

# Q3 2015 Earnings Call

## Company Participants

- Carlos Aníbal de Almeida Jr., Executive Officer-Pulp and Paper Business Unit
- Ernesto Pousada Junior, Chief Operating Officer
- Unverified Participant
- Walter Schalka, Chief Executive Officer

## Other Participants

- Caio Ribeiro, Analyst
- Karel Luketic, Analyst
- Lucas Ferreira, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Suzano Pulp and Paper Third Quarter of 2015 Earnings Conference Call. Participants will be in listen-only mode during the company's presentation, which will be made by Mr. Walter Schalka, CEO of the company. Afterwards, we will have a question-and-answer session, when further instructions for you to participate will be given. We would like to mention that each participant will be allowed two questions only.

We would like to inform you that some statements to be made during this call are projections or forward-looking statements and these forward-looking statements are subject to known and unknown risks as well as uncertainties which could make these expectations not to materialize or be substantially different from what was expected.

These risks include, among others, changes in future demand for the company's products, changes in the factors that affect international and domestic prices of the product, changes in the cost structure, changes in the market seasonality, changes in prices charged by competitors, exchange rate variations, changes in the political/economic scenario of Brazil, as well as international and emerging markets.

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

### Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It's a great pleasure to be with you for this third quarter of 2015 conference call of Suzano. We have the executive members of the board, Marcelo Bacci, CFO and IRO; Ernesto Pousada, COO; Griner, Human Resources and Institutional Relations; Alexandre Chueri, Forestry Officer. Via call, we also have Carlos Aníbal, Commercial Officer, who is in London right now, participating in the London Pulp Week and who will also be able to answer questions that are addressed to him during our call.

I would like to thank you all for your presence and say that this is a very special moment for Suzano. It's a very positive day. We will be jointly announcing to you our record results in terms of operating results, exceeded by 54%, the highest EBITDA that we had ever had in the past, which was in the previous quarter with very positive operations in the areas of the organization. And at the same

time, we are announcing a strong investment program, over R\$1.5 billion to be invested. It's a very special moment for the company and this investment program with a major potential to create value for our shareholders. So, this is a very good moment for us because we delivered the results that we were working to obtain and we prepared our future for additional growing results to be obtained here.

I would like to start by talking about the record figures that we delivered during this quarter. Of course, operating cash generation, which in our opinion, is the indicator that represents the best for our sector, the true value creation for shareholders because the comparison or the asset base of the company gives the true return on capital employed. We had a record high in the last 12 months with R\$3 billion in operating cash generation.

Our EBITDA R\$4.1 billion minus our CapEx – sustaining CapEx generated R\$3 billion (04:24) in cash in the last 12 months; record EBITDA, record high with a 49.4% margin reaching R\$1.476 billion in 3Q, as I said before, exceeding by 54%. And this was a lot of work done by the organization because we also achieved record multiples in industrial operations, which is fixed; forestry outbound, which is fixed; and we reached records in energy exports as well. So, many record multiples led us to an efficiency gain that, together with adequate prices and volume, gave us also record EBITDA besides record production.

Another important process now (05:18) persistence and consistency in the third for better results in operating expenses, SG&A with the lowest historical level as a ratio of net revenue, 7.4%. This allows us a very good cash generation and that led us to an additional viability management movement this quarter, leading to reduction in our investments, both in reals and in dollars in 2015.

With the new reduction of net debt/adjusted EBITDA, this ratio is already at 3.0 in spite of the dollar having closed on September 30 at R\$3.97 per dollar. So, we had a devaluation from R\$3.10 to R\$3.97 as our debt was based on R\$3.97. However, our EBITDA for the quarter was with an average exchange rate of R\$3.54. So, you can see that in dollar, we have a net debt/EBITDA ratio that is lower and due to this operating cash generation, we are announcing more than we had estimated, an interim dividend of R\$120 million to be paid out to our shareholders.

