

## Q3 2016 Earnings Call

### Company Participants

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

### Other Participants

- Bernardo Carneiro, Analyst
- Carlos F. De Alba, Analyst
- Felipe Hirai, Analyst
- Jonathan Brandt, Analyst
- Juan G. Tavaréz, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Analyst
- Thiago Lofiego, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen and thank you for waiting. Welcome to Suzano Papel e Celulose Conference Call to discuss the results of the Third Quarter of 2016. All participants will be in listen-only mode during the company 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. We would like to mention that each participant will be allowed two questions only.

We would like to inform that some statements contained in this call are projections or assumptions about future expectations. These forward-looking statements are subject to known and unknown risks and uncertainties that may lead these expectations not to materialize or be substantially different from what was expected.

These risks include among other changes in future demand for company products or in the factors that affect domestic and international prices of products or changes in the cost structure, changes in the seasonality of markets, changes in prices charged by competitors, exchange rate variation, changes in the political economic scenario both in Brazil and emerging markets and the international markets.

Now, we 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 have you here during this call about the third quarter results of Suzano Papel e Celulose. With me, I have Marcelo Bacci, our CFO; Renato Tyszler, our Strategy, Innovation and Business Development Officer; Carlos Aníbal, Officer In-Charge of Pulp and Paper Business; Alexandre Chueri, Forestry Business Unit Officer; and Carlos Griner, Human Resources Officer; besides Michelle Corda, our Investor Relations Manager.

Today, we have quite a lot to talk about with all of you, and I would like to start by showing you the results of the third quarter. As we had already mentioned to all of you, our parameter is the ROIC for our analysis and the ROIC is based on the operational cash generation. Suzano had in the last 12 months, an operational cash generation of BRL 3.1 billion, compared to approximately BRL 23 billion in capital invested, this leads us to ROIC of 3.5% in the last 12 months. We had an adjusted EBITDA in the last 12 months of BRL 4.2 billion, sustaining CapEx of BRL 1.1 billion.

In the third quarter of 2016, we had an EBITDA results of BRL 767 million, and BRL 507 million of operating cash generation for the quarter, the result of the third quarter was negatively impacted by the exchange rate.

In the second quarter, it was BRL 3.51 billion and in this quarter we had BRL 3.21 billion. The price of pulp dropped slightly in the international market, although our pulp price was stable, and this is due to geography. We have a better geographical situation this quarter and we have the impact of a lower production of pulp, because of the scheduled stock purchase (04:12) in Mucuri and Suzano, and also due to the reduction in the production pace of Imperatriz sequential (04:19) on one side, inadequate remuneration in the pulp price, and also because of some operational issues that have already been tackled. And at the end of the quarter we had a delay in shipping of about 40,000 tons, which will be processed in the fourth quarter of 2016.

Results of the third quarter were positively impacted by paper in spite of the Brazilian demand still dropping, we continue to achieve positive results with higher and higher footprint in our client base, increasing market share in the quarter in coated paper and with stable prices in paper and we announced an increase in our prices for Latin America of about 4% as of October 2016.

In Pulp, demand is very healthy, we had an increase of 1.1 million tons in the global pulp market in the first eight months of 2016, and due to the possible postponement of the coming of (05:32) in Indonesia in the ATP plant (05:35), we announced a price increase in China to \$530 per ton that we're already implementing partially in October, and then partially in November this year.

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The good news that we have addition of good news is cash cost. In spite of the lower production that we had in the third quarter, our cash cost was kept stable vis-à-vis the second quarter, but with a drop of 4.7%, nominal drop vis-à-vis last year and the other one is vis-à-vis last quarter. As we would like to deal without the cash cost, it's continue to drop during the fourth quarter of 2016, and there is still a downward trend for the coming quarters in 2017. Our view is that we will have a cash cost in 2017 little lower than the cash cost of 2016.

The company has been working on many areas in order to look for a higher degree of discipline in many areas. The additional supply of those could prove the degree of turbulence for the industry's returns and we're working in the discipline of supply, cost, capital, and also financial, and also regarding the product portfolio. This leads us to have a higher resilience in our balance sheet and our results.

And today, I will be talking to you about each one of these initiatives and each one of these. In terms of supply, we're announcing today the postponement of the 5.1 Project in Mucuri. It's going to be postponed to 2018. It was programmed for 2017. And by doing that, we reduce our CapEx for 2017 on one hand, and we also postponed these additional tons to 2018 in the window of opportunity that will be less impacted by supply.

