

Q4 2015 Earnings Call

Company Participants

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

Other Participants

- Alan Glezer, Analyst
- Carlos F. De Alba, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Suzano Papel e Celulose Conference Call to discuss the results of the fourth quarter of 2015. 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 participants will be allowed two questions only.

We would like to inform you that some statements in this presentation may be projections or forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause these expectations not to materialize or the actual results to differ materially from those expected.

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

Now I would like to give the floor to Mr. 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 once again. Thank you very much for participating in Suzano Papel e Celulose's earnings call. I would like to mention the presence of our officers who are willing to answer your questions.

Marcelo Bacci, our CFO and Market Relations Officer; Carlos Griner our Human Resources and Sustainability Officer; Alexandre Chueri, our Executive Officer for the Forestry Area. And I would like to start by saying that 2015 was a historic year for Suzano. We reached many records in our operations and we would like to talk a little bit about them now.

Our operating cash generation was BRL 3.5 billion, and we understand that operating cash generation is the best indicator in order to measure value when you compare this with the asset base of the company because it gives the right dimension of the EBITDA minus sustaining CapEx, and this shows over time the evolution achieved by Suzano.

Just to remind you, in 2013, we had BRL 1.1 billion, in 2014 BRL 1.5 billion and this year, we more than doubled, we reached BRL 3.5 billion, and this stems from two major moves. The first move was the increase in volume, our sales volume this year was 350,000 tons higher than the volume of sales that we had in the previous year driven by many production records. And we will be getting into that in a few minutes.

And also the increase of margin per ton. We understand this as being fundamental. The margin per ton grew because of the price evolution and also because of the mitigation of costs or drop in costs. On the other hand, we reached a margin per ton that is BRL 1,016 per year, and in the last two quarters, we had about BRL 1,200 per ton. With that, we reached a record EBITDA of BRL 4.59 billion for the year, 87% higher year-on-year, with a margin of about 45%. EBITDA margin for us is not a very relevant criterion. We believe that absolute EBITDA and absolute cash generation are much more relevant. But as the market follows this indicator, we are emphasizing this for this reason.

In the fourth quarter, it was slightly below our expectations, our results, and we have results of BRL 1.226 billion of EBITDA coming from some factors among which the general downtime that was already estimated for Mucuri and Limeira and also because we brought forward the Mucuri downtime because of the Mucuri River level, and also the lower volume of pulp in the quarter with an increase of 100,000 tons during the period of inventories.

In the year, we had the lowest SG&A over revenue ever, 11.9% vis-à-vis 9.5% - 11.5% in the previous year. So this is very representative for BRL 10 billion in terms of sales. Net debt - adjusted net debt is with the downward trend, 2.7 times in real, and 2.3 times in dollars according to the policy that we had already mentioned to the market, after deleveraging, we continued with this policy, and we reducing gradually this ratio. We reached a

production record of 4.5 million tons, 8.4% increase year-on-year, revenues 40% increased year-on-year, and BRL 10.2 billion.

Besides having reached impressive records, we gave fundamental steps in our strategy, and I would like to focus a little bit on this point because we have three points in our strategy. The first one is structural competitiveness, we not only evolved this year, but we also announced our 5.1 Project. In 2018, we intend to reach 5.1 billion tons in production, and further reduction of cash cost \$150 at 3.80 (07:04) which was the basis the we used, and \$125 per ton in 2021. This would give us an increase in our competitive advantage globally.

And the other point is a retrofit of the industrial units. There were many actions last year and we continue to have actions underway this year, liability management over BRL 4 billion with the reduction in the debt cost. We will talk about it. And the Suzano+ projects, we have growing direct sales of paper, and which gives us a better possibility to increase loyalty on the part of our clients, and the higher dominance of the channel. And this the fundamental key for the changes that we are doing. This cultural transformation in which we give autonomy and we increase the possibility of developing people inside the company itself so that the processes become more robust, and also that people become more and more skilled, and more and more results being delivered, we are planting the base for better results in the future.

We had four major events this year. We had the approval of CTNBio which is the GMO eucalyptus. We are doing standard field trials now, increasing our base right now. And we have everyday more certainty that this will be a revolution in our industry over time.

