

## 2017 MANAGEMENT REPORT

### MESSAGE FROM MANAGEMENT

In 2017, Fibria has held one of the most significant harvests in our history, reinforcing our ability to overcome challenges and achieve results.

In August, we began operations in the second production line at the Três Lagoas unit, in Mato Grosso do Sul state, before the deadline and under the initially estimated budget. We thus increased our structural cost competitiveness, expanded Fibria's market presence in the pulp and paper sector, and became a global benchmark for having recorded the lowest “inside the fence” investment (industrial capex) in projects of this size. Such positive results are the result of efficient project management efforts, achieved through the engagement of all those involved (internal staff, suppliers, partners and the community). It was thanks to these joint efforts that we have achieved, for example, safety performance levels that have become a new international benchmark for pulp projects. Another highlight was the *Agente do Bem* (Agent of Good) program, which engaged several sectors of local society in initiatives to protect children and adolescents and allowed us to improve the governance of our suppliers, benefiting the social fabric of the Três Lagoas region and becoming a benchmark for new projects in the sector.

In terms of innovation, our new mill in Mato Grosso do Sul is one of the most modern plants, featuring state-of-the-art technology and design and creating room for Fibria to have, in the future, the opportunity to generate more wealth from the forest, in line with our strategic aspirations. We established the world's first automated forest nursery, developed based on the technology used for planting flowers in the Netherlands. The wood logistics operation was also innovative in the pulp sector thanks to the development of a new means of transportation – the *pentatrem* – and incorporation of the latest process digitization tools. With regard to new complementary businesses, we have made important advances, such as the acquisition of a stake in the Finnish startup Spinnova, focused on the development of low-cost environmentally sustainable technologies for the production of raw materials for the textile industry.

In the field of Corporate Governance, in 2017, we completed the first cycle of the Sustainability Committee, an advisory body to the Board of Directors, whose activities since the Company's inception have made important contributions to issues such as traditional communities, climate change and the definition of 2025 long-term goals, disclosed by the Company to the market. Committed to the continuous evolution of our governance practices, in 2017, Fibria made

progress in continuously strengthening its culture of Compliance and trained all Company managers on the main guidelines and practices established in its Code of Conduct.

From the industrial operation point of view, the Company continued to pursue efficiency gains through the implementation of projects, process improvements and innovation, allowing us to resume high operational stability levels. In 2017, the pulp market was characterized by a clear imbalance between supply and demand. Demand for pulp remained high in the main regions throughout the year and, on the supply side, the market was surprised by a number of unscheduled stoppages, as well as conversions of mills to other purposes. As a result of this scenario of heavy demand and limited supply, the successive pulp price increases announced by manufacturers throughout the year were absorbed by the market.

Fibria's net revenue totaled R\$11.739 billion in 2017, 22% more than in 2016, due to higher sales volume and the 18% increase in the average net price in dollars compared to 2016. As a result of the favorable pulp price scenario and higher sales volume, EBITDA totaled R\$4.952 billion (margin of 49%, excluding the volumes from the Klabin agreement), 32% up on 2016. We closed the year with net income of R\$1.093 billion and free cash flow of R\$2.025 billion. Management has proposed the distribution of R\$258 million in mandatory minimum dividends, which will be submitted for approval by the Annual Shareholders' Meeting, scheduled for April.

Standard & Poor's and Fitch maintained Fibria's Investment Grade Status throughout Horizonte 2's investment cycle, thanks to its financial discipline in leverage management, which led the Company to close 2017 with a solid financial position and a BBB-/Stable rating from S&P and a BBB-/Positive rating from Fitch, attesting to the quality of its credit risk. Fibria's leverage, as measured by the net debt/EBITDA ratio (in dollars), peaked at 3.79x in the first quarter of the year, due to the investment in the Horizonte 2 expansion project at Três Lagoas (MS), but ended 2017 at 2.41x, underlining the Company's strong cash generation. In 2017, Fibria made two issues in the international bond market for a total of US\$1.3 billion: a public distribution of R\$941 million in agribusiness receivables certificates (CRAs, in the acronym in Portuguese) issued by RB Capital Companhia de Securitização and US\$700 million in export prepayment facilities. These funds were partially allocated to settling export prepayment facilities totaling US\$1.487 billion. Fibria closed 2017 with net debt of US\$3.7 billion.