And as we are manage based on ROIC and on EBITDA, our view is to work always based on the concept of not managing the company, based on the average, but on event that is Suzano last done, and for these reasons, it is possible that we might adapt our production in 2017 depending on the market conditions or in other words, if the exchange rate or price conditions do not remunerate the capital employed adequately, although, they always generate the positive EBITDA, but as the EBITDA is not our criteria, but the ROIC, we do consider the possibility of reducing our production in 2017 in order to have a better market environment and also a better environment for pricing.

On the costs side, we continue our work, as you have already seen our cash cost presentation, but also in the SG&A, in the first nine months of the year, in spite of an 8.5% inflation in the period, we achieved a 0.1% increase in SG&A per ton. So, that a 5.2% increase in the cash per volume sold in spite of the fact that we have a higher volume of paper, vis-à-vis pulp, which has a higher CPT, a cost per ton.

And in spite of the situation, we are below inflation. We are announcing today an important execution for us, which is the waiting (09:32) for our shares. We are acquiring land and forest, we are acquiring a \$145 million approximately, 9 million cubic meters of wood. And at that the same time, we are requiring 75,000 hectares of total area, and of the 75,000 hectares, 40,000 hectares are planted areas.

And we are acquiring for a \$100 million these assets, and these assets have an average distance of 176 kilometers and we will be able with this acquisition to reach a shorter distance over time and the possibility of demobilizing more distance forest, distance on the plant, and they have a very high IMA, so we will have higher use in our forest and that uses of about 38 cubic meters per hectare here in deep forest. We will see a reduction in

our forestry CapEx as well, because our idea would be to increase our forestry base in order to get closer and closer over time to our plant.

And with that, we've reduced our forestry CapEx over the years, and a 100% of our forest, of our needs will be supplied by our own forest, or there is 85% ours and 15% the others, that have an incentive. And more important than that, this is the last milestone that we have to achieve in our structural cost.

So, that we may consider our structural cost as optimal in 2021 and 2022 of BRL 475 per ton, or in dollars, as we had already mentioned. And looking for operational efficiency, we have all the structural conditions in place in order to reach this targets in 2021 or 2022.

In terms of capital discipline, looking at our CapEx, we had given the guidance to the market at the end of last year and in the first quarter of 2016 that we would have a CapEx of BRL 2.4 billion for this year, and in the last call, we reduced to BRL 2.1 billion and now we are further reducing this to BRL 1.9 billion.

This does not change the 5.1 Project in Mucuri. The start-up of all the other units is according to our schedule, tissue, lignin and Project 5.1, Imperatriz. And we're also revising of the 5.1, BRL 1.14 billion to BRL 0.9 billion and this has to do with better negotiations achieved on one hand, with the exchange rate on the other hand and also, with the removal of the forestry CapEx that because of this acquisition that we're announcing today, will no longer be necessary.

So, we're revising this target to BRL 0.9 billion. And right now, we're giving you the guidance about which should be our CapEx for next year. Our CapEx ex this acquisition should be BRL 1.7 billion; BRL 1.1 billion of sustaining and BRL 0.3 billion the 5.1 Project, and BRL 0.2 billion in Adjacent Businesses, totaling BRL 1.7 billion. And besides, we have this acquisition that we have just announced. We're - the signing of it was last night and the closing of the deal should happen between 30 days and 40 days, in between 30 days and 40 days. So, the total would be BRL 2.5 billion for 2017. And I would like to anticipate to you that there is a possibility of the BRL 0.8 billion happen this year and not next year. So, there could be a variation one month more or less. But this have no impact whatsoever on the situation in financial discipline.

We continue better and better prepared, our balance sheet becomes more and more robust and the decision that we made of 100% dollarization of our net debt (14:07) due to the appreciation of the real, and due to the bond that we issued, we had an increase in our liquidity and we wrote down - over our (14:21) debt, we have BRL 4 billion cash today with a low funding cost, but the average cost of the interest is 4.6% a year, and the rollover of the debt to 3.5 years. We are right now mentioning that our dividend will be based on cash generation, this is information that we are giving you now and this is very important.

And we had a nominal reduction in our net debt, that went from BRL 10.191 billion to BRL 10.016 billion, a BRL 175 million drop in spite of the devaluation of BRL 0.03 approximately in exchange rate, generating an impact of about BRL 90 million in our indebtedness and

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the leverage (16:12) had a growth of 2.1 times to 2.4 times. In spite of the nominal reduction of our net debt, we had a reduction in our (15:22) in our EBITDA and this is why we had an increase in our leverage.