We announced our investment in lignin in Limeira as of the second quarter of 2017, and we announced the tissue production between Imperatriz and Mucuri, already acquired in the second half of 2017. And start-up of Eucafluff production. Eucafluff has been widely accepted by the market. We already have many clients in commercial operations. This is a ramp-up operation. So, the bigger the client, the longer the approval process. But we have been very successful, and we have had success in all the cases in terms of approval of Eucafluff, not only because of its economic benefits, but also because of special technical advantages with a better retention capacity.

And the good news about the EucaFluff is that the process is happening at a faster pace than we imagined, and very successful one. We have just been given an award in the United States as one of the most relevant innovations in the industry in the last few years. And lastly, with the redesign of the industry, we believe that the industry will become more sustainable in terms of the results.

Last year, we did an operation that was signed at the beginning of this year, the first working day, which is our Embu unit association, again, I'm talking about the operational ties, we had record production in 2015 for 4.5 that's 182,000 tons of production in 2015, and sales of 4,521 billion tons. As I said before during the fourth quarter, our production was impacted by downtime and also because of the inventory of the inventories of pulp,

and we also the implementation of increase in the price of paper, and another one will be enforced as of February 1 this year.

And looking at 2015, we had paper with a high demand in the Brazilian scenario. Ibá said that there was a loss of 14% in the industry and we saw a drop of 11% in the volume for the year. So a drop and not an increase, and this generated an increase in the exports of paper. We also saw the consolidation of Suzano (11:47). And then in pulp, we saw an expressive growth in our volume, in production, and also in sales during 2015. This generated net revenues of BRL 10.2 billion with an increase of 40% year-on-year, a very expressive growth. COGS returned increased by 6.6% being BRL 1,368 in spite of the exchange rate that has an impact mainly on dollar-denominated products and our cost metric is dollar referenced. And in spite of that, we were able to mitigate that with major productivity gains that we achieved and the COGS go up 6.6%, below inflation.

SG&A that had been 9.5% last year, now we had 8.5% with a gradual drop and the EBITDA margin has been growing over time, going from 34% to 45%. This discipline on costs and expenses with this obsession of gaining productivity all the time are part of our strategy and will continue in Suzano.

Talking about cash cost, which is something very important, in the quarter, we saw stabilization of the cost of woods. As I had already said that we would see a peak of the Mucuri wood in September-October and gradually dropping as of this time. And this effectively happened so wood costs were stable and an increase in the other costs, and basically the amortization of fixed cost and also the issue of energy saved cost as we saw a lower production. Of course, it was less diluted and also the issue of energy.

Now, the good news about all that is that we are gradually reducing the participation of third-party wood and hopefully, as I have already announced and also the average ranges (14:02).

We will already see this in the first quarter of this year and this is an ongoing gradual process over 2016. So, we could have good news to inform about cash cost in the future because productivity in the plants is going very well and the cost of wood has been dropping consistently in Mucuri. You can see that the increase from 2014 to 2015 was because of this cash cost of the company regarding wood. So, I think we are on the right track and in 2016, we will see an important evolution in these indicators.

Talking about the financial structure of the company, we saw a reduction in our indebtedness and this is an ongoing reduction. The Imperatriz project in December 2013 had a 5.2 times net debt/EBITDA. This dropped to 4.1 times by the end of 2014 and now 2.7 times at the end of 2015. In dollars, this figure went from 4.8 to 2.3 times. So, we are getting close to the target that we had established for ourselves which is 2.5 times net debt/EBITDA. And we are sure that we will quickly achieve this in 2016.

Besides, we have been decreasing the average cost of our debt. Today, it is 84% CDI in BRL and 4.2% in dollars. Our cash position is very robust, BRL 2.4 billion, 3.3 years average term. This program of liability management we have already had the fifth wave

and we will have the sixth wave, and we will continue with this process in 2016. And as we see a better credit perception of the company, this will allow us to further reduce the cost of our debt and the increase in the average term of our investments.

Now, looking at our investments. We had very similar investment to 2014 in 2015. And as we have been informing the market, our investment in sustaining CapEx is BRL 1.1 billion and this is exactly what we had. And then, we had investments of other nature as well such as expansion of capacity, debottlenecking, search for competitiveness, and retrofitting.

