

MANAGEMENT REPORT 2018

MESSAGE FROM MANAGEMENT

In 2018, following its long record of surmounting challenges and delivering results, Fibria successfully completed, in May, the ramp-up of the new Horizonte 2 production line. By complying with the nine-month schedule set by the Company, the project has become a global reference in the pulp and paper industry

Another important advance in the Company's structural competitiveness was the long-term port logistics service agreement for pulp handling on a take-or-pay basis entered into with Embraport. The company, which has changed its brand to DP World Santos, operates a private-use terminal (TUP) located on the left bank of the Santos Estuary, where a port logistics structure is being installed for pulp storage, movements and loading.

The transaction, which aims to ensure higher efficiency in exports through Santos in the long term, represented an innovation milestone in Brazil's pulp and paper industry by enabling logistics operation for breakbulk vessels on the left bank of the Port of Santos. Construction of the new warehouse and of other port and logistics facilities is expected by 2020.

The most important milestone in the year, however, was the transaction with Suzano. On March 15, the controlling shareholders of Fibria and Suzano Pulp and Paper signed an agreement to combine the operations and shareholder bases of both companies via a corporate reorganization. Fibria's Board of Directors approved the Commitment on March 27.

Subject to compliance with certain conditions precedent, including approval by the antitrust agencies, the transaction was successfully approved at all levels, including by the Company's Board of Directors on August 26, and by shareholders in the Extraordinary Shareholders Meeting held on September 13. On November 29, after fulfilling the last condition precedent, i.e. approval of the corporate restructuring by the European antitrust authority, the date of the transaction's consummation was announced to the market: January 14, 2019. Consequently, Fibria's stock ceased trading on the B3 and NYSE on January 3, 2019.

In parallel with the various procedures of the process to merge with Suzano Pulp and Paper, Fibria delivered operating and financial results marked by many positive highlights throughout

the year. Fibria's net revenue amounted to R\$18.264 billion in 2018, advancing 56% on the prior year, explained by the 25% increase in the average net price in USD compared to the previous year, the 14% appreciation in the USD against the BRL and the 9% higher sales volume.

The positive scenario for pulp prices and the higher sales volume, combined with the stronger U.S. dollar against the Brazilian real, led Adjusted EBITDA to reach R\$ 9,547 billion (margin of 58%, excluding the volumes from the agreement with Klabin), 93% higher than in 2017. The Company ended the year with net income of R\$ 3.1 billion. The strong cash generation in the period enabled the Company to pay R\$ 2.8 billion in extraordinary dividends in the period.

Fibria also maintained its Investment Grade rating at the rating agencies Standard & Poor's and Fitch throughout its entire cycle of investment in the new pulp production line Horizonte 2, attesting to its solid financial position and to the quality of its credit risk. In 2018, the Company reduced its financial leverage, as measured by the ratio of net debt to EBITDA in USD, from 2.4x to 1.4x, demonstrating its strong cash generation capacity.

By closing the year 2018 with solid results, the Company showed that it has prepared itself diligently and collaboratively for a new journey that marked the transition to a new value-creation cycle following the transaction with Suzano. Pulp and Paper and later creation of Suzano.

The Management.

PERFORMANCE ANALYSIS

In 2018, Fibria's **pulp production** came to 7.6 million tons, an increase of 20% on the previous year, mainly due to the startup of the new pulp production line Horizonte 2.

Pulp sales volume came to 6.8 million tons, up 9% from the prior year. The higher volume is basically explained by the stabilization of the learning curve at the new pulp production line Horizonte 2. The higher sales volume was partially offset by Fibria's decision to reduce its sales volumes to Asia in 4Q18 due to China's pressure on prices.

Regarding the **distribution of sales by final use**, the Sanitary Paper segment accounted for 54% of total sales in 2018, following by Printing & Writing with 32% and Specialty Papers with 15%. Given the higher production volume because of the new pulp production line Horizonte 2, with Asia accounting for a high concentration of these volumes, Asia increased its share of revenue

by region to account for 40% of the total, followed by Europe with 33%, North America with 17% and Brazil and other South American countries with 10%.

Fibra's **net operating revenue** was R\$ 18.3 billion, 56% higher than in 2017, driven by the 25% increase in average prices in USD, the 14% appreciation in the USD against the BRL and the 9% higher sales volume.