And lastly, we continue with a very protected (15:33) product portfolio, paper generating margin higher than pulp and this is due to the volatility, the lower (15:44) volatility of paper against (15:46) pulp as you can see on this chart in the presentation. So we have an ongoing increase in the price of paper over time in spite of the big devaluation in the exchange rate, and we do not have big steps or differences in the price of paper. So this is very gradual and pulp at a more volatile situation or a situation that's more volatile and this generates a level of profitability which is lower than the ROIC required by the company.

On the last slide, I would like to mention to you that we understand that the cash flow yield is a best indicator in order to compare value creation for the shareholders and Suzano. So they have the best result in the sector if you compare in the last 12 month (16:44) operating cash generation on (16:49) Suzano BRL 3.1 billion to be easy of (16:54) Suzano. You will see equity plus debt amounting to 14.3% showing the potential of appreciation of our shares higher than the competition.

With this, I end the first part of the presentation. And we would like to open for your questions that may be addressed to all the officers of Suzano who are present here. Thank you.

## Q&A

### Operator

Ladies and gentlemen, we will start the question-and-answer session now. Marcos Assumpcao, Itaú BBA.

### Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning, everyone. My first question is about the acquisition, about this. (17:52) Could you please tell us how much do you intend to reduce the average radius in Maranhão because of this acquisition and how much you can release in terms of forest or land that was located farther away and that you will no longer be using and that you will probably sell and how much we (18:20) intend to get from these sales?

### A - Operator

Thank you, Marcos, for your question. The situation is as solid. We will have an average radius in the first year, which will be higher than 186 kilometer that (18:34) we mentioned here. And this will allow us to reduce the average radius in the first year, but it does not change the structural situation of the Imperatriz plant in the long run, that we will be looking for with the expansion of our forestry base.

We will be able to raise (18:53) areas equivalent to the one that we acquired in other regions that are farther away and that have a worse IMA (19:01) and with that, we will be able to reduce our forestry base and our future CapEx as well. And last but not least, I will be reducing the CapEx and OpEx a BRL 110 million annually with this transaction, as I will no longer have to acquire new areas or plant in new (19:29) areas.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Thank you very much. And what about the breakdown that you gave us regarding, between land and wood? You said a \$145 million to buy 9,000 (19:44) cubic meters of wood, is that correct? That would be BRL 50 per cubic meter. First, (19:54) confirm this figure. And what is your wood cost in the region?

**A - Operator**

Well, you are reasonably correct in your calculation, it's partly incorrect, (20:06) I would say. It's more or less the price that we have been paying for other areas such as Eco Brasil. Eco Brasil was acquired more or less for the same amount.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

And, about your own forests, what about your wood cost, is it close to this one?

**A - Operator**

No, no it's lower. In our own forest, it's lower. If (20:33) we're making an acquisition here and there is an important point here, of the other (20:38) \$100 million from this acquisition, part of that are reserve, 35,000 hectares of reserve and the other 40,000 hectares are plantable area here. (20:50)

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Thank you.

**Operator**

Thiago Lofiego, Bradesco BBl.

**Q - Thiago Lofiego** {BIO 16359318 <GO>}

Thank you, good morning, Walter. My first question has to do with the postponement of the debottlenecking of Mucuri, even being a brownfield (21:12) do you believe that the ROIC does not cover your cost of capital or are you being more conservative looking at the company's leverage? I would like to better understand the rationale. Because you mentioned (21:29) something about 2017 already and correct me if I'm wrong, you're considering the possibility of decreasing production in 2017 because of your ROIC, to preserve your ROIC and I would like to understand the rationale? I understand you have more efficient and less efficient tonnages and that give you higher or (21:53) lower ROIC, but you continued with your production in the first quartile of the cost curve. So, why

would you be reducing operation, because you might be opening some space for other competitors?

## A - Operator

Yeah. Your questions are very important. First one, regarding Mucuri, the Mucuri project, even in the current conditions of exchange rate and price, it has a spread over the WACC. So, the ROIC is higher than a WACC. So, we should continue with a same condition that we had planned, but due to capital discipline reasons, as the investment is quite relevant and due to a discipline in supply in order to postpone and put less pressure, less volume pressure, we decided to postpone the project to 2018.