And along these lines, we had many projects implemented in 2015. The Suzano Digester that was started up this year, the Limeira Digester, the last quarter. After the downtime, the Biomass Boiler that will come this year, energy efficiency projects, expressive increase in the volume of energy exported by several brands, retrofitting of the harvesting equipment, forestry logistics with the introduction of over 140 light trucks, a reduction in total costs of forest logistic and fluff with the adjacent businesses. And this is an ongoing program, and this year, we have already placed in the market a CapEx estimated for this year of BRL 2.4 billion.

2016, we will be harvesting or attaining many objectives that we had established over time, the reduction in the cost of board with the gradual reduction and progressive reduction of the average ranges (18:00) in Mucuri, lower harvesting cost. We finalized last year the in-sourcing, total in-sourcing in all sites for harvesting, and we will have a full year impact.

As you will see in 2016, reduction of industrial costs that capture our investments already made in many of our operations. And we are announcing to the market so that we showed energy from Imperatriz at the end of the year in annual auction. And we bought energy in Suzano and (18:27). Therefore, we are hedged as far as energy is concerned for this year.

And we have a new downtime schedule. This year, we will have no line one down time in the Mucuri plant, a reduction to logistic costs and also the new trucks, the light trucks in operation. And with the drop in the oil prices, we have major benefits in the (18:56), the cost of oil helps us to reduce costs and we start to operate as of the third and the fourth quarter of 2015, a 100% railway outbound with the fourth train (19:16) and this reduces our transportation costs.

In paper, we will continue to sell directly and this helps and also the price of paper. We have been gaining market share vis-à-vis the coated paper market and this should continue to increase in 2016. We will have a higher volume of paper this year and a slight recovery due to the fact that this will be a better year and also because of the Olympics and the election that are one-off and that should generate a slight volume increase. And we have an expressive program for exports with a higher volume of paper this year.

So this year, we will be tapping into the fact that we planted many seedlings over the years and we will be then taking advantage of that. We continue with our philosophy of

being the best and this is part of our culture and this is an ongoing work done by our whole team. Our whole team is devoted to this and we understand that being strong and kind, investor every day is very important in our philosophy.

So with that, I end my presentation and I place myself and all the officers of the company to answer your questions.

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Q&A

Operator

Ladies and gentlemen, we will start our Q&A session now. Our first question comes from Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. I have two questions to Carlos Anibal. Carlos, what about your reading the Chinese market now back from the holidays? Do you see any changes in the market already, volumes coming back? Do you have a positive outlook for the next few days regarding the negotiations? Could you give us some more details about inventory after the price adjustment? And my second question is about paper. Can you give us the visibility about the price increase that you carried out? And I'd be - there was something published about the increase in prices for Printing & Writing, and do you have any news about that? That would be very interesting.

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

Good morning. This is Carlos. Thank you for your question, Lucas. Let's start with China. China had a very major increase because the transition from a model of the Chinese economy now, which is based on consumption. And before, it was based on investments. And we have a very positive view of this transition. We believe that all commodities having to do with consumer goods will benefit from the change in the growth model of China designed by the Chinese administration.

Although there was an important growth in 2015, and this is more relevant for us, it is important for the consumption of paper, and last year, the sales of consumer goods grew by almost 11% year-on-year. 2015 was a year marked by new capacities, new brands of tissue in China, and some closures of polluting facilities as well, many factors that contributed to a major growth for imported pulp. Approximately 17.5 million tons last year, an expressive growth vis-à-vis the previous year. And also, eucalyptus pulp import almost 14% growth. But right now we have no reason to believe that 2016 will be different. We will have new capacities installed and continue the closure of polluting facilities, and the fact that the Chinese government is worried about the environmental issues is very good, and we see a consolidation in the pulp and paper industry. And this is, and companies that produce higher quality paper are constantly using virgin fibers. So, the perspective for the year is very good regarding demand coming from the Chinese market.

In prices, we see some pressure on prices at the end of last year. And according to the market fundamental prevailing at the time, and we see some pressure on prices in January, however, China went back to work this last Monday. The market is still very - well, more or less on a standstill, but we see the possibility of an increase as of next week. Basically, this is our reading about China.

About paper, we are working with the expectation of the demand evolution for 2016 vis-à-vis 2015. But some factors could give us additional opportunities such as the expectation of a national program, and maybe additional demand coming from the Olympics, and also because of the elections, as Walter said, some brands.

