

# Suzano Papel e Celulose S.A.

**December 31, 2016 and 2015  
including the Independent  
Auditor's Report on the  
Financial Statements**

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## **Independent auditor's report on the individual and consolidated financial statements**

We have audited the accompanying individual and consolidated financial statements of Suzano Papel e Celulose S.A. ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as of December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the significant accounting policies and other explanatory information.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Suzano Papel e Celulose S.A. as of December 31, 2016, and its individual and consolidated financial performance and their cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### **Basis for Opinion**

We conducted our audit in accordance with Brazilian and international standards on auditing. In accordance with said standards, our responsibilities are described in the next section, namely "Responsibilities of the auditor for the audit of the individual and consolidated financial statements". We are independent in relation to the Company and its subsidiaries, in accordance with the relevant ethical principles set forth in the Code of Ethics for Professional Accountants and in the Professional Standards issued by the Brazilian Federal Accounting Council (CFC) and we comply with the other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Main audit issues**

The main audit issues are those that in our professional judgment were most significant in our audit of the current year. These issues were treated within the scope of our audit of the individual and consolidated financial statements as a whole and in forming our opinion on said financial statements and, therefore, we do not express a separate opinion on said issues.

### **Measurement of biological assets at fair value**

As mentioned in Note 13, the biological assets are measured at fair value, and the present value of cash flows thereof is determined based on a specific methodology to reflect the economic valuation models of a business unit exclusive for the plantation of eucalyptus and woodcutting.



In determining fair value, assumptions involving a high level of judgment of the Company are used, including the average cycle of forest formation per plantation region, volume of production of wood with bark estimated in m<sup>3</sup> per hectares at the end of the formation cycle, average standard price per hectare, average price for sale of eucalyptus, asset conditions and discount fees for calculation of the fair value of the biological asset less cost of sale. Due to the materiality of the estimates and the impact that any change in the assumptions could have on the individual and consolidated financial statements, we considered this matter significant to our audit.

#### **How our audit conducted this issue**

The audit procedures included an assessment of the plan and implementation of internal controls related to the Company's forest activity, as well as the involvement of our corporate finance experts in the analysis of the assumptions used, recalculation tests of the projections and cash flows prepared by the Company, comparison with the information obtained from external sources, when available, and performance of documentation tests in order to guarantee the integrity and accuracy of the data used in the fair value calculation basis. Furthermore, as part of our audit procedures, we verified the appropriateness of the disclosures, according to Note 13.

#### ***Realization of deferred income tax and social contribution assets***

As mentioned in Note 12, the Company uses certain assumptions to recognize future taxable income, such as estimates of gross sales revenue of pulp and paper, production cost, depreciation expenses, financial income and expenses, which substantiate the expectations for realization of the deferred income tax and social contribution assets in the coming years. Due to the high level of judgment in determining estimated future taxable income and the impact that any change in the assumptions could have on the individual and consolidated financial statements, we considered this issue as relevant to our audit.

#### **How our audit conducted this issue**

The audit procedures engaged our corporate finance experts to analyze the assumptions adopted in the projections of future taxable income and compared data, when available, to other external sources. In addition, we engaged our tax experts, who, based on sampling, assessed the compliance of the treatment given by the Company to the deductible expenses or tax revenues, which comprise the balance of tax loss carryforwards and temporary differences, and to the tax laws in Brazil. Furthermore, we verified the appropriateness of the disclosures, according to Note 12.

#### ***Realization of recoverable taxes - value-added tax on sales and services ("ICMS")***

As mentioned in Note 26, operations with the international market account for 66% of the Company's sales, which are not subject to indirect taxes. However, in the production process, the Company obtains ICMS credits on the acquisition of inputs, added to the credits already taken on property, plant and equipment, resulting in recoverable ICMS balance. The realization of the ICMS balances of the Mucurí-BA and Imperatriz-MA units will depend on the domestic market sales or on specific permits from the tax authorities of the respective states so that they can be traded with third parties. Estimates regarding the use of these credits involve a high level of judgment, taking into account the Company's strategic plans and the approvals for trading of the credits by the respective states. For these reasons, we consider this matter relevant to the audit of the individual and consolidated financial statements of this year.



### **How our audit conducted this issue**

The audit procedures carried out considered documentation tests, on a sampling basis, to analyze the appropriate classification and records of credits on the acquisition of inputs in the operations carried out in the mills of Mucuri - BA and Imperatriz - MA. We examined the strategic plan for realization of these credits together with our tax experts and confirmed the assumptions and other relevant information by making inquiries to the Company.