We have two relevant acts (23:00) to happen in the sector, the first one is (23:03) who will be coming to the market and this could cause a price pressure. And we do not believe that would be adequate otherwise. So, the second part of your question why we consider this? Suzano in all chance (23:24) has a positive cash generation and (23:31) Thiago, if we're in an (23:34) industry, we do not have a discipline regarding our supply and if we do not remove additional supply put in the market, we could be generating a situation in which the industry's ROIC could be lower than the required ROIC and required by all the players. So, we have to lead (23:55) this model in which people only think about the EBITDA and operating cash generation. People have to think about ROIC. And, in the current conditions of price and exchange rate, the ROIC is already lower than the W-A-C-C, the WACC.

So, expanding capacities. The industry as a whole would just find (24:16) value by increasing capacity, and we have to show that Suzano is so active in the sense of looking at the whole situation and remove from the markets the loss for good tons (24:30) in order to allow better prices and better generation of cash to all players and of course, to Suzano as well.

## Q - Thiago Lofiego {BIO 16359318 <GO>}

And, in relation to the shutdown of capacity, let's say you have a situation in which (24:49) or other local competitors do the same in the first quartile. Don't you think you are going to help other people farther away in the cost curve? And, what about potential closures, because of the situation in the sector?

## A - Operator

Well. Let me answer the first part, and Carlos will answer the second part. Our view, Thiago, is that this industry is too volatile in terms of results coming from these two exogenous factors, price and exchange rate, and this has been impacting the industry as a whole. Suzano has been protecting itself looking for adjacent businesses and with optimal cost structure and also using paper as a cushion, as a buffer to – for this volatility. But this is not enough and, of course, the whole industry suffers with that, all the players. And our objective is not to help or to hinder any player in the industry. Our objective is to give our shareholders adequate profitability and we want to do this in a sustainable fashion. This is what we are working on and our energy is focused on that. So removing the worst (26:18) on some of the system could marginally generate a lower EBITDA, but

very clear for the future, we want to give signs that we want - we need to generate a higher ROIC, a sustainable one for the whole industry.

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

Good morning. This is Carlos. Given the current price condition and the currency of producing countries and the price of oil, we understand that the room for closures is limited right now. If we see a scenario with worst prices in the longer run, then, of course, we will be seeing some closures or more closures, more shutdowns in the North America and in Asia and then partly in Europe as well.

**Q - Thiago Lofiego {BIO 16359318 <GO>}**

Thank you very much, Carlos.

**Operator**

Felipe Hirai, Bank of America.

**Q - Felipe Hirai {BIO 15071781 <GO>}**

Good morning, everyone. I have two questions. The first one having to do with production adjustment 2017 (27:28) what is the potential adjustment, some dozens of tons or hundreds of tons or thousands of tons, could it be even bigger than that? And still talking about pulp, Carlos, what about the price negotiations regarding price increases, could you tell us how they are occurring in the market?

**A - Operator**

Felipe, thank you for the question. The first part of question, I will be answering, and I would like to tell that we are not announcing formally any volume reduction. We are just telling you that we believe this could be a possibility for 2017, and when we carried out analysis, we considered between a 100,000 tons and 150,000 tons. We have not made any decision about it yet. We are still maturing our decision and this will depend on the market conditions between price, pulp and exchange rate in order to guide us in this decision.

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

This is Carlos, Felipe. Good morning. I'm going to put this into context, so that I may answer your question correctly. Right now, we see a very sound demand from all the main markets where we operate. Of course, July and August were stronger or that is to say, weaker seasonally in September. We see a resumption in demand, it bounced back already, and this is our expectation for the fourth quarter. We should be receiving the numbers of it Felipe, (29:07) today, but the numbers published until August, suppose there is understanding on our part and Mr. Walter said that we had a growth of a 1,150,000 tons (29:21) or 3.7% increase, and this is very close to the eight months of 2015 or eight months of 2014 and the shipments to China grew by 15% (29:38) year to date, eucalyptus almost 7%. China continues to play an important role in demand. China continues to buy and August was the month in which we had the highest volume of short

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and long - or hard and softwood. And so we see the new capacities of tissue and replacement of local fibers and at this level of prices, we still see producers who are integrated and that's referred to by (30:15) market pulp, instead of producing it (30:21) themselves in Asia.