Well, we saw revenues in paper increasing by 6%. Average price is going up 14% on average, of which 7% in the domestic market. And we had the demand, 14%, 15% of printing and writing paper, 5% paperboard, and our drop was about 11% which is very positive in coated paper where we have already a strategy designed for a better use of our installed capacity, and increasing our market participation.

It is very important in our new model, Suzano (27:01) or Suzano+. We have 20,000 printing offices here and where our papers are sold. So, increasing our commercial productivity to cover 30,000 clients over this year and outstanding results.

In some months, we received over 200,000 telephone calls to a very major improvement in our Paper Business, and this leads us to believe that we are very well positioned to reap the fruits in 2016, with the evolution in demand that we are forecasting. With the participation of imports, which is very important for our business, we are advancing in the spaces that are being created. Imports dropped during the year by 37%.

(28:14) dropped in the first quarter and in the last quarter, it dropped close to 60% in imports. So, coated paper 45%, uncoated 60%. And this combination creates more space for us to occupy in this market, so that we may better cater to our clients, and have the preference of our clients with the better logistics and better service levels. We made two important moves regarding our prices in the last quarter of last year.

We reached our objectives with the increase that we announced in our first, and I told you during our last meeting that in the case of (29:04) it would be a percentage-wise lower volume because we have two important programs, and the prices are defined annually regarding school books. And we will see this mainly over the second quarter in February. We started the implementation of another increase in offset paper, and we will see a lot of discipline there because we understand that we have prices that are really too low vis-à-vis our historical averages because of the exchange rate situation, I would like to remind you once again that part of this paper will be earmarked for the school book program, and the school notebooks as well.

My expectation is that in the second quarter, we will have an increase in our average price because of the mix of our products in this quarter. If we look at the fourth quarter last year, we advanced the average price vis-à-vis the previous year. The expectation is that the figure will grow mainly as of the second quarter. Thank you.

Operator

Our next question, Marcos Assumpção, Itaú BBA.

Q - Marcos Assumpção

Good morning, everyone. The first question has to do with the price of pulp (31:19). If you could talk about the net price of pulp in China, would that be the end of 2015? You said that there was price pressure during the fourth quarter and also the beginning of January. So, could you make this comparison? And what price level do you foresee net price that should start to lead to closure of capacities in the world, and where that should be?

A - Operator

Thank you for the question. What I can tell you is that January had a low intensity of purchases by the clients in China due to two main factors. The first one, the very strong purchase of softwood last year and China in the last quarter had an expressive growth in softwood. And they closed the year with a growth vis-à-vis 2014 mainly in the last four, ever since the mid of 2015, softwood had been presenting a lower reserve vis-à-vis hardwood reaching more expressive results in November and December.

Once again, you can see that there was a loss in terms of prices vis-à-vis the prices in November and December. In the case of softwood, there was a certain stability. Looking ahead, I understand that what is ahead in China is that local producers would have a cash cost of \$550, and we are getting close to a situation in which local producers are not able to comply with their cash cost. And that could be leading to higher, sustainable prices the next few months. When we look at the market in general, the fundamentals of supply and demand, what we see in Europe and in North America. In China, again, a slightly lower demand due to the two reasons that I mentioned on the supply side. We see in December looking at pulp as a whole, hardwood and softwood record productions, record shipments, record production leading to the fact that lower inventory than expected by one day, the first quarter in general is marked by a higher availability of fiber because of less downtime during this time, and some specific factors in Brazil could decrease this availability and exit it in (34:41) in the south plant that removed the few tons from the market between January and February. And one of the machines that apparently has already started to produce. But we see a scenario in which we have an equilibrium in inventories. We see a higher availability of inventories in China, and growing in hardwood in Europe. This is what we can tell you about the market fundamentals right now.

Q - Marcos Assumpção

I have another question. You said that you had no more non-performing loans. So, what do you expect?

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

This is Marcelo. The effect was not that big. We had around BRL 18 million, and the expectation. The credit situation is not improving, quite the opposite. What we are doing, we are being cautious. We prefer not to sell to some clients when we see that they have a more fragile financial situation. We are increasing the cost of other financial instruments to

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improve the credit products, and many other measures to try mainly because of the price increase that we will have now maintaining the credit situation under control. So, we expect that with all these measures, we are able to keep the situation under control. Thank you very much.