Regarding the production and sales of pulp. Record production of pulp in our operations, 929,000 tons in the quarter, and this is a very expressive figure, and it shows the potential that our operations have and we had sales of 890,000 tons in the quarter. Total inventories of pulp right now are at lower levels than historical levels and apparently with a downward trend. Therefore, we're rather bullish regarding the overall scenario for pulp. Pulp demand is going up consistently in many regions and mainly in Asia, and this allows us to place a very expressive figure of pulp in Asia this quarter.

And given the transparency that we have with the market, I would like to say that we have anticipated the stoppage of the Mucuri due to the hydrological reasons in the region and we have already resumed our normal operations in Mucuri and we want to say very transparently that we had a loss of about 30,000 tons of production because of having brought forward the stoppage and also the stoppage of Limeira and we have already resumed regular operations, according to the schedule that had already been established.

In paper, the domestic market is still more fragile vis-à-vis our expectation. And year-to-date, we saw a drop of 14% year-on-year and increase in exports with positive margins. And regarding dumping, we have made a final decision for the beginning of next year with a potential review of that for 2017 and also very impressively. So, we are very bullish about that, although we are already provisioning R\$10 million in the quarter in our results during (08:59) to the tariff that was applied and we trust that over time this situation will be reverted.

Regarding cash costs, as we have said before in previous quarters and mainly in the second quarter, we continue with our policy of maximizing the maximum age of Mucuri, an average age of Mucuri. And in order to do that, we are bringing third-party volumes increasingly. So we have increased third-party volume from the second to the third quarter, from 37% to 51%. And for those who track the company figures, we are now considering this as our own wood because we have long-term contracts with them. So, the purchase of wood from third parties, as you can see on the slide, and this impacted by R\$56, our cash cost for wood. And the good news is that we are reaching now in September/October, the peak of distance and third-party volume, and gradually as of November, we will see a reduction in the average radius which is very positive for our results estimate for 2016.

Regarding our net revenue, we are getting close to R\$10 billion. In the last 12 months, we had R\$9.7 billion. And the most important news is how we are mitigating inflationary effect. You can see COGS per ton here. In the last 12 months, we had R\$1,316 which means the cost increased from September 2014 to September 2015, comparing the last 12 months, of 1.8% for an inflation in this period of 9.1%. So, this obsession to reduce costs will continue, and we have good news to convey to you during the presentation.

SG&A over net revenue dropped inconsistently 7.4% in this quarter, but year-to-date, or in the last 12 months, 8.5%. So, we have a downward trend here. And the adjusted EBITDA margin, also an upward trend; in September 2014, 32.1% and in the last 12 months, 43.3%. Although in this quarter, we have already reached 49.4% EBITDA margin.

The next slide. So, the dollar impact on our results. Many people say that a significant part of our results is a result of the exchange rate variations. It is reality in part, but not totally. In 2012, we had an EBITDA of R\$1.260 billion. And in the last 12 months R\$4.194 billion. And as you can see, quarter-after-quarter, this is consistently growing. So, in the last three-and-a-half years, we have been achieving a major increase in our EBITDA, 233% from December 2012 to September 2015. The counterpart of that or the flipside of the coin is that in dollar, we are also increasing our EBITDA, our EBITDA in dollar in December 2012 was \$641 million, and now we have reached in the last 12 months almost \$1.4 billion. Part is the exchange rate effect and part is the evolution of our operations in all centers, always seeking more effectiveness and structural cost and operating efficiency in all our operations.

Now, talking about investment, the guidance that we had given you in the last quarter, R\$1.8 billion is maintained for this year. We have investments of R\$1.1 billion of sustaining CapEx and R\$700 million for the extension and the retrofitting and the status quo for each one of the investments. You can see that the Suzano digester was concluded and is operating with a lot of success. We are very happy with the investments made. Operation is even better than we had estimated before. And in the general stoppage of Limeira, we cemented the retrofitting and the notification of this digester very successfully. And in the fourth quarter, we are concluding all the energy efficiency programs in our operations, and we are also concluding the issue of insourcing in qualification and modernization of our harvesting equipments in all our sites.