We have the replacement of local fibers and also another factor that has been helping a lot which is the higher use of pulp - paper grade pulp to produce or replace the cellulose (30:38) pulp. So it's very positive in the third quarter. There was a lower number of stoppages (30:44) because the scenario is a little bit different from the (30:48) So we have here a sound demand, and supply which is slightly lower than the third quarter. And analyzing the market conditions, what we saw in China at the close of the third quarter, we decided to make an announcement regarding our price increase, \$530 and we have been implementing this increase gradually and we believe that we will be successful to achieve the implementation of this amount in the next few weeks.

So, our reading is quite positive for demand for the third quarter of 2016.

**Q - Felipe Hirai** {BIO 15071781 <GO>}

Thank you very much, Carlos.

## Operator

The next question, Carlos De Alba Morgan Stanley, in English.

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

Yes, hello. Good morning . (31:40) Thank you very much. Walter, I really praise you and commend you for your focus on ROIC, but I would like to come back to that point, because I mean, clearly in just - (31:54) heard Carlos saying that demand is sound and yet prices have come down significantly. So supply seems to be the issue. And what I -want to make clear that I understand what Suzano is proposing here, because if you want to focus on ROIC and that you stopped your production, that generates positive cash in all tonnage, (32:17) that means that your - the number - the numeral (32:22) in your return will go down and unless you do something with your investor (32:26) capital to reduce it by a larger amount, Suzano's ROIC is going to suffer. So am I correct in understanding that Suzano is willing to go to a period of lower ROIC in order to try and enforce supply discipline in the sector? That's the first part of my question. And the second part of my question is what is the ultimate gain with that (32:50) strategy, because unless higher cost production getting on (32:54) Suzano's exceed the market permanently, at some point, Suzano will have to bring back its low cost volumes and if all we were going to go back to where we started. So, I would appreciate any further details that you can say on these.

And then I had additional question, just if you could please tell us the rationale for the purchase of Mucuri Energética, I know it's a very small price tag for it, only BRL 40 million, but it will be good if you can share your thoughts there? And then finally, if I may, those - a guidance, or guidance to a lower structural cost for BRL 475 per ton by 2021, 2022. So question is, how will you see Suzano getting to that lower cost? Do you see a stable reduction, or you see a different path to get there? Thank you very much.

## A - Operator

Carlos, thank you so much for your questions. I will answer each one of them. I would like to start by answering your first one regarding the discipline in supply. Of course, your math is correct. If in the short-run I removed volume that will worsen my ROIC, because I have a positive contribution margin, you know the tons that I produced, and therefore this should have a negative impact on our result.

Of course, we will be monitoring this 100% of the time, because we don't want to be the only one that will remove volume from the market. We'll be analyzing the reaction on the part of our competitors, and if at some point in time, we'll reach the conclusion that we will be the only ones to do this, then we will come back with these tons, and we will continue to operate with our total capacity.

So, it is much more assigned or a possibility that we are taking into account and not the decision made. This is just a possibility to see if there could be a wider scope, including all the players, okay.

So, the second question that you asked was about the acquisition of Mucuri. This was a condition that was put by the selling price - party, as the group is the same as the one of the forest and land in Maranhão So, that was a condition to have a package, and this Mucuri power plant has (35:53) and the energy generation of 19 megawatts of potential, but as physical guarantee, it has 11 megawatts. And the it has already been sold for a certain period. So, it's a part of a package, I would say. And you asked about the BRL 475 or \$125 at 3.8 today.

The investments that we're making in the Maranhão and Bahia operations reducing the average radius and with the investment that we have been making in harvesting and forestry, logistics and the retrofitting of our plants and the reduction in the consumption of chemicals with a project that we have for many different plants. With all that, if we operate at full efficiency, we will get to this level of BRL 475 of cash cost.

This cash cost will steadily drop over time, and it will not be quarter-on-quarter, because it depends on the average radius of that specific quarter. But the trend is downwards gradually in order to obtain BRL 475 cash cost, the same way we want to get to 2018 at BRL 570 over \$150 or BRL 570 are totally feasible with the view that we have today.

Jon Brandt, HSBC in English.

## Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good morning. My first question is related to supply. Could you talk a little bit - you mentioned that the OP (38:00) project was delayed. I'm wondering if you could give us a little bit more of what your expectations are for the start and ramp up of this project. And then, you also mentioned that you think with the OP (38:13) project and distributor project that supply could bring prices down. If you could sort of quantify that for us how much further you think prices could fall over the next couple of years?

And on your own supply, I just wanted to sort of look at the question before. Is it fair to say that you would reduce your capacity even without sort of others reducing capacity, it will be spent in the short-term. So I guess I'm wondering if you reduce capacity in 2017, is it not just entirely on market conditions, would it also – would you need to have some sort of guarantee from other pulp companies that they will also reduce capacity?