On the socio-environmental front, it is worth noting the remarkable results of our environmental restoration efforts. In 2011, Fibria made a commitment to restore 40 thousand hectares – Brazil's largest forest recovery project –, and we closed 2017 with 22.5 thousand restored

hectares. This progress makes us confident that, by 2025, we will have achieved our long-term goal disclosed to the market. In 2017, we were also pleased to see our shared value creation initiatives, which are an integral part of our business strategy, recognized in a case study by FSG Consulting, created by Professor Michael Porter of Harvard University, USA, who studies this subject. We implemented the first cycle of the Sustainable Supply Program in our supply chain in 2017. The initiative is aimed at all types of suppliers and Fibria's employees directly and indirectly involved in supplier contracting and supplier relations.

In 2017, we developed the *Somos Fibria* (We are Fibria) initiative across the Company, working on both branding and internal culture, communicating our Inspiration and Purpose, as well as reviewing and strengthening our Management Beliefs. This year was also marked by a new organizational step towards a more diverse and inclusive workplace. We value diversity and recognize that people are unique. Together, they create the best results for all.

In 2017, the Company received awards and recognitions that attest to its excellent performance. Fibria was once again included in the Dow Jones Sustainability Emerging Markets Index (DJSI Emerging Markets), an important sustainability index of the New York Stock Exchange (NYSE), as well as in the portfolios of other relevant indices, such as B3's Corporate Sustainability Index (ISE). Outside Brazil, we won the Best ESG Forestry Management Award – Sustainability Awards 2017 from British magazine Capital Finance International and received the title of Corporate Sustainability Champions from NGO Rainforest Alliance. In Brazil, Fibria was elected Company of the Year by *Época Negócios 360°* yearbook and received the title of best company in the pulp and paper sector from *IstoÉ Dinheiro* and *Dinheiro Rural* magazines. The Company also received the Eco Award from the American Chamber of Commerce (Amcham), as a result of its supply chain sustainability efforts, and the *Época Empresa Verde* Award from *Época* magazine in the Climate Change category. In addition, for the ninth consecutive year we have maintained our presence in the select *Guia Exame de Sustentabilidade* from *Exame* Magazine, which lists and recognizes the most sustainable companies in the country.

As we reach the end of yet another year with so many positive results, we must acknowledge the role of everyone who is walking this path with us. We wish to express our most sincere thanks to our employees, customers, shareholders, investors, partners and suppliers for their confidence in us. Fibria's success is the result of this joint construction, a reason for pride, satisfaction and motivation for all of us.

Marcelo Strufaldi Castelli

CEO

José Luciano Penido

Chairman of the Board of Directors

## **MARKET OVERVIEW**

In 2017, the pulp market saw robust growth in global demand, which, together with a series of events that limited supply, created favorable conditions for the announcement of consecutive price increases in almost every month of the year.

Demand for pulp was high in the main regions during the entire year, supported by the excellent performance of paper manufacturers in order to meet strong demand for their products, as well as low pulp and paper inventories of Chinese paper and cardboard manufacturers at the beginning of the year, which remained low throughout the year.

On the supply side, the market was surprised by unscheduled production downtimes related to operational problems that occurred mostly in the second half of the year, offsetting the impact of new capacities.

In this booming market, Fibria began operating the new Horizonte 2 pulp line at the Três Lagoas unit and posted a record sales volume of 6,212 million tons of pulp in 2017, 13% more than in 2016.

## **PERFORMANCE ANALYSIS**

In 2017, Fibria's **pulp production** totaled 5.6 million tons, 12% more than in 2016, mainly due to the start-up of the new pulp production line in Três Lagoas (Horizonte 2 Project) and fewer maintenance downtimes in 2017 compared to 2016, in accordance with the calendar of scheduled downtimes disclosed to the market.

**Pulp sales volume** came to 6.2 million tons, 13% up on 2016. The volume increase was chiefly due to the start-up of the Horizonte 2 Project (324 thousand tons sold), whose output was mostly exported to Asia, and the fact that the agreement with Klabin was valid during the entire year, versus only eight months in 2016 (Fibria began buying pulp from Klabin in May 2016), adding 331 thousand tons between 2016 and 2017.