We introduced a concept of getting light trucks with operations with autonomous operators and also for the Imperatriz and Mucuri operations in Q4, and the biomass boiler of Limeira and the retrofit will be ready by the first quarter of 2016. So, investments in structural competitiveness as you can see, and we included another bullet point here, which is EucaFluff and we want to convey to you this very good news. It is totally according to schedule, and we will be producing EucaFluff also in December 2015, already in the next few weeks, in fact. So, this is a very positive point. And it is really according to the schedule that we had announced to the market, both in terms of the deadline and the investments made.

This operating cash generation that we have been obtaining has been leading to some factors. The first is a reduction of our net debt/adjusted EBITDA ratio. This figure has been dropping very steeply, and we closed Imperatriz project in December 2013 with 5.2 times net debt/EBITDA ratio.

And in this quarter, 3 times in spite of the dollar at the end of September being R\$3.97 exchange rate. And the most important is the trend, because the trend is a systematic downward trend. It's a consistent downward trend that we annualized in a dollarized fashion our net debt/EBITDA ratio and in this quarter, we're already at 2.3 times net debt/EBITDA ratio, and this allows us to do a lot of successive liability management.

We have had the fifth wave of liability management during this quarter, amounting to R\$4 billion in liability management for the year. And you can see on the chart on the right, that we had in December 2013 94.4% of the CDI cost and those debt in reals, and in this quarter it's already 84.2% and in dollar debt 4.8% a year for a debt cost of 4% a year, which means that we are reducing our investments gradually and reducing the cost of debt gradually as well, this combination is very positive, because this will lead to a major reduction in our financial cost quarter-on-quarter. This program will continue, this is an ongoing program, and we're considering which will be the new wave in this program.

Now, I would like to talk a little bit about our strategy, and tell you that we reiterate our thesis that we have to work on three fundamental pillars in order to maximize return for our shareholders. The first one is structural competitiveness. We will be announcing in the next few minutes to you about (17:08) a very important investment plan for our operations regarding structural competitiveness. The second pillar is adjacent businesses, that can allow us to have a higher ROE and also scalability of our business, and also the redesign or reshaping of the industry so that over time we may obtain sustainable results in the company.

Looking at our structural competitiveness, we are announcing today our 5.1 Project with the objective of reaching in 2018 with the investments announced a capacity of 5.1 million tons; 3.8 million tons in pulp, and 1.3 million tons in paper.

For that, we have investments in the Imperatriz unit, debottlenecking our operation there, and increasing our capacity in Imperatriz. And these investments will be partially delivered already in 2016 and 2017. And investments also in Line 1 of Mucuri, and debottlenecking the production line, number one of Mucuri and capacity increase in Mucuri, an expensive reduction of specific consumptions of Line 1 chemicals and other products. In order to make this possible together, we have to make investments in the forest space. We are increasing our forestry base in the two - at the two sites and with the objective of reducing the average wages of bigger approximation of our forest to our plan.

So, the set of these initiatives or all these initiatives together will lead to have a lower cash cost with a lower consumption of chemicals and a lower fixed cost, and we would like to announce to you, the objective of reaching in 2018, at \$1 of R\$3.8, a cash cost of \$150 per ton. And that's the end of a cycle of planting for seven years, our objective is to achieve for the whole company, a \$125 per ton of cash cost for the company as a whole.

So, this is the objective that we are after as of now, a combination of capacity increase and dilution of fixed cost with the competitive gains and cost reduction reaching \$150 per ton in 2018 with the objective of reaching \$150 per ton in 2018 and after the cycle of \$125 per ton of cash cost. In order to make this possible, we are investing R\$1.14 billion with 47% internal rate of return. Estimated these disbursements will be R\$510 million in 2016, R\$585 in 2017, and R\$45 million in 2018. The conclusion of the project will be gradual deliveries in each one of the years as part of the project 2016, 2017, and 2018 and gradual increasing capacity as in 2018, we intent to reach the 5.1 million and the \$150 per ton of cash cost at \$1 of R\$3.80.

Together with that, we are announcing today another adjacent business. As adjacent business already announced before to you, we have lignin business, which has a deadline for implementation of the pulp business that will be started up in December this year. We have FuturaGene and now we're announcing our tissue operation in Mucuri and in Imperatriz, these two types. And a product that approved by the board yesterday, R\$425 million, will lead us to place a

double-sheet or double-width machine in Mucuri and another of double-width at Imperatriz for the production of jumbo rolls.