And then, my second question relates to paper imports. We saw a bit of pickup in third quarter. So, I guess I'm wondering how concerned are you that if Brazilian paper demand does return going forward, that some of this market share is taken up by imports and not necessarily by the domestic producers? Thanks.

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

Jon, good morning. This is Carlos. All the information that we have, all the information available through the media in general and the trade media, specialized media, this is all we have. So, we would rather not speculate about OP and we would rather refrain from making any remarks about the OP project. Regarding the prices expected for 2017, we would rather not give any price guidance for any period whatsoever.

Now, regarding paper, we had very positive news. We analyze the demand data or known by Ibo, which is the association of pulp and paper producers and ever since the beginning of 2015, we saw a positive variation quarter-on-quarter.

In the third quarter, it grew 0.8% vis-à-vis the third quarter of 2015, that is to say, year-on-year, this is a positive sign. And in the year-to-date, we might have a drop of 3.7%, 3.8% in printing and writing and 2.6% of drop in paperboard. We have not seen any concrete sign that allow us to believe in a fast recovery of demand. But once again, we understand that the fact that we have registered a first positive variation demand is very good vis-à-vis the third quarter of last year, in spite of a so difficult market. In spite of that, we believe that we had a good performance in the domestic market, we sold 228,000 tons, equivalent to 2.7% increase on a year-on-year basis.

And if we exclude the volumes of the Imperatriz units that was sold at the beginning of this year, this growth would have been 7.5% stable prices in the third quarter. And year-to-date, a price increase of about 13.6% and the growth would have been higher, if it were not the growth in our volume in the coated paper line where we grew our production in the first nine months of this year by about 25%, that is to say, our strategy to maximize the use of our installed base for coated papers has been working very well. We are placing volume in the market, we are growing our share and we have been very successful in all product lines and even more or so in this line and with our initiatives or selling more and more to the domestic market increasing our footprint in this market.

**Q - Jonathan Brandt {BIO 17988091 <GO>}**

Okay. Thank you.

**Operator**

Lucas Ferreira, JPMorgan.

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

Good morning, everyone. Regarding the delay in the shipment of pulp this quarter, it seems to be a one-off event. Could you say why this happened? I would say that this was a surprise in your results and about the paper market, Carlos, exports went down probably because of the exchange rate and do you expect it to drop any further in the next two quarters? And how do you see the domestic prices for paper vis-à-vis the international prices with this 3.1 exchange rate and this increasing for 20%, 24% happened in April.

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

Lucas, good morning. This is Carlos. We had approximately 40,000 tons that should have been shipped at the end of September, and due to delays in the ships, it only was possible in late October. So this has already been posted through October. So, we have no loss there when we look at the half year or the year.

In the third quarter, in paper, we sold 310,000 tons. As we said before, we had a growth in the domestic market, and a drop in exports and this drop in exports can be attributed to two factors. One, the impact that we had of the fire in the Suzano unit and at that time, during the second quarter call, we said that we would be feeling the effect of this event in the third quarter, and this is what happened.

And the other part of the variation is related to the sale of the Emu plant that decreased our availability of paperboard both for the domestic and the export market regarding the prices. As we said, we saw over 13% increase in the first nine months, and this figure would have been much higher if it were not the fact that we had a higher growth in the coated paper line, where the percentages of increases were lower.

And not differently from what we always say, our pricing is related to variables regarding supply, demand, and international and domestic market, seasonality, currency opportunity market, logistics costs and we're always paying keen attention to all of the variables in order to adjust our prices up or down, as the case maybe and our expectation right now is of stable prices in the domestic market. Thank you.

**Operator**

Juan Tavares, Citigroup. In English.

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

Hi. Thank you. Good morning, everyone. My first question is just to clarify one point on the production adjustments that you could make. I think you mentioned that it will pretend our market conditions including both pulp prices and currency. So, I'm curious if the pulp price doesn't change from where we're today and the currency does depreciate let's say another 10% to 15%, you still would be willing to take downtime for the entire market, and just to clarify that.

And my second question is just on the pulp market and in terms of pricing regionally. We know, you've been successful here partially implementing the China price hike. I'm curious if you're seeing any room to make an increase in Europe or the U.S. any time soon. And also lastly, if I may, you showed in your release a BRL 100 million write-down. Could you clarify exactly what that was related to, just for (47:02). Thank you.