The breakdown of sales by final use was as follows: the Tissue Paper segment accounted for 49% of the 2017 total, followed by Printing and Writing Paper, with 35%, and Specialty Papers, with 16%. As a result of the start-up of Horizonte 2 and the fact that its output was mostly directed to the Asian market, Asia now accounts for a larger share of revenue, with 37% of the total, followed by Europe with 33%, North America with 20%, and Brazil and other Latin American countries with 11%.

**Net operating revenue** totaled R\$11.7 billion, 22% more than in 2016, thanks to the 13% increase in sales volume and the 18% rise in the average net price in dollars, partially offset by the 8% decline in the average exchange rate between 2016 and 2017.

The **cost of goods sold (COGS)** came to R\$8.2 billion, 16% up on 2016, due to higher sales volume, including volume both from the Horizonte 2 Project and the agreement with Klabin (in effect during the entire year in 2017), partially offset by the reduction in wood costs at the Aracruz unit and the impact of fewer scheduled downtimes in 2017 compared to 2016.

**Selling expenses** came to R\$547 million, 14% higher than in the previous year, chiefly due to increased sales volume, partially offset by the decline in the average exchange rate in 2017 compared to 2016.

**Administrative expenses** stood at R\$286 million, 4% more than in 2016, mainly as a result of increased spending on salaries and related charges and lower spending on outsourced services.

In 2017, adjusted **EBITDA** totaled R\$5.0 billion (margin of 49%, excluding Klabin's volume), 32% higher than in 2016. In general, this performance was driven by higher sales volume and increased pulp prices in dollars throughout the year, partially offset by the decline in the average exchange rate in 2017 and the higher pulp cash cost and increased logistics costs. It is worth noting that the operation with Klabin has no impact on EBITDA.

The **financial result** was negative by R\$783 million, versus a positive R\$1.6 billion in 2016. This variation was mainly due to the impact of the exchange variation on dollar-denominated debt (the dollar appreciated 1.5% against the real in the period), since a large part of the Company's debt is dollar-pegged given its primary nature as an exporter, and the lower positive result of the mark-to-market of derivative financial instruments in 2017 compared to 2016, partially offset by higher interest expenses on loans and financing.

Given all the above, Fibria reported 2017 **net income** of R\$1.1 billion, 34% less than in 2016. As the Company recorded this positive net result, management proposed the distribution of mandatory minimum dividends of R\$258 million – which will be submitted for approval by the Annual Shareholders' Meeting, scheduled for April.

## **STRATEGY**

Fibria's strategy is based on three pillars: (i) profitability through operational excellence, continuous operational improvements, modernization, differentiation and innovation; (ii) disciplined growth in the pulp market; and (iii) diversification of forestry products that represent complementary opportunities in the value chain.

Under the continuous improvement pillar, we highlight the actions designed to improve operational performance with the resumption of high operational stability levels at factories and increased productivity and forest resilience this year.

Under the growth pillar, Fibria expanded its leadership and competitiveness with the start-up of the Horizonte 2 Project in late August 2017. With investments of R\$7.3 billion, below the original budget, the new mill is the world's largest single pulp production line, adding 1.95 million tons of pulp/year to the Company's production capacity, with 130 MWh in surplus generation of renewable energy. As a result, total nominal production capacity at the Três Lagoas unit increased to 3.25 million tons of pulp/year, while the Company's total installed capacity reached 7.25 million tons of pulp/year. Considering the existing sales agreement with Klabin, which represents an annual sales volume of 900 thousand tons of pulp/year, Fibria achieved a market presence of 8.15 million tons of pulp/year after the inauguration of the new production line.

Under the new business pillar, Fibria is always seeking to identify complementary initiatives in the value chain, focusing on maximizing the creation of wealth with its forests, through bioproducts (bio-oil, lignin and nanocellulose), real estate and other. In 2017, we highlight the investment to acquire a minority stake in Finland-based Spinnova.