Our objective and we are already in contact with our clients, both domestic and international, our objective is that we will be able to sell the jumbo rolls so that they may be converted in the different regions, North and Northeast is the fastest growing market in Brazil. The tissue market in Brazil has been growing at 5% a year and in the North and Northeast this growth is faster.

Additionally, there is a greater process in Brazil in tissue, which is the migration from single sheet to more sophisticated products, and our machine will allow us to produce from single sheet to double sheet or triple sheet as well through state-of-the-art of production technology in tissue paper. And there is an additional objective, which is the objective of monetizing our tax credits, the ICMS tax credits and we are addressing the issue of accumulated tax credits in the two sites. This is very positive and rather unprecedented in our industry and the beauty of this project is the competitiveness that we will have. We have operating competitiveness because of the quality of assets that we have, and the fact that we have wet pulp at the plant and also all the control of the utility base and steam or energy water, effluent treatment at the two sites. So operationally speaking, we will be very competitive and our logistics is very well-positioned as well.

So this combination will bring us a very high level of competitiveness in the region and we will allow our clients that utilize our jumbo rolls to operate also in a competitive manner. In case we do not reach an alignment with our clients in jumbo rolls, we also have the possibility of going towards conversion and this is already included in this R\$425 million; this is a program with an 81% internal rate of return.

The start-up will be at the two plants in different - at different moments, and we are facing at Imperatriz, the objective of having the operation in the third quarter of 2017 for jumbo rolls and then Mucuri, the fourth quarter of 2017. Each one of the plants have a capacity of 60,000 tons in double sheets and in single sheets, it could be 70,000 tons and we are placing 60,000 tons because we'll have a mix, and this adds a lot of value. This is a combination that will increase our competitiveness on one hand, and also adding value to pulp and solving structurally and definitely the accumulation of ICMS credits that Brazilian exports have regarding many different operations.

So, we are very pleased with this combination that we are conveying to you today. Excellent operating results. First, a strong investment program, R\$1.5 billion that we are announcing today. So, I think this is very good news, and this is a very clear evidence of the commitment on the part of our board, and on the part of the company with investments in Brazil and in the different regions where we operate.

With this, I end my presentation. And now, we could open the Q&A session. We will all be available to answer your questions.

## Q&A

### Operator

Ladies and gentlemen, now we will start the Q&A session. Thiago Lofiego, Merrill Lynch.

### Q - Karel Luketic {BIO 16467278 <GO>}

This is Karel. Thank you for the question, congratulations for the results. I have two questions. The first one has to do with the tissue announcement. Adding to what you said, Walter, could you tell us about your expectation regarding your margins that you expect for the tissue business? And 120,000 tons of tissue that you announced, will it be part of the 340,000 of pulp or is it additional? This is my first question.

And my second question has to do with the pulp market. You said that the inventories are lower and that demand is high, especially in Asia. So, I would like to know how your announcements of (26:45) could lead to an impact in prices, mainly in Asia. So, could you give us an update regarding prices? Thank you.

### **A - Walter Schalka** {BIO 2099929 <GO>}

I will answer the first question. Thank you. And then, Carlos Aníbal will answer your question about the impact. Regarding tissue, 120,000 tons is included in the other figure, which means that we are being converting part of pulp into paper. So, it's not in the 1.3 million tons that we have for Printing & Writing Paper, we will be adding an additional 120,000 capacity in tissue, 60,000 in each one of the two plants.

So, part of that will no longer be market pulp, and we will become market sales, the tissue market kind of is very important in the North and the Northeast. Many of our clients have been taking jumbo rolls from the Southeast or the South to the North and the Northeast. And we will be more competitive in these two regions.

The unit margin that we have allows us to have a reasonable internal rate of return, which is 81% on the R\$425 million annually. Of course, part of that is in monetization of the ICMS credits, which are very big, and that are not undergoing any type of restatements in many states. So, tissue is really a new avenue that has created a new path with a lot of added value for the company, and it allows us to face products competitively in the North and the Northeast, and on the other hand, allows us to monetize the ICMS tax credits.