Cost of goods sold (COGS) came to R\$ 9.9 billion, up 20% from 2017, mainly reflecting the higher sales volume and increased logistics costs due to the higher sales volume to Asia, the 12% appreciation in the average price of the USD against the BRL and the higher sales volume of pulp produced at Horizonte 2. The last factor is explained by the fact that the new production line is located further from the Brazilian coast compared to other plants (higher average distance to the port).

Selling expenses were R\$ 813 million, 49% higher than in the prior year. The increase is mainly explained by (i) the higher sales volume, due to the new production line Horizonte 2; and (ii) the sales mix, with an higher volume of pulp shipments from Horizonte 2, which has higher costs than the average of the other units.

Administrative expenses were R\$ 392 million, increasing 37% from 2017. The result is primarily due to the higher expenses with consulting services related to the transaction with Suzano and to payroll and payroll charges.

Other operating expenses were R\$ 434 million, 28% higher than in 2017. The variation is mainly explained by: (i) increased expenses with variable compensation, which in turn was affected by the liabilities arising from the transaction with Suzano; and (ii) the increase in contingencies and asset write-offs, which were partially offset by the lower expense from the revaluation of biological assets.

In 2018, adjusted **EBITDA** was R\$ 9.5 billion (margin of 58%, excluding volumes from the agreement with Klabin), growing 93% on the prior year. This performance is explained by the higher pulp price in USD, the higher sales volume and the stronger USD against the BRL, with these factors partially offset by the increases in cash pulp cost and logistics costs. Note that the operation with Klabin has no impact on EBITDA.

The **net financial result** was an expense of R\$ 2.9 billion, compared to an expense of R\$ 783 million in 2017. The variation was mainly due to the exchange variation impact on the dollar-denominated portion of the Company's debt (USD appreciation of 17.1% against the BRL) and to the loss from the mark-to-market adjustment of derivatives in 2018, compared to a gain in 2017.

As a result, Fibria posted **net income** of R\$ 3.1 billion in 2018, an increase of 180% compared to 2017. Dividend payments in 2018 came to R\$ 3.046 billion, of which R\$ 260 million corresponding to the minimum mandatory dividends and R\$ 2.786 billion to extraordinary dividends, with the latter reflecting the Company's strong cash generation in the year.

CAPITAL EXPENDITURE

In 2018, Fibria's investments (capex) amounted to R\$ 3.916 billion, down 16% from 2017, mainly due to the reduction in investments related to the Horizonte 2 Project, which was partially offset by increased expenses with the acquisition of land, maintenance and pulp logistics.

LIABILITY MANAGEMENT

In 2018, Fibria repurchased and canceled 100% of its outstanding Voto IV Bonds in the amount of R\$ 357 million and prepaid R\$ 909 million in loans with the BNDES and R\$ 147 million in loans with Banco do Nordeste whose rates were considered unattractive.

The Company obtained advance approval from the holders of its Certificates of Agribusiness Receivables ("CRAs") for seven of the nine outstanding issues to implement the corporate restructuring operation involving the Company and Suzano, upon payment of a premium, within ten (10) business days as from the effective implementation of the corporate restructuring, of zero point four zero percent (0.40%) on the face value of the respective series on the dates of the general meetings to all holders of CRAs ("AGCs") of the series approved. Payment of the premium will result in a disbursement of R\$ 17 million.

Fibria reached the end of 2018 with a solid financial position. The Company's cash position, including the mark-to-market adjustment of hedge instruments, increased by R\$ 263 million to R\$ 6,547 million. Excluding the effect from the mark-to-market adjustment of the cash position, 75% of funds was invested in local currency in government bonds and fixed-income instruments. The remainder was invested in short-term investments abroad.

The company also has one untapped revolving credit facility in the amount of R\$ 1 billion. Although unused, these funds help improve the Company's liquidity position and, when added

to the cash position of R\$ 6,547 million, increase the immediate liquidity position to R\$ 7,547 million. Accordingly, the ratio of the liquidity position to short-term debt stood at 2.5x on December 31, 2018.

Gross debt ended 2018 at R\$ 20,667 million, corresponding to US\$ 5,334 million, down 9% in USD compared to 2017, as a result of the amortizations in the period. Fibria ended the year with net debt of R\$ 14,120 million. The average maturity term of the Company's debt on December 31, 2018 was 52 months and the average debt cost in USD, considering BRL-denominated debt adjusted by the market curve, was 4.25% p.a.