Operator

Thiago Lofiego, Bank of America Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you very much. Good morning. I have two questions. I would like to understand the cost of wood, the peak in the fourth quarter, and what are the dynamics for the cash cost that you expect? And what about dividend, what was the rationale for the BRL 300 million being approved by the board and not more than that? I would like to understand given the level of cash generation by the company, and the outlook, is there any chance of having interim dividends being paid out by the end of the year?

A - Operator

The cost of wood for the fourth quarter, well this was (37:28) about the first quarter of 2016, it will be gradually reduced during the whole year. So, the trading liquidity still has a lower cost. In relation to dividend, Thiago, we had a very wide ranging debate with the board about that, and we should be more conservative because we want to accelerate our deleveraging position, deleveraging process at the company, and this is why we approved a level of dividend that we ourselves consider estimate of BRL 300 million, and about your question about the possibility of an interim dividend being paid out such as we had last year, the answer is yes, we have already discussed that. And if the numbers that are projected by the company are maintained at the level that we expect, we almost certainly, we will have interim dividend being paid out in the second half.

Q - Thiago Lofiego {BIO 16359318 <GO>}

About the cost, if you can may be breakdown between the different regions, and in order for me to understand, and if you expect any kind of pressure - cost pressure over this year and what could offset this. What are the main factors that we could think about to project the cost for 2016?

A - Walter Schalka {BIO 2099929 <GO>}

(38:57). My perception is that, our view is that the cost in 2016 tends to be better than 2015. The business will be slightly higher in Imperatriz, but the harvesting cost will be better in the region. And this one thing should offset the other, and the results were major benefit in Mucuri because there are reductions in the cost of harvesting and also a reduction in the average ranges, and also a reduction in the amount of third-party woods in this region.

In São Paulo, it should be maintained stable. No big changes in the Limeira and Suzano unit. On the other hand, if you look at the specific consumption due to the references in the plant, we will see a better specific consumption at the plant both of chemicals and

woods, and we will see a higher volume of energy this year vis-à-vis the past year, the last year. So, all in all, this leads us to believe that we will have a better year than last year. We do not foresee any area with a relevant impact on cost in 2016 vis-à-vis 2015.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Perfect. Thank you very much, Walter.

Operator

Our next question comes from Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning, everyone. The first question is to Anibal, talking about the market. You talked about China, maybe stabilization because of the cash cost in the region, maybe some producers are already in the red. Everybody looks at China as a leading indicator and the prices in Europe, are they under pressure and reallocation of volume from China to Europe? And this year, we saw some stability of prices in Europe. If you draw the historical correlation, the drop is lower. So, I would like to hear from you, your expectations regarding prices, more specifically in Europe, because it seems to be a more interesting market than China?

So, to which extent this is sustainable and hear more about the demand in the region. Besides, you said at the beginning of the presentation, you mentioned fluff. What about the acceptance of this innovative product? Very interesting market. So, what is your outlook for volume for fluff for this year and the next? And could you please allow me another question, a very quick one? I apologize. Regarding other expenses. We saw almost BRL 90 million this quarter, and I would like to see more details about that.

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

This is Carlos speaking. I would like to start by making remarks about China. China reacts more quickly in two directions. When the price is going up, they go faster up. And when the prices are going down, they go down faster. Over the first nine most last year, the evolution of prices in China was higher than the evolution of prices in Europe. And what we see is at the end of the year, prices going down faster than in Europe, and in our market, we know that there is a law of physics, the communication vessels so to say, and the situation that we see in China, we will see certainly in Europe, and we see at some ports an increase in the inventories of hardwood pulp. Once again we see that in some regions, we see relatively higher inventories and in the same period as the previous year.

A - Walter Schalka {BIO 2099929 <GO>}

In relation to fluff, now to thank you for the question, this is Walter. We have a level of acceptance that is quite high in all the cases that our product was tested, our product was approved, we have not had one single case of our product not being approved. Some bigger companies take longer to approve and the ritual involved is much slower, and more agile than smaller companies, and for these companies we sell, don't have the approval for commercial sales. This is a process that is underway.