Spinnova is a startup focused on the development of low-cost and environmentally sustainable technologies for the production of raw materials for the textile industry. These technologies utilize wood fibers to produce yarns and filaments that can replace cotton, viscose and/or other raw materials for woven and non-woven fabrics. Under the agreement, Fibria purchased a number of common shares equivalent to 18% of Spinnova's total capital stock for 5.0 million euros. In line with the Company's new business route, Spinnova and its technology platform, together with Fibria's expertise, will allow the development of products for new applications over the next few years.

## **CAPITAL EXPENDITURE**

Capex totaled R\$2.077 billion in 2017, excluding the Horizonte 2 expansion project and pulp logistics investments, 3.0% under the capital budget approved for the year. Including the Horizonte 2 Project and pulp logistics investments, capex totaled R\$4.7 billion.

The Board of Directors has approved a capital budget of R\$3.6 billion for 2018, R\$0.4 billion of which will be allocated to the Horizonte 2 expansion project, to be submitted for approval by the Annual Shareholders' Meeting, scheduled for April.

## **LIABILITY MANAGEMENT**

2017 was marked by the Company's financial robustness even during the capex-intensive period related to the Horizonte 2 Project.

After financial leverage, as measured by the net debt/EBITDA ratio in dollars, peaked at 3.79x in the first quarter of 2017, a figure considered low compared to its competitors that have undergone capacity expansion processes in recent years, Fibria began its deleveraging process in the second quarter, even before the start-up of the new Horizonte 2 production line, closing 2017 with leverage of 2.41x in dollars and 2.49x in reais. Throughout the year, with the purpose of balancing out and extending the debt amortization schedule, Fibria made two issues in the international bond market for a total of US\$1.3 billion at a weighted average cost of 5.0% p.a., with an average term of 9 years: a public distribution of R\$941 million in agribusiness receivables certificates (CRAs, in the acronym in Portuguese) issued by RB Capital Companhia de Securitização and US\$700 million in export prepayment facilities. Fibria used part of these funds to settle export prepayment facilities totaling US\$1.487 billion, which, in addition to improving its debt profile, led to the termination of the financial covenants in these agreements. Fibria had solid financial liquidity in 2017. Cash and cash equivalents closed December 31, 2017 at R\$6.968 billion, including the mark-to-market of hedge instruments totaling a positive R\$134 million. Excluding the impact on the cash position of the mark-to-market of hedging, 48% of cash was allocated to local currency government and fixed income securities. The remaining funds were allocated to short-term investments abroad.

The Company has an unused revolving credit facility of R\$1 billion. These funds, despite not being utilized, help improve the Company's liquidity. When added to the current cash position

of R\$6.968 billion, this line resulted in an immediate liquidity position of R\$7.968 billion. As a result, the cash to short-term debt ratio closed 2017 at 8.7x.

Fibra ended the year with gross debt of R\$19.299 billion, corresponding to US\$5.834 billion, which represents a 15% year-on-year increase in dollars due to funding operations in the period. Fibria closed 2017 with net debt of R\$12.331 billion. The average maturity of the total debt was 60 months on December 31, 2017 and the average cost of the total debt measured in dollars, considering debt in reais adjusted by the market curve, was 3.4% p.a.

## **DIVIDENDS**

The Company's bylaws require a minimum annual dividend of 25% of net income, adjusted for allocations to the capital reserves as provided by Brazilian Corporate Law. As the Company recorded a net positive result of R\$1.093 billion in 2017, Management has proposed the distribution of R\$258 million as mandatory minimum dividends, which will be submitted for approval by the Annual Shareholders' Meeting, scheduled for April.

Fibria's dividend policy envisages the possibility of paying additional dividends throughout the year, in accordance with its cash generating capacity, providing its Indebtedness and Liquidity Policy is complied with and its commitment to Investment Grade status is fulfilled.

## **CAPITAL MARKET**

Fibria's shares, which are traded in the Novo Mercado listing segment of B3 under the ticker FIBR3, appreciated 54% in 2017, closing the year at R\$47.85. On the NYSE, the Company's level III ADRs, traded under the ticker FBR, closed 2017 at US\$14.70, 57% up. The average daily trading volume on B3 and the NYSE was 3.4 million in 2017, 19% down from 2016. The average daily financial volume was US\$39.4 million, 18% higher than in the previous year.