Now, Carlos Aníbal will answer your question about pulp.

### **A - Carlos Aníbal de Almeida Jr.** {BIO 6275986 <GO>}

Good morning, everyone. Thank you, Karel, for your question. And I would like to use your question to share with everybody our understanding about this moment regarding pulp, and that then I will talk about paper as well. Pulp, according to the PTPC, we see a strong growth in demand in the first nine months of this year, 3.7%, 1.2 million tons. Highlighting China, we grew over 13%. So, it's important to mention the major growth in demand for eucalyptus, 8.6% growth, and in China, 19%.

Inventories of softwood in September were very low, two days only, that's what we had in August, one day more than in September last year, although we had important capacities coming on board during this year then that should have increased our inventories due to the need to form inventories in order to cater to our clients in the foreign markets.

Softwood, 30 September, a three-day reduction vis-à-vis August, and in spite of that, three days more than September last year. Softwood will see a more imbalance in the market, a lot of pressure on prices. And in China right now, we see our attention turned to 2 points margin for paper producers that are very low, and above all the difference between the net price for hardwood and softwood that exceeds \$40 - \$50 already, but going back to demand, we had made a growth in the third quarter vis-à-vis the second quarter, and also the third quarter of last year and this is valid for demand as a whole, even more so for eucalyptus. And the ruggedness or resilience of demand in the last few months, especially in the European summer accounted for most of the sustained prices.

China also grew in these last nine months by 19.8%, the consumption of eucalyptus on the supply side, we see the operating rate that is very high from 91% to 99% in September. And for eucalyptus, the percentage is over 105% in 3Q, major stoppages in the main markets, and for the fourth quarter program scheduled maintenance stoppages and that will reduce even more supply and specifically that the current settlement in Brazil and what occurred in China as well. And over this week, we heard that in London, there was also a stoppage. And in South America, okay, scheduled, however with longer stoppages than estimated, 39 days is a very low number for

eucalyptus inventory, but taking into account coming on board of new capacities, especially Suzano and (32:29)

In October, we had a robust demand from North America, also a robust demand from Europe. And we see the maintenance of this level in the first weeks of November. We advanced our list price in North America and in China. Although eucalyptus inventories are slightly lower than normal, we can see a lot of pressure on the path of buyers for a price reduction, and we believe this comes from a very big availability of softwood, \$50 lower than eucalyptus, a big availability of inventory of softwoods in these locations and increase in supply of hardwood produced locally, some restrictions and reductions of production capacity for tissue for environmental reasons, and once again also the margins of some kind of paper we believe is the fundamentals of the eucalyptus market. And we decided to make no price conception (33:43) whatsoever over October, which means that we were firm in our prices. We didn't change any prices.

And due to this pressure on the part of Chinese buyers, we have not signed any new volumes and negotiations are still underway. And we believe that if the pulp producers have discipline and respect to the market fundamentals, in the next few days, we could see a favorable outcome for this deadlock that was established in China last month. Once again, the eucalyptus fiber fundamentals are strong and limitations on the supply side strengthen the position of eucalyptus producers. And so, I expect the industry to have enough discipline to come to a conclusion of all these deals that are - were interrupted since October. And I would like to take advantage of your question to raise a point regarding the spread between hardwood and softwood.

There is no reason for us to have hardwood always below softwood. Eucalyptus fiber is very well accepted in all markets and we have already occupied a very relevant space. It's very relevant for the production of many kinds of paper in many geographical regions and this brings a lot of value to the final product. So, our position, our understanding is that there is no reason whatsoever for us to always have eucalyptus with a low reference price, lower than softwood. Differences of course will be determined by supply and demand. But in a situation of market stress, then we could have softwood be a little bit more expensive than hardwood, because of the differences in cost structure.

And the permit prices (35:48) differences between these two fibers could cause this in some markets or some paper segments, a higher use of softwood to the detriment of hardwood. But I would like to remind you that producers, when they start using eucalyptus fiber, they see the benefit and they usually stick to this fiber. So, we are very bullish about eucalyptus' position vis-à-vis the other fibers. So, this is our understanding.