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And so, it's very difficult to tell you what will be the exact speed of growth, but the good news that I would like to impart is that the speed is higher than we imagined and apparently by the end of the year, the volume will be higher than the ones that we estimated before. This is because people, many people are replacing more than 30%, which was our initial estimate. So, things are going very smoothly in terms fluff. The first quarter. I think, will be very timid in terms of fluff volume, but second quarter should be stronger, and the third, and fourth should be quite strong based on the speed of approvals that we have seen so far.

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

This is Marcelo talking about other expenses. We had some extraordinary items at the end of the year of different nature. BRL 40 million tax credit write-off (45:44). They were related to the purchase of fuel oil that in the understanding of the state, it was not related to the plant operations, and part of the agreement that we've signed with the state, the authorization to negotiate credit from now on, and the fact that we accepted and decided to question this. So, we are talking about BRL 40 million in the other expenses. And another non-cash item, the BRL 20 million write-off in the goodwill, the projections (46:33).

And finally, the more relevant point, we had mainly addressed in the forestry area related to fires in forest and other forest items. But mainly fire because the weather was very dry and we had a higher incidence of fire. We recognized losses and provisions for areas that we know that there will be a loss in the amount of wood to be harvested. So, this is the bulk of what we put under other operating expenses. Thank you very much.

Operator

Our next question is in English. Carlos De Alba, Morgan Stanley.

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

Well, thank you very much. So, my first question has to do with wood cost. I understand that from what you said on the pulp side, Mucuri cost will come down. But the rest Imperatriz, Suzano would probably stay flat. And so, if you could give us a little bit more comments regarding your expectations on the increase of your consolidated pulp cash cost which definitely increased significantly year-on-year in the fourth quarter. I knew from now, do you state the company to be able to see pulp cash cost increasing below inflation or at least in line with inflation, excluding this is a big concern on the trend that we have seen even though we understand that at least in Mucuri will reach the peak in terms of wood cost.

And then my second question has to do with any of the ideas you may have on how the discussions with potential clients of your jumbo tissue machines or jumbo tissue product are going and if you have you decided whether you will sell to the distributor there or if you are going to try to go more directly to clients? Thank you.

A - Operator

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Carlos, thank you very much for your question. Let's talk about cash cost first. In relation to the fourth quarter and then the trend for 2016. The fourth quarter as already said we reached the peak of wood in Mucuri, which is very similar to the third quarter and the evolution of the cash cost (49:14) the fourth quarter was close to zero.

As we mentioned before, we reached the peak of our wood cost in the Mucuri region at this time and now we will see a downward trend in terms of volume and price of wood in the regions of Mucuri mainly and marginally in Imperatriz as well. My view about this year is that we have the possibility of having a nominal cash cost, nominal in Reals, not mitigating inflation lower than the cash cost that we had in the fourth quarter of last year.

So, we should see a downward trend in the volume - at the cost per ton during this year. So, I believe it will be another expensive victory on the part of the company if we are able to reach this and operate with negative inflation in reals in our cash cost relative to the fourth quarter.

The second point of your question had to do with tissue. We acquired the tissue machine for the two sites Mucuri and Imperatriz. They are twin machines, two double width and we acquired them according to the budget that we had already drafted. So this means that we are according to the budget that we announced to the market and right now we are discussing with many players to sell jumbo rolls. But we had already said that should we not reach an agreement to sell jumbo rolls, we would also do the conversion, but we insist on the thesis of selling jumbo rolls to converters that are or wish to be in the region. So the program is exactly according to schedule and according to the core conditions and strategic conditions that were thought.

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

All right. Thank you.

Operator

Alan Glezer, Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning. Thank you for the opportunity. I have two questions, both are related to the paper business. The first one has to do with the price increase for paper in the domestic market. With this gap, if you consider the prices in other parts of the world, what are you going to do then? And do you think that printing offices and other consumers would be able to transfer this to their end client?

And the second question about paper has to do with the expansion of your vertical integration strategy to other regions in the Americas. In distribution, it was very well implemented in Brazil, so I would like to know about your plans for the implementation of distribution, integration vertically in North America and Latin America in general. So, maybe you could clarify those questions.

A - Operator

Thank you for the question. I will start by the second one. Our priority focus is to conclude the consolidation of this model in the domestic market. And then, our idea is to start to work with the other regions as well. Between the end of this year and the beginning of the next year, we could roll out this concept. As you said, they were very successful in the domestic market.