Total shares (common shares)	553,934,646 common shares (ONs)
ADR (American Depositary Receipt)	1 ADR = 1 common share
Market cap on 12/31/2017	R\$26.5 billion   US\$8.0 billion

Fibria's shares are included in the main Brazilian stock market indices – the Ibovespa, the Brazil 50 Index (IBRX-50), the Brazil 100 Index (IBRX-100), the Special Corporate Governance Stock Index (IGC), the Special Tag-Along Stock Index (ITAG), the Carbon Efficient Index (ICO2) and the Corporate Sustainability Index (ISE). They are also part of the NYSE's Dow Jones Sustainability Emerging Markets index (DJSI Emerging Markets) and the FTSE4Good Index, among others.

Fibria has maintained close relations with its investors and the market in general through the promotion of important public meetings and events, such as the Investor Tour, held at the Três Lagoas unit (MS) in September, and Fibria Day, held at the NYSE (USA) in December.

## **CORPORATE GOVERNANCE**

Since its inception in 2009, Fibria has sought to align itself with the highest standards of corporate governance by joining the Novo Mercado segment of B3 and Level III ADR of the New York Stock Exchange, the highest listing segment for foreign issuers. Since then, the Company has remained committed to constantly improving its practices, focusing on integrity, transparency, equity and reliability in all its businesses and relationships, based on solid governance principles that guide organizational conduct. The excellence of our governance practices has been recognized through inclusion in the main sustainability indexes, such as the Dow Jones Sustainability Index (NYSE) and ISE (B3).

The Company has a governance structure composed of the Shareholders' Meeting, the Board of Directors, five advisory committees (Statutory Audit, Finance, Innovation, Sustainability, and Personnel and Remuneration), the Fiscal Council and the Executive Board.

Since 2016, the Governance, Risk and Compliance executive area, also responsible for Internal Audit, has reported directly to the Chairman of the Board of Directors, further strengthening Fibria's corporate governance structure, with clearly defined roles and equal treatment of shareholders.

In 2017, Fibria innovated and implemented video learning to reinforce the main guidelines and practices in its Code of Conduct. Named *Ética e Código de Conduta Fibria* (Fibria's Ethics and Code of Conduct), the training was mandatory for the Company's entire Executive Team. In order to expand and strengthen its Compliance Program, Fibria launched a company-wide internal communication campaign, including its international offices. The campaign complemented the initiatives already underway within the Compliance Program, especially with regard to the Anti-Corruption and Compliance with Competition Law pillars. Through several communication materials and initiatives, which included an interactive lecture with philosopher Clóvis de Barros Filho, Fibria encouraged reflection on ethics and integrity, as well as on the importance of taking action to protect free competition and fight all forms of corruption, sensitizing employees and contractors and raising their awareness of the appropriate conduct expected of each one of them on their day-to-day activities related to these issues in order to prevent misconduct.

For the entire duration of the initiative, Fibria repeatedly reminded employees and contractors that the Company has an Ombudsman Channel, both for answering questions about the issues under discussion and for receiving confidential reports of misconduct, thus correcting and preventing irregularities in the Company's business environment.

In 2017, we also improved Corporate Governance in companies in which we have joint control, accelerating the Compliance Program, implementing internal regulations for the Board of Directors and advisory bodies, and developing their Socio-environmental Investment, Anti-corruption, and Sponsorship and Donation Policies.

## **SUSTAINABILITY**

The essence of our business is to produce renewable forest-based products while respecting life. Fibria believes companies must engage in the construction of transformative solutions for a more just and sustainable society. As a result, the Company has sought to contribute more by creating shared value focused on innovation, operational excellence and dialog with its stakeholders. As a result of its commitment to these practices, the Company received important awards in 2017, such as the Eco Award from the American Chamber of Commerce, which recognized Fibria's Supply Chain Sustainability practices. We were also included once again in the NYSE's Dow Jones Sustainability Emerging Markets index (DJSI Emerging Markets) and the BM&FBovespa's Corporate Sustainability Index (ISE).

The Company publishes an annual Sustainability Report in accordance with the guidelines (G4 version) of the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC), which is filed with the CVM through the IPE system in the "Sustainability Report" category.

