that has a very high volatility economically and politically such as Brazil. So I would rather not do that, because we have to protect our sales and of what we do know is to protect this is doing zero collar operations and this has brought about benefits to the company in this quarter, of course, it's not in the EBITDA line. It's a financial line item because it is a financial instrument.

And we do that in order to guarantee flow and not to guarantee debt. And our debt is in American (53:10) dollars, our debt is comfortable. We are comfortable with the generation of dollars that we have with the level of debt in dollars that we have. So, when we do zero collar, we are basically hedging our capital flow over time.

These measures are mitigating measures, but looking at the strategy as a whole, we want to deliver our investors consistent results and growing results, always having a ROIC higher than our WACC. Thank you.

Operator

Alan Glezer, Bradesco BBl.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning, everyone. Two questions. The first regarding the volume of pulp sales in the first quarter. Both the sales volume and the production were very high. But I would like to talk about the pulp inventory that you had in the fourth quarter. You produced more than you show. So, you had some inventory. So, I would like to know how much of this inventory that was created in the fourth quarter? Is still available to be sold over 2016? So, this is the first question.

The second question has to do with cost. Before a relevant drop in the cost of wood quarter-on-quarter, dropping BRL 59 per ton and the cost went up because of that. So, how sustainable was that drop in wood cost and I would like to have an update regarding the use of third-party and your own wood. So, could you give me a breakdown? So these are my two questions. Thank you.

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

This is Carlos, Alan. Thank you for the questions. We told you at the end of our fourth quarter call that we had been operating in 2015, in the first three quarters, we have extremely low inventories, much lower than what we considered as optimal. And we tapped into the market moment to allow for this increase in our inventories for the close of the fourth quarter. And I said to you that the inventories were at a very satisfactory levels, so that we could have a good ratio between the volumes in inventory and a good service to be delivered to our clients over the third quarter. We had a variation of 6,000 tons between production and sales. Therefore, our inventory was practically unchanged and I reiterate that the inventory levels are totally adequate, so that we may deliver satisfactory level of service to our clients in the next two months.

A - Walter Schalka {BIO 2099929 <GO>}

Alan, this is Walter. I would like to talk about cost to you. We had a reduction in the third-party mix vis-à-vis the previous periods. And I would like to remind you that of our own wood in the first quarter, Mucuri, we had 54%, vis-à-vis 49% our own wood in Q4 2015 and the trend continues, which means that we will be further increasing the percentage of our own wood. And in relation to distance and liquidity, our distance reached its peak last year, a third-party will adopt 560 kilometers over the percentage of third-party wood and now with 523 kilometers and the distance will continue to shrink. So if you draw a comparison of the first quarter 2015 to this first quarter 2016, you will see that we have an even higher participation of third-party wood and a higher distance that we reached the peak in the third and the fourth quarters and gradually, we are reducing this figure quarter-over-quarter.

Of course there is an inventory that runs over time and this helps us regarding benefits to be returned in cash costs. There are many other important benefits, which are to replicate, that we are gradually carrying out the plan. In June, between the first part of the Imperatriz retrofit where we will be increasing our capacity in Imperatriz and reducing the consumption of chemicals in Imperatriz, we are already made a running with a new divestiture, and as of February or March, we started to bring about an important reduction in the consumption of chemicals in the operations.

So these projects continue to deliver results and leading to better and better results. In quarter-on-quarter, we've had the energy price issue that's off the lot and the volumes have exploited energy increase, so our strategy regarding energy export is good and because of the drop in prices, our revenues from that dropped. So we are very satisfied with the operations of all the plans of the company and also regarding wood bringing about better and better results. So in a nutshell about the trend of wood prices, it is consistent and it was even more consistent for the next quarter.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you for these answers.

Operator

Paolo Valahasi (59:19) from Citibank.

Thank you for the question. Good morning. One question about the recovery of demand for pulp in China in March. What is the reason for that? Are they building up the inventory or is it because of a structural improvement in the paper market in China?

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

Good morning. This is Carlos. In our understanding, the buyers in China has been operating with extremely low inventories of hardwood, expecting lower prices. And they understand that with the current price levels for hardwood, \$480 of market value, they do not believe that there is further room for prices to drop. So they are tapping into the opportunity to rebuild their inventories, very much helped by this spread that we see vis-à-vis softwood, which is about a \$100. So March was very strong and the date of PPPC that were published yesterday showed this, and April so far, we see Chinese buyers buying more than historical levels for April. Thank you.

Operator

The Q&A session is closed. Now, we would like to give the floor back to the company for the closing remarks.

A - Walter Schalka {BIO 2099929 <GO>}

We would like to reiterate our thanks for your presence in this call and say that we are very pleased with the evolution of Suzano quarter-on-quarter. We have been delivering better and better and consistent results and there is also progress in all the areas of the company. And this is a collective work done by 8,000 people who produce solutions and implement solutions with effectiveness, with determination, with courage, with engagement. And all this builds a very positive energy in the company and because of that we are reaping these positive results.

We have new seeds being planted and in spite of the fact that we are very pleased with the moving (1:1:51), we are not very pleased with the total. We still have to tap into many other results, and we are very comfortable in this very sensitive moment of Brazil and also of the global pulp market . We have a long-term view, and we have the results and our commitment to the Brazilian society and with the pulp and paper industry.

So, thank you very much to everyone and have a very good day.

Operator

Suzano Papel e Celulose conference call is closed. Thank you for participating and wish you all a very good day. Thank you.

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

FINAL

Bloomberg Transcript