We have a very clear understanding about the market fundamentals that will allow us to implement an increase in this amount, almost 24% where we look at the exchange rate variables and prices in the international market - the price of pulp which is very important for non-integrated producers. We have a whole array of factors that support this implementation. We recognize the magnitude of all that and we believe that the best way to do this is to understand the challenges of our rapid production.

And this is the reason why we announced this last year of our non-coated paper which have a situation different from coated papers where we have prices that could be raised because of the same fundamentals. And we are adopting a different strategy which is to maximize our installed capacity in such a way as to our clients being able to buy a coated paper from a local producer that is (54:38).

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you very much, Carlos. If you allow me another question about your strategy to sell pulp. We see a major change regionally from 47% to Asia to 32% to the same region in the fourth quarter. Are you increasing the level of pulp sales to Asia in the first quarter of 2016? And how do you see the regional mix over this year?

A - Operator

Let's go back to the first quarter. In the first three quarters of 2015, we work with very low inventories. In the first quarter vis-à-vis the fourth quarter, we reduced our inventories and they were kept at excessively low levels until the end of the third quarter, because we understood we had a major opportunity to maximize our profitability at a very good market moment in the third quarter.

It was the record in our sales volume as you said yourself, China with 47%, very good reception of our product in the other regions. In the fourth quarter, we saw pressure on eucalyptus pulp prices for China. And we decided not to wait at the first moment and we could take advantage of the fact that we had very low inventories in order to rebuild our inventory. So this combination of an understanding of the market to the market fundamentals and also the pressure on the part of China, and the opportunity to rebuild our inventories led us to have a lower volume of sales in the fourth quarter, but not for the year as a whole in the last five years. This year was different from the last five years of volume, so to China was around this range.

Thank you for the answers.

Our next question is in English - Jonathan Brandt, HSBC.

FINAL

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good morning. I have two questions. First Carlos, I wanted to just verify something that you said. It sounded like you said there was going to be some pulp price increases next week. I'm wondering if that being - that you're going to be announcing a price increase similar to what we've seen in the softwood market or if this is just your expectation on benchmark prices?

And then I was also wondering about liability management. If you guys could talk a little bit about what your target leverage ratios are - another 2.7, they're falling pretty quickly. What are your target ratios are? How much more there is to do in the liability management side from paying down high cost of debt? What is your target cost of that?

And then secondly, if you could talk a little bit about the paper market and the profitability, how the profitability is and I know you don't disclose margins but maybe the trend in those margins - are they relatively stable? How is the export margin vis-à-vis the domestic margin?

And then on the Eucafluff expansion, you had said that the feedback that you've got has been very positive and volumes seems to be better than you are expecting. Are you anticipating potentially increasing capacity even further? Is that something that we can expect in the next couple of years? Thank you.

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

Now, listen. Thank you for your question. If I understood correctly, your question is whether we expect to see a price increase for hardwood due to increases recently announced by softwood producers in Europe and in North America. Our understanding is different. Softwood closed the year with lower inventories, we saw a drop in global inventory very much related to a higher intensity of purchases by China in the last quarter. And this would have an effect on producers of softwood believing that there would be room for price increases.

So, there were price increases announced for China. Apparently, they have not been implemented in between February and March - \$20 in Europe and in North America announced. I have no way to talk about the degree of success in the implementation of the price increases. In the case of hardwood, eucalyptus, we have no intention, no reason whatsoever for us to announce a price increase.

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

This is Marcelo speaking. We want to reach 2.5 leverage, we are getting close to this figure. We're 2.7 now and we will certainly- we will have a higher investment program this year. And we intend to reach this 2.5 this year and further strengthening our balance sheet and preparing yourself to make some strategic steps in the future. Thank you for the questions.

A - Operator

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You asked about our position in the fluff market. Given the fact that the market is receiving our fluff very well, our view when we made the decision of having a fluff machine with a 100,000 tons capacity - 95,000 capacity. When we made the decision, this was a way for us to test the fluff market and to see the response of the market. These are the hardwood. We understand that the fluff market is a 5.6 billion tons globally and between 30% and 40% conversion of volume of this market to hardwood. With that figure, we would open the possibility of having a market of about 2 million tons for hardwood. And this is what we are going after.