### **Local Development**

We seek to ensure the social legitimacy of our business by strengthening our relationship with the communities over the long term and integrating their interests in the conduct and management of our business. Currently, income generation initiatives, such as family farming, beekeeping and handicrafts, impact more than 7 thousand families, increasing the average income of beneficiary households and promoting local development.

### **Shared Value at Fibria**

Jointly with FSG, a consulting firm headed by Michael Porter and Mark Kramer, Fibria evaluated shared value initiatives. Harvard professors Kramer and Porter defined the concept of shared value in an article entitled "Creating Shared Value" they wrote for Harvard Business Review in 2011. Shared value strategies are those that increase a company's competitiveness, while improving the economic and socio-environmental conditions of the communities where it operates.

The case study identified the following main shared value initiatives:

1. The *Programa Poupança Florestal* (Forestry Savings Program), established in 1990, provides materials and technical assistance to help farmers grow eucalyptus in their properties, including local landowners in Fibria's supply chain and thereby aligning their prosperity with our success.
2. The *Programa de Desenvolvimento Rural Territorial - PDRT* (Territorial Rural Development Program) increases income and institutional capital in local communities, while reducing social conflict.
3. The *Desenvolvimento de Fornecedores Locais* (Local Supplier Development) initiative was launched in 1995 to develop a local industrial base and foster local entrepreneurship. Local suppliers currently account for 70% of supply at the Aracruz unit, bringing important cost savings for the Company, as well as creating jobs and increasing income in the region.
4. The *Manejo Florestal Sustentável* (Sustainable Forest Management) initiative allows the Company to reduce its environmental footprint through sustainable forest management practices and technological advances in tree improvement. These environmental initiatives generate other financial returns. Firstly, improved natural ecosystem services can reduce costs, as in the case of ant control. Secondly, better forest management practices associated with Fibria's breeding technology help increase eucalyptus productivity.

### **Sustainable Development Goals**

Fibria sought to explore its connections and contributions to the 17 Sustainable Development Goals that make up the UN 2030 Agenda. In 2017, Fibria mapped the connections linking the SDGs and the 13 material issues to Fibria's Long-Term Sustainability Goals and the initiatives and impacts of its operations. Fibria has published on its website an infographic that summarizes the mapping results and enhances the Company's transparency.

### **Supply Chain Sustainability**

Fibria works to integrate sustainability into its supply chain and, in 2017, these efforts resulted in the publication of the Supplier Relationship Manual, designed to ensure good practices and actions related to Business Relations, Labor Relations, Environmental Protection, Human Rights and Management Systems.

### **Green Bond**

In January 2017, Fibria raised US\$700 million in ten-year green bonds. The issue was supported by an independent opinion of Sustainalytics that verified the eligibility criteria associated with issue. The eligible projects must fit into the following categories: Forest Management, Conservation and Biodiversity, Waste, Water and Energy. The allocation of funds to eligible projects and their environmental impacts are verified by a third party and the results are published in the Fibria Green Bond Report every year.

### **Natural Capital and Environmental Externalities**

The forest sector depends on natural resources, such as the water needed for both planting and the industrial process. These resources comprise natural capital, i.e. the set of natural, biotic and abiotic resources that form ecosystems and generate a diverse flow of benefits to society, known as ecosystem services. The impacts of the business on the benefits that society derives from natural capital that are not adequately compensated or penalized are known as "externalities."

In 2017, Fibria set out to diagnose and measure externalities arising from its operations. In order to better evaluate such risks and opportunities, a qualitative analysis of real and potential externalities (positive and negative) was carried out and, as a result, 20 of the 23 studied ecosystem services were considered relevant to the Company's operations. Fibria prioritized five of these, which will be submitted to monetary valuation and measurement. They are: (1) food supply, (2) global climate regulation, (3) fresh water supply, (4) fresh water regulation and quality and (5) ecosystem integrity.

### **Restoration**

Fibria aims to conserve and improve regional biodiversity. Therefore, in 2011, it made a commitment to promote the environmental restoration of 40 thousand hectares of its own areas between 2012 and 2025. In 2017, the Company reached 56% of its long-term goal, with

22.5 thousand hectares restored. Fibria believes that this achievement will enrich wildlife and flora, including endangered species, in the Atlantic Rainforest and *Cerrado* biomes and will expand environmental services - carbon sequestration and water availability and quality, among others - of areas whose original characteristics were altered due to human activities.