In a nutshell, this is what we see for the pulp market. For the paper market, as Walter said, we had an additional quarter of low demand, and we see no indication for short-term improvement in the domestic market. And so, we are marching (36:50) our endeavors more and more to the external markets to export with very good results. We grew our volume 8.2% for the one quarter, and 25% on a year-on-year basis. You're talking about 72% increase in revenue, share of exports 27% of total in Q3 2014 going to 34% in Q3 2015.

I would like to remind you that at this exchange rate level, we see an expressive volume of our exports generating a higher profitability than the ones that we generate in the domestic market. So, the trend is to continue these endeavors to export in 4Q. And to finalize about paper prices, we have been saying that in spite of the bad situation of demand, we have other variables such as exchange rate, profitability of exports that supports new price increases. And the exchange rate gives us a higher profitability in exports, and we are announcing major increases as of February 2016.

We are talking about 24.3% effective cut size and 24% of the offset line in the case of Paperboard for the same reasons mentioned before. We are finalizing our analysis and that will be announced in the next few weeks or days in the fourth - as of the first quarter 2016. And the only line that we

do not announce anything new is the coated paper and we have been implementing successfully a strategy to occupy space and take (38:55) imports. So, the imports of coated paper has already dropped by almost 40%. So, we are tapping into that in order to increase our market share domestically.

So, now, I conclude my remarks in my view or our view about pulp and paper.

**Q - Karel Luketic** {BIO 16467278 <GO>}

Could you clarify the figure that you said 24% increase for cut size?

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

24.3% for cut size and 23.8% for the offset. Imports as of February 1, in the case of Paperboard, we will be announcing prices. And in the next few days or couple of weeks, we will be publishing the percentage and this will be implemented over the first quarter of 2016 as well.

**Q - Karel Luketic** {BIO 16467278 <GO>}

And just a follow-up vis-à-vis anti-dumping, Walter had talked about that too, when would this review be of the anti-dumping measures?

**A - Operator**

The beginning of next year, we have final decision and a first formal review will be at the beginning of 2017.

**Q - Karel Luketic** {BIO 16467278 <GO>}

Thank you.

**A - Operator**

Thank you.

Caio Ribeiro, BTG Pactual.

**Q - Caio Ribeiro** {BIO 18420483 <GO>}

Good morning, everyone, and thank you for the opportunity. Could you please talk about the implementation of price increases for Printing & Writing Paper and also Paperboard that you announced for the domestic market in August and September? What about the acceptance and what about the order book in the third quarter? And could you talk about the evolution of the situation in Mucuri regarding the very low rainfall in the region. Had the rainfall come back to regular or normal levels, and do you believe you will have to make more investments in order to reduce the consumption of water?

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

Caio, good morning, this is Carlos. I would like to start by talking about Printing & Writing Paper. I would like to remind you that for cut size, we announced 9.6% as of August and offset 10.6% as of September. Implementation of increases is according to schedule with very expressive progress in cut size, a lot of progress and a lot of success in the implementation of cut size prices offset implementation is underway, and we have the national program for school books and also the writing book programs. And of course these programs are negotiated, and we had the last announcements made. So, the implementation in spite of a difficult demand situation is as planned.

In the case of Paperboard, I would like to remind you that we announced 9.5% as of September, and we had said that we would be to starting to see this over the fourth quarter, and we expect to



see this progress up to the end of the year. And the real percentages to be achieved for Paperboard are planned for the first quarter of 2016, due to seasonal campaigns and differences in product mix and channels or negotiations that are different. So, increases are happening according to what we expect.

## A - Ernesto Pousada Junior

About this river situation in Mucuri, the situation has gone back to normal already. The river already has 9 cubic meters per second, and I would like to remind you that the two production lines are producing normally right now. We believe that, as I said before in the other call, now we have the rainfall regime starting, so it should be normal and we should have more and more water and this means no problem whatsoever.

At the same time, we are making investments in many areas. Walter talked about a major investment that we are making in the effluent treatment station. This is an important point for us to have a better effluent quality even with low levels returning the effluent to deliver. And we have many projects that are already underway and we are further accelerating them in order to reduce more and more our water needs.