Additionally, we engaged our tax experts to analyze the compliance with the standards and procedures under the state laws and, on a test basis, analyze the adequacy of the respective tax records. Furthermore, we verified the adequacy of the disclosures, according to Note 9.

### **Other issues**

#### ***Statements of Value Added***

The individual and consolidated statements of value added ("DVA") for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplemental information for IFRS purposes, were submitted to audit procedures performed together with the audit of the financial statements of the Company. In forming our opinion, we assessed whether these statements are reconciled with the accounting statements and records, as applicable, and whether their form and content comply with the criteria set forth under Technical Pronouncement CPC 09 - Statement of Value Added. In our opinion, the statements of value added were presented fairly, in all material respects, in agreement with the criteria set forth under this Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

#### **Other information that accompany the individual and consolidated financial statements and the auditor's report**

The Company's management is responsible for such other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not include the Management Report and we did not express an audit judgment on this report.

With reference to the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and assess if this report is substantially inconsistent with the individual and consolidated financial statements or with the knowledge we gained in performing the audit, or otherwise, appears to be materially misstated. If, based on the work performed, we conclude that there is a material misstatement in the Management Report, we are required to communicate the fact. We have nothing to report in this regard.

#### **Responsibilities of the management and the governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and in conformity with accounting practices adopted in Brazil, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the individual and consolidated financial statements, management is responsible for evaluating the Company's ability to continue as a going concern, disclosing, as applicable, the issues related with its operating continuity and the use of this accounting base in the preparation of the individual and consolidated financial statements, unless management intends to liquidate the Company or close down its operations, or if it does not have any realistic alternative to prevent the closing down of operations.

The people in charge of the Company's governance are responsible for supervising the process of preparation of the individual and consolidated financial statements.

***Responsibilities of the auditor for the audit of the individual and consolidated financial statements***

Our objective is to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free of material misstatements, whether caused by error or fraud, and to issue an audit report with our opinion.

Reasonable assurance is a high level of security, but it is not a guarantee that an audit performed in accordance with the Brazilian and international audit standards will always detect a material misstatement. Misstatements may result from fraud or error and are considered relevant when, individually or taken together, they can influence, within a reasonable perspective, the economic decisions made by users based on said consolidated financial statements.

As part of an audit performed in accordance with Brazilian and international audit standards, we make a professional judgment and maintain an attitude of professional skepticism throughout the audit. In addition:

- We identify and assess the material misstatement risks in the financial statements, whether caused by fraud or error, plan and carry out audit procedures in response to such risks, and obtain adequate and sufficient audit evidence to support our opinion. The risk of non-detection of material misstatement resulting from fraud is bigger than that arising out of error, as that fraud may involve bypassing the internal controls, collusion, forgery, omission or intentional misrepresentations.
- We gain an understanding of the internal controls relevant to the audit so that we can plan audit procedures suitable to the circumstances, but, not with the aim of expressing an opinion on the efficiency of the internal controls of the Company and its subsidiaries.
- We assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and respective disclosures made by management.
- We issue an opinion on the appropriateness of the use by management of the operating continuity accounting base and, supported by the audit evidence obtained, if there is relevant uncertainty regarding events or conditions that might raise significant doubt as to the Company's ability to continue as a going concern. If we come to the conclusion that there is relevant uncertainty, we must call attention in our audit report to the respective disclosures in the financial statements or, should the disclosures be inappropriate, include a modification to our opinion. Our conclusions are grounded in the audit evidences obtained up to the date of our report. However, future events or conditions may impair the ability of the Company to continue as a going concern.

- We assess the general presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and the events in a manner compatible with the aim of a fair presentation.
- We obtain appropriate and sufficient audit evidence regarding the financial information of the entities or business activities of the group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the group and, consequently, for the audit opinion.

We communicate with those in charge of governance regarding, among other aspects, the planned scope, the audit time and the significant audit findings, including any significant deficiency in the internal controls identified during our work.

We also provide those in charge of governance a declaration of our compliance with relevant ethical requirements, such as the applicable independence requirement, and we report all relationships or issues that may significantly affect our independence, including the respective safeguards when applicable.

Of the issues we discussed with those in charge of governance, we determined the most significant ones in the audit of the financial statements of the current year and, as such, they constitute the main audit issues. We describe these issues in our audit report, unless any law or regulation prohibits their disclosure to the public, or when, in extremely rare circumstances, we determine that the issue must not be mentioned in our report because the adverse consequences of such disclosure may reasonably overcome the benefits of its communication to the public.