### **TECHNOLOGICAL INNOVATION**

Through continuous investment, Fibria's Technology Center develops research and technological innovation in order to increase productivity and improve forest quality, as well as develop new products, always in a sustainable way. These efforts contribute to the creation of competitive differentials in the pulp market and enable Fibria to diversify its business through activities performed both in our laboratories and experimental areas, and in partnership with external institutions around the world. Given the importance of innovation for its strategy, Fibria invests approximately 0.7% of its net revenue every year in this area, including operating and capital expenses.

Fibria's Classic Genetic Improvement Program, designed to achieve the long-term IMACel (air-dried tons of pulp per hectare per year) goals established by the organization, continued performing well. The average potential of the new clones/clonal compounds recommended in 2017 for 2018 was 11.8 adt/ha/year, with the additional advantage of lower vulnerability to biotic and abiotic stress resulting from climate change.

The biotechnology program also had relevant results in 2017, led by increased efficiency in the generation of new transgenic events. We have also continued with the research to assess the potential of other biotechnological tools, such as genome editing and polyploidy. The biosafety aspects and regulatory issues related to genetically modified eucalyptus (EucaGM) remained in the spotlight throughout 2017, with initiatives focused on both internal and external stakeholders.

In 2017, the forest management research area analyzed soil and plant samples from thousands of hectares and recommended new fertilizers for all units through the Integrated Fertilization Recommendation System (SIRA), which was developed by Fibria, resulting in significant gains in logistics, costs and occupational safety. In addition, the Company produced new knowledge on the nutritional needs of eucalyptus.

Regarding pest and disease control, Fibria has implemented actions to increase the use of biological pest control and reduce pesticide use. In 2017, the Natural Resource and Forest

Protection Laboratory produced and introduced more than 10 million natural enemies in plantations, contributing to the strategy of integrated control of pests and diseases. These efforts also helped Fibria retain FSC certification in all its units.

In the ecophysiology field, Fibria has been learning more about the effects of climate change on its plantations. These studies are based on open-air laboratories implemented in recent years (Micro-basin Project, Flow Tower Network and Weather Station Network) and enabled us to create an index system for making decisions about the silviculture process based on weather predictions. Thus, processes such as soil preparation, fertilization and pesticide application can be planned in a way to avoid waste, guaranteeing plantation quality. These facilities also allow the monitoring of the forest ecosystem through measurements of forest-atmosphere exchanges (CO<sub>2</sub>, water and energy). This enables the development of forest productivity and growth prediction models for different climate scenarios, in addition to landscape management practices focused on ecosystem services.

In 2016 and 2017, the Company substantially improved its intellectual property management, competitive intelligence and technology prospecting activities. In 2017, Fibria filed four new patent applications and obtained five patents in progress, as well as protection for a eucalyptus cultivar. All in all, Fibria currently has 160 granted patents, 149 filed patents and 25 protected cultivars, underlining the success of its innovation process.

Regarding the development of new products and processes, Fibria has been constantly investing to identify technologies that can add value to its current business. Throughout 2017, research projects on several fronts focused on the use of our biomass as raw material for new products and on the use of existing sources in the production process, such as lignin. Within the scope of projects focusing on the alternative use of biomass, we advanced the engineering concepts related to RTP bio-oil processing in 2017. We also made significant progress in the development of applications for lignin and began studies for the future implementation of a production unit.

In addition, in 2017, Fibria completed the installation of its pilot plant for the production of microfibrillated cellulose and tissue paper, creating opportunities for the development of both new microfibrillated cellulose-based products and new pulp products for consolidated markets, such as tissue paper.

Fibria constantly monitors technological developments that may have synergies with its current business and, in 2017, it acquired an interest in Spinnova, whose technology can process wood fibers for textile production.

## SUPPLIERS

Fibria has an extensive and diversified supplier base, ranging from small farmers to large national and multinational corporations. In 2017, Fibria had business relations with around 8,000 suppliers, whom it seeks to engage in best social and environmental practices, focusing on the responsible use of natural resources and respect for workers' rights. One of the highlights of the year was the Horizonte 2 Project, which involved approximately 480 direct and indirect suppliers in the duplication of the Três Lagoas plant, with start-up in 2017.