## A - Operator

I will answer your question, one, regarding production. We're announcing right now the possibility of a reduction in our volumes depending on the price and exchange rate conditions as we might see.

Currently, the price conditions for pulp are slightly more benign that is to say in the last few weeks and we saw an increase in pulp prices in the last few weeks. And should this continue is we might not be interested in doing this or there is commercial move. On the other hand, you have the appreciation of the exchange rate that has been happening in the last few weeks and we do not know whether this is something that will also not if it has any relation to the program to satisfy the government regarding the inflow of funds to Brazil. This is why we would be tracking very closely both of these factors, pulp prices and exchange rates.

At the current situation, the ROIC of the industry for low-cost producers such as Suzano is lower than required, and this is the reason why our view is that we should bring this price to another level. If the price goes to another level, we will not be interested in removing any volume from the market and we will be operating at full capacity. This is just a possibility that we are considering for next year.

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

Juan, good morning this is Carlos. Over the third quarter, we had another period of lower prices in Europe and in North America, and the average in the third quarter was \$23 of growth.

And in spite of that, we practically kept unchanged our own prices, quarter-on-quarter around \$494. As we said before, we see a window of opportunity or we saw a window of opportunity in China, which caused our announcement and we are being successful, and we expect to reach our full objective. We had a very good evolution in October in this regard. And I reiterate the fact that we are seeing a very sound demand in China.

And then the other regions in Europe and North America, we are following very closely everything that is happening in the market in order to position ourselves. We have not made any decisions regarding other geographies right now.

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

Juan, this is Marcelo. I would like to answer your third question about the adjustments. 80% of the volume are close to BRL 80 million (50:20) refer to a write-down of goodwill regarding the acquisition of FuturaGene that happened six years ago, and part of the goodwill was allocated to certain contracts of research with third parties.

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And as this is not an activity, whose results can be pre-established part of the research that the company is carrying out does not to the (50:52) expected results. So, as a goodwill was allocated to some research contract, and some of them did not bear fruit. We have to write-down this goodwill according to the accounting rule. And of course, we are making other research, but we cannot reconstitute this goodwill, so it is an accounting effect, 80% of the adjustments and the remainder 20%, most of that is because of some mortality events in the planting of trees and also some fires, and we have to recognize these results, which was not recurrent.

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

Okay. Thank you very much.

## Operator

Bernardo Carneiro, Brasil Plural.

**Q - Bernardo Carneiro** {BIO 4037872 <GO>}

Good morning, everyone. Thank you for the opportunity. This is the first time I participate in the call and I have just started to cover this sector. Most of my questions have already been answered, very good answers and the only doubt I have has to do with the 5.1 Project, which caused a slower pace of production in the third quarter. And regarding the removal of bottleneck in production, do you believe this will remain in the fourth quarter and go through the 2017 as well, and does it - will it continue to affect the volumes in the territories?

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

Bernardo, thank you for the question. This is Walter. We made some changes in the stoppage of Imperatriz (52:45) to separate for the 5.1 that will be the general stoppage, that will happen in September-October 2017. And these changes that we have to carry out, this generated conditions that were different from the operation condition that we had before.

And it took us a while to learn or the learning curve took a while, and in September, we operated normally, October normally as well. So, I see no reason for the situation to repeat itself in the fourth quarter or in 2017 in Imperatriz. And after this general stoppage, next year, we will have 1.650 million capacity, part of the acquisition of forests that we're announcing today will be used to reach this gap of production. So we have all the conditions in place and after the general stoppage next year, we will be operating with 1.650 million and we're not changing the 5.1 time schedule in Imperatriz.

**Q - Bernardo Carneiro** {BIO 4037872 <GO>}

Thank you, Walter.

## Operator

(54:08) Santander.

Good morning, everyone. Regarding the acquisition of the power plant, what kind of cost reduction, do you intend to obtain if any with this acquisition, can you price or quantify this?

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

This is Walter, Bruno (54:31). Thank you very much for your question. Just for you to understand the NRG (54:38) is 11 megawatts already sold. This is a long-term contract with (54:43), so that's BRL 205 per megawatt. This is the generation that the company should have by means of the sale of energy (54:55).

**Q - Operator**

Thank you.

(55:02) Goldman Sachs.