I believe that the success that we are achieving give us the possibility to increase our share in the future with Eucafluff. And right now, we have no technical study about the next step that would be given by us. We are totally focused on fluff in terms of approval by all our clients, both local and global. And the success rate of that will allow us over time to analyze additional investments. But with all the adjacent businesses that we have, the issue of scalability that is to say the possibility of increasing our volume is an essential condition. So we made these investments thinking about a much broader project in the future.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Thank you.

Operator

Vicenzo Paternostro with Credit Suisse.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Good morning, everyone. Thank you for the questions. Talking about pulp and looking at the mismatch between production and sales in 2015, you had an increase in your inventory levels of almost 100,000 tons during the year. So I would like to understand what we could expect in terms of pulp sales for this year because the size is higher inventory, you will not have a downtime - that would be Line 1 of Mucuri over the year which leads to a higher production. I know that you don't give a guidance but should we expect pulp sales close to 3.5 million tons over 2016? Does it make sense?

And my second question is the (01:04:16). Talked about a reduction in freight cost because of oil. So I would like to know if you could give us some indication regarding the magnitude of this drop. We know that all the cost to send pulp to China is between \$50 and \$60. So would you say it's closer to \$10 to \$20 because of the reduction in the bunker that Walter referred to? So these are my questions. Thank you.

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

This is Carlos, Vicenzo. Thank you for the questions.

In the third quarter, this is when we have this 100,000 tons that you referred to in the first three quarters, we worked with inventories that were lower because we wanted to maximize opportunities that we saw in the market. And I understand that our strategy was

rather successful. We took advantage of the lack of understanding regarding prices in the fourth quarter on the part of the clients in China. So we tapped into this opportunity to increase our inventory levels that we consider absolutely normal so that we may deliver very good level of service to our clients.

Our plan for 2016 is to sell - our production reaching the end of the year with normal inventory levels with a minimum level, in order to guarantee good service to our clients. So our idea is to sell the whole volume produced over 2016.

Regarding freight, Vincenzo, thank you for the questions. The order of magnitude is between \$10 and \$15, and of course this depends on the conditions over the year. So I'm making a projection based on the current conditions of oil prices. So it's hard to imagine what will happen with the oil prices, but with the prices as they are today, magnitude would be from \$10 to \$15 in terms of cost reductions per ton.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

May I ask another question? It's quite similar to my first one, however, focusing on paper this time. Looking at the 2015 productions, you said that it was impacted in part by the conversion in the fluff machine. And I would like to know what we can expect in terms of productions of paper - 1.2, 1.25, what would be a reasonable figure us to expect.

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

This is Carlos, Vincenzo. We could expect a higher volume produce in 2016. 2015 was not typical due to the occurrences that we have already mentioned. Our idea is to produce more paper and I would say that most of the additional volumes will be exported, will be sent to the external market. In 2015, we had a 4% increase in exported volume due to the stability of paper and our idea for 2016 is that we should have a growth in our exported volumes due to the higher availability of production over the year. Thank you.

Operator

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

A - Walter Schalka {BIO 2099929 <GO>}

This is Walter. I would like to thank you very much for participating in this call, and I would like to make it clear to you that we are extremely motivated and energized because of the evolution that we have been delivering quarter after quarter, year after year. We had a BRL 1.260 billion EBITDA in 2012, BRL 1.718 billion in 2013, BRL 2.450 billion in 2014, and now almost BRL 4.600 billion in 2015. This evolution stems from the exchange rate issue but not only on that. We have been making a big effort in all the areas and the result that we have been obtaining in forestry, commercial, logistics, the industrial and all the internal areas - IT, auditing, a very good evolution in all the areas of the company. And we are reporting and we're forcing our processes and qualify our people and we are getting ready for an even better future.

We are very happy with the results delivered in 2015 and we recognize that they could have been marginally better. But the most important is really that the company has a constant evolution and we are sure that 2016 will be even better than 2015 for the company. So I would like to thank all our 8,000 employees that generated and delivered this great results last year and does have a very positive energy so that we may bring you even better results this year.

Thank you very much. Have a good day.

Operator

Suzano Papel e Celulose Conference Call is closed. We thank you for participating and wish you all a good day. Thank you.

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