Fibria constantly requires that all its suppliers comply with labor and environmental policies and laws and with Fibria's health and safety criteria, whether in the company approval and/or contracting processes, or throughout the term of the contracts. Fibria has a Web Portal that optimizes communication with potential suppliers in the process of approval and performance assessment of strategic suppliers, as well as in the monitoring of their accessory obligations. In the constant pursuit of process improvements, in 2017, the Supply area implemented an Electronic Procurement Portal that aims to further strengthen process compliance, as well as simplify transactional steps.

Local development in the regions where it operates is another important aspect taken into account by the Company, which establishes partnerships with local suppliers whenever possible. Also, in order to help these suppliers expand their business, Fibria sponsors and participates in development programs to certify such suppliers in regard to environmental, financial management, tax, labor, quality, and occupational health and safety issues. These initiatives include the Integrated Supplier Development and Qualification Program (PRODFOR) in Espírito Santo, which was implemented by Fibria in 1998 and is now a national reference, having developed more than 680 suppliers, and the Supplier Qualification Program (*PQF Avançada*) in Mato Grosso do Sul, created by Fibria in 2010, which has qualified more than 100 suppliers. Whenever possible, the Company also participates in the rounds of negotiations promoted by official supplier promotion and development bodies in the regions where it operates. These meetings are designed to bring together small suppliers and major supply chain driving companies.

Inspired by the belief that business success is only complete and lasting when it promotes the development of transformative solutions for a more just and sustainable society, Fibria executed the first cycle of its Supply Chain Sustainability Strategy in 2017 by implementing the Sustainable Supply Program, which featured the creation and dissemination of the Supplier Relationship

Manual, including on-site audits, designed to foster an environment of interaction between the Company and suppliers through clear and balanced communication, as well as align expectations on issues and practices to generate shared value. The initiative is aimed at all types of suppliers and Fibria's employees directly and indirectly involved in supplier contracting and supplier relations.

## **PEOPLE**

Fibria is strongly committed to the health and safety of its employees and contractors in all its operations. Its Occupational Health and Safety system comprises tools and practices selected based on a global benchmark study conducted by the Company in order to help prevent accidents, incidents and occupational diseases. These practices have ensured compliance with the requirements of OHSAS 18001 and sustainable forest management certifications CERFLOR and FSC (Forest Stewardship Council).

The Company's progress over the last eight years led to a reduction in the accident rate resulting in lost days from 2.33 to 0.80 accidents per million man-hours worked involving own employees and contractors (66% decline). The rate of reportable accidents (OSHA\_USA) fell from 8.26 to 3.65 (56% reduction).

Unfortunately, despite all our efforts and progress and because we have a total workforce of around 19,000 people (including employees and contractors), occasionally there are fatal accidents. In 2017, we had one casualty: one worker who was working in an emergency logistics operation, transporting pulp from the Três Lagoas – MS unit to the Port of Santos.

Fibria devotes its best efforts to continuously improve its practices and relentlessly pursues the goal of eliminating fatal accidents. All health and safety indicators are published every year in our Fibria Report.

### ***Somos Fibria (We are Fibria)***

In 2017, we launched the *SOMOS FIBRIA* initiative, which represents the evolution of our organizational culture of constant pursuit of high performance, in which we developed, together with all our executives, our Inspiration and Purpose, as well as reviewed and strengthened our management beliefs. In this context, we took another organizational step towards a more diverse and inclusive workplace in 2017. We believe diversity produces the best decisions and we have thus began an internal journey towards this new competitiveness plan at Fibria.

## **RELATIONS WITH THE INDEPENDENT AUDITORS**

Pursuant to CVM Instruction 381/2003, we hereby declare that, in the fiscal year ended December 31, 2017, we did not contract our independent auditors to carry out any work other than that related to the external audit.

The Company's policy for contracting services not related to the external audit from our independent auditors is based on internationally accepted principles that preserve their independence, namely that the auditors: (a) shall not audit their own work, (b) shall not perform management activities for their client and (c) shall not promote their client's interests.

The Company's financial statements for December 31, 2017 were audited by BDO RCS Auditores Independentes SS.