So, we have many projects that are being implemented, and we will move in-depth into other projects that could prove to be feasible in order to minimize the water shortage risk in Mucuri and the regions. We see no risk and as the rainfall regime should start, we do not see any immediate risks to production. So we did face this kind of situation; however, things have gone back to normal already and it is 1.75 cubic meters, our water need to run the two lines, so you can see that the river water level is higher than what we need to operate those lines.

## Q - Caio Ribeiro {BIO 18420483 <GO>}

Thank you.

## Operator

Our next question comes from Lucas Ferreira, JPMorgan.

## Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. My question about tissue. Going back to my question, I would like to know what is Suzano's strategy for the long run. How should we see this initiative on the part of Suzano? Are you getting into the tissue market in order to tap into a specific opportunity and do you intend to do the full integration or do you intend to develop your own brand for tissue? Is this an opportunity for you to increase your capacity? Could it become something bigger in the future, requiring more and more investments or maybe acquiring other companies or developing brands or acquiring brands? How should we see Suzano's arrival in the tissue market? What kind of competitiveness are you aiming at in Brazil?

## A - Walter Schalka {BIO 2099929 <GO>}

Lucas, thank you for the question. The tissue business is a business in which we have an intrinsic capacity, a very strong one in fact. We have all the logistic and operational conditions to be a major player in the production of jumbo rolls. We are not familiar with the other stages of commercialization and the use of brand, et cetera, and this is exactly the reason why we decided to invite our current clients of pulp, and international pulp clients as well that wish to establish themselves in Brazil, and global tissue producers, so that they may become buyers of these jumbo rolls and this way we would be maximizing our structural competitiveness with knowledge of the market and also with the brand experience that these players already have.

So, this is the decision that we are analyzing. So far or up to now, we do not intend to increase or to extend our tissue capacity to other regions. We are only doing this in the Northeast because

there is low competitiveness on the part of current players there, and we will be offering a very major competitive advantage to the Northeast. And this is, where we have the accrued ICMS in Maranhão and Bahia. So, this is our objective during this period. And we will only be allowed to go to the next stage of production, should we not be successful in our talks with the players regarding the sale of jumbo rolls, but we are very comfortable based on the indications that we have received so far from many players because we are in contact with them already. And we believe we will be able to sell our jumbo rolls to our domestic and/or international clients of tissue.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

I have a question to Carlos Aníbal. Carlos, this announcement of price increase of 24% is rather aggressive, and I think this is the first time we see such a big increase. If you cannot implement this fully, will you be focusing more on exports or do you intend to finance your clients or selling at lower prices? You announced a very big price increase. What will happen if this is not so successful? Could you explain this please?

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

Lucas, thank you for the question. We believe that the market variables fully support a price increase of this magnitude, if we continue the evolution of the pulp price, and exchange rate, and the evolution of prices in the international markets. We believe for all these reasons that this is quite feasible. And as you said yourself, we have a unique opportunity of achieving very good margins in exports.

And as I said before, we have a major part of our volume today. We exported with a better profitability than what we've showed in the domestic markets, and this doesn't make a lot of sense because we have to be closer to our clients. And we have better logistics, better availability. So, this is why we believe that we should see prices in the domestic prices that may be compatible to international prices. There is a mismatch there. So we believe we will be able to implement this increase as well as the increase for Paperboard that we will be announcing in this near future.

**Operator**

Now, we close the Q&A session. And we would like to give the floor back to the company for the closing remarks to be made.

**A - Unverified Participant**

I would like to thank you for participating in our call, and reiterate that the company is very enthusiastic with the transformation of our internal processes, and evolving in all areas, and we are working quite hard in our relationship with all our stakeholders, and very pleased with the results obtained in the first quarter of this year. And pleased in being able to announce this investment plan with a huge value creation for our shareholders. And tomorrow, I would like to invite you all to participate in our Annual APIMEC and we will be presenting this information in a more detailed fashion tomorrow. Thank you very much. And I wish you all a very good day.

**Operator**

Suzano's conference call is closed. We thank you for participating and wish you all a very good day.

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