Good afternoon, everyone. Two questions. The first about leverage. This is the third consecutive quarter, in dollars 2.7 (55:20) if we consider the acquisition, it will be almost three times net debt-to-EBITDA, and with the challenging scenario for pulp as you said your sales and with the exchange rate that is more appreciated as that was the average for the second quarter.

So, what is this in a strategy regarding leverage looking ahead? And within this context, how much of the postponement has to do with discipline and how much does it have to do with leverage? And what about the strategy of cutting volume next year. What is the relationship with the leverage of the company for the next 12 months?

And my second question is more on the qualitative side. Your discipline in production as you mentioned, we saw over time, many commodities where (56:27) price takers and in spite of having the incentive to cooperate, the low cost producers have always competed with (56:40) and with pulp, due to the cost curve the situation is not so different. So, why do you believe this would be different and could we see in the pulp industry a discipline in supply coming from these low cost producers?

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

This is Marcelo good morning. About leverage, there are a few things there. Net debt has been dropping consistently reaching BRL 10 billion this quarter, and increase in leverage has to do with a drop in the EBITDA, because of our calculation formula. The acquisition that we are making now should have an impact of when the payment is made, and this is not included in this leverage yet. In the current market conditions I think, this should stabilize around this level after the acquisition.

What we have been doing in order to manage leverage is more or less what we said during the presentation first, our net debt is in dollar, so that we may have a better hedge

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in terms of cash generation, and from the revenue view point we have 50%, but in terms of cash flow it's 100% in dollar.

Besides, we rose overall debt, and we issued a bond, and we're working with a much higher cash level in order to deal with the uncertainty that come from the market, mainly think that are totally out of our control, that is to say the price of pulp and the exchange rate, and we will continue to work with the high cash level, and we will continue to work to promote the rolling over of this debt, as the market gives us the opportunity to carry out new transactions.

The question of postponing Mucuri, the 5.1 Project is, as Walter said is more related to capital discipline and supply discipline then leverage, it will have a positive impact on leverage, because we will not spend a significant amount, but the main driver was not leverage, but capital discipline and supply discipline.

And about the potential adjustments in our volume next year shouldn't occur, it will not be relevant to our leverage. The margin that we will not be bringing to the company, let's say we make the decision, we'll not change anything regarding our leverage.

(59:34) to about the conceptual side that is to say the sector as a whole, the industry. The pulp and paper industry has not been delivering to shareholders recurrently a sustainable level of profitability compared to other industries. We see that the profitability of this sector has not been positive lately, although cash generation is very high.

On the other hand, we really must analyze the fact that the CapEx of this sector is quite high, we're very capital intensive, heavily capital intensive, and because of that we must have enough cash generation to remunerate our shareholders.

The decision that we are making, we are not sure that this will bring other companies to follow, in terms of the supply strategy, but what is clear to us is that Suzano has the responsibility of showing the facts to be followed in order to seek profitability for the whole industry.

So we will be making a decision in the future depending on the market conditions and should we see that the decision was not effective, then we can just go back and revert our decision. So, it's more a decision as a guideline and not beyond that, nothing beyond that.

## Q - Operator

Thank you.

The question-and-answer session is closed. We would like to give the floor back to the company for closing remarks.

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

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I would like to thank you all for participating. And in very positive session I would like to say that in this difficult market environment, we have better conditions than we used to have and we see a drop in costs over time and we see a situation in which paper has been representing, a very positive operational cash generation and this shows that this brings resilience to the company.

We have a very robust balance sheet and long-term debt, with low cost we have capital discipline, once again evidenced now with the drop in the CapEx projected for this year and for next year as well vis-à-vis the guidance that we had given you and we are looking for structuring solutions, so that over time we may have lower and lower costs and the acquisition that we announced today is evidence of that and our objective is to reach BRL 70 or a BRL 150 in our cash cost in 2018 and \$125 or BRL 475 at the exchange rate of today cash cost 2021 and 2022, and we continue to look after other areas tissue projects will be started off next year as planned, and the Lignin project will be coming on board and (1:03:11) growing as well every single month. So the project is showing that it has a very successful potential. So we're very bullish about Suzano - about the relative position of Suzano in the industry.

We see Suzano evolving in all aspects and the main aspect has to do with people. We are having better and better prepared people, they are very motivated and we believe that the results that is being delivered by Suzano to shareholders is and will continue to be a recurrent result and that will give our shareholders the confidence and give us credibility and sustainability. So, thank you very much and we wish you all a very good day and a very good week. Thank you.

## Operator

The Suzano conference call is closed. Thank you very much for participating and have a good day.

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