São Paulo, February 8, 2017

KPMG Auditores Independentes

CRC 2SP014428/O-6

(Original report in Portuguese signed)

Carla Bellangero

Accountant – CRC 1SP196751/O-4

## Message from Management

The year 2016 was special for Suzano Pulp and Paper: we reported solid financial results, underpinned by strong operating results, in a year marked by a more challenging scenario for our industry. Net revenue amounted to R\$9.9 billion and adjusted EBITDA came to R\$3.9 billion, with margin of 39.5%. We reduced our leverage ratio to 2.6 times net debt/adjusted EBITDA at end-2016. The Company's main management metric is return on invested capital (ROIC), based on operating cash generation, which stood at 12% and R\$2.7 billion, respectively, in the year.

We set a new record for pulp production in the year, with production volume growing at all units. The growth in global demand remained resilient and our pulp sales volume also set a new record. The profitability of the pulp business was affected by the drop in international pulp prices, which were pressured by the additional supply from the new plants that came online during the year. In the last quarter of the year, market fundamentals improved, supporting an incipient rebuilding of pulp prices, with price increases announced for the fourth quarter of 2016 and start of 2017.

Brazil's paper market in 2016 was even more affected by the caustic macroeconomic scenario. We reported sales volume growth in the domestic market, despite contracting demand, as well as margin expansion, due the successful implementation of price increases for all product lines at rates above inflation in the period.

Cash generation in the year supported significant progress in the execution of our strategy, based on the pillars of structural competitiveness, adjacent businesses and reshaping of the industry, with the ultimate aim of creating value sustainably.

In structural competitiveness, we launched the industrial project to debottleneck the Imperatriz Unit, which will be completed in 2017, and concluded the acquisition of forestry assets to supply the expansion of pulp production in Maranhão. The purpose of these investments is to reduce production cash cost by neutralizing the effects from inflation through actions such as reducing the consumption of inputs, diluting fixed costs, lowering wood costs and optimizing the average distance supply of forests which supply our mills. Structural competitiveness in the paper segment is reinforced by our distribution model, which aims to strengthen our relations with end customers through the program known as "Suzano Mais". In 2016, we reaped the benefits from the advances made in this program.

We made significant progress in the year on the strategy of adjacent businesses, which seeks new ways to utilize our asset base by diversifying our product portfolio through more profitable and scalable businesses. The volume of Eucafluff® sales to supply the diaper and feminine hygiene products market grew quarter after quarter, and in the fourth quarter of the year we began exporting this innovative new product. We made progress on implementing the lignin and tissue projects, with the production of these products expected to begin in 2017. These new businesses are avenues for diversification that should increase their contribution to our consolidated results each year, while creating more value sustainably in order to reduce the volatility of our results, since they will be less exposed to external factors (exchange rate and pulp prices).

In the third pillar, we consolidated our financial solidity to prepare ourselves for a transformational move. We continued to reduce the level of our net debt through liability management operations, which helped reduce our cost of capital and lengthen our debt maturity profile. The highlight was becoming the first company, in 2016, to issue green bonds in the local and international markets (in USD).

So many achievements in a year like 2016 could only have been possible with the dedication of our employees. As such, in people management, we reiterated our



commitment to investing in recruiting, developing, training and retaining talent to transform our company. The recognition of this effort led Suzano to figure once among the best companies to work for and, for the first time, in the ranking of the best companies for launching a career.

In client relations, we focused on strengthening quality and satisfaction. In our relations with local communities, we prioritized social and economic development through participatory actions, while respecting the local culture, reality and diversity and offering technical support.

We prioritized the creation of value for shareholders and pursued return on invested capital with the solidity and the cost, financial and capital discipline that always have guided our activities.

Looking back at these achievements, we see that we are on the right path of transforming our company, benefitting society and improving relations with stakeholders. We thank all of our clients, investors, suppliers, communities with which we interact, partners and employees who contributed to the achievement of these results in 2016. We maintain firm in our conviction of acting as a Strong and Kind company!

The Management.

## **OVERVIEW**

With a history stretching back 93 years marked by innovation and a pioneering spirit, we are a 100% Brazilian forestry company and one of the largest vertically integrated producers of paper and eucalyptus pulp in Latin America. Our product portfolio includes Printing & Writing paper, Paperboard, Market Pulp and Fluff Pulp.

Our products come from industrial units located in Suzano, Rio Verde and Limeira in the state of São Paulo; in Mucuri in the state of Bahia; and in Imperatriz in the state of Maranhão. In addition to our registered office in Salvador, Bahia and our administrative office in the capital of São Paulo, we have a commercial office in China and subsidiaries in four other countries: United States, Switzerland, United Kingdom and Argentina. We also own SPP-KSR, the largest distributor of paper and printing products in South America. At the end of 2016, we employed over 8,000 people and had 12,000 outsourced workers.

In Brazil, our forestry base spans approximately 1.2 million hectares, with 534,000 hectares of planted forests on owned land, leased land and development land in the states of São Paulo, Bahia, Espírito Santo, Minas Gerais, Piauí, Tocantins, Pará and Maranhão. The owned forests hold international certification that attests to the company's commitment to sustainable management and to the environment. Our annual pulp and paper production capacity is 4.7 million tons.

## **STRATEGY AND INNOVATION**

Suzano's goal is to consolidate its position as one of the most profitable and competent business organizations in the forestry industry. Our strategy is based on the pillars of structural competitiveness, adjacent businesses and redesigning the industry with the ultimate aim of creating value sustainably.

In Structural Competitiveness, we work to continually support improvements in operations and our aspiration of becoming a reference in each of our operational fronts. To achieve this, Suzano invests in modernizing and streamlining assets to reduce unit

production costs and increase the productivity of its forestry, industrial and administrative operations, and continues to analyze and implement actions to capture operating efficiency gains. The main initiative under this pillar is the retrofitting and debottlenecking of the Imperatriz Unit in Maranhão state. The investment will allow us to reduce production cash cost by reducing the consumption of raw materials and diluting fixed costs, and consequently help us move towards what we consider our optimum cost structure.

In Adjacent Businesses, we are opening avenues to the future, seizing opportunities to start out timidly, but in businesses that offer scalability and will allow us to continue diversifying and creating value. In 2016, we posted growth in our Eucafluff® production and sales, and in 2017 we will launch production of lignin and tissue.

The third pillar, Reshaping of the Industry, requires us to rethink our industry, which involves high volatility, given the dependence on factors such as foreign exchange rates and pulp prices.

## **FORESTRY BUSINESS UNIT**

Suzano's forestry assets are spread across eight Brazilian states, each with a different climate, soil type and genetic materials. This complexity of scenarios requires a high-level of forestry management with a permanent focus on enhancing processes and reducing forestry costs. And that is precisely what the Company has been doing, by constantly improving its forestry processes and seeking new technologies and better management practices. In addition, Suzano's commitment to sustainable stewardship and to the environment enables it to hold rigorous international certifications that attest to the world-class practices it adopts.

Forest formation cost and wood cash cost continued to decline significantly in 2016. Mechanizing and automating the silviculture operations, capturing productivity gains, shortening the average distance supply of forests and optimizing the wood supply mix were some of the initiatives adopted to further improve the Company's structural competitiveness. The acquisition of assets in Maranhão and new lease agreements in São Paulo in 2016 are examples of the efforts to replace distant forests with new, higher-yielding ones located close to mills, effectively reducing the Company's average distance supply of forest.

Other innovations, such as precision silviculture, delivered significant results in recent quarters. The main improvements include georeferenced planting (planting operations guided by automatic pilot and GPS), which ensures precisely parallel planting rows and consequently optimizes soil use. Another highlight was the investment in high-performance equipment that offer advances in planting productivity and fertilization coverage, which reduced soil preparation costs by 20% and planting costs by 12%. These are some of the actions of the ongoing Silviculture Structural Competitiveness Program (CESI), which will reduce costs in all forest formation activities by mechanizing and automating of agricultural operations.

The Company's main way of ensuring sustainability in the long term is to increase productivity by generating positive impacts on own wood production costs and on total planted area. Genetic enhancement and biotechnology played key roles in leveraging gains in forestry yields. In addition to genetic enhancement, forestry technology also built pillars for accelerating the productivity program by creating natural management units and implementing ecophysiological modelling.

## **PULP BUSINESS UNIT**

Recent data from the “World 20” report published by the Pulp and Paper Products Council (“PPPC”) show that market pulp shipments grew by 3.8% in 2016 compared to 2015, to 48.7 million tons. In the same period, eucalyptus pulp shipments increased 6.8% to 19.9 million tons, driven by higher demand in China (+1.1 million tons).

Suzano's production and sales volume in 2016 set a new record, of 3.5 million tons. Production grew 3% supported by volume growth at all production units. Sales volume also grew in all geographies in export markets (North America, Asia and Europe).

In 2016, net revenue from Suzano's pulp sales amounted to R\$6.1 billion, down 7.0% from the amount reported in 2015, due to the drop in international pulp prices, which was partially neutralized by the depreciation in the Brazilian real against the U.S. dollar. Net revenue from pulp exports in 2016 came to R\$5.4 billion, down 6.0% from the previous year. The share of pulp revenue derived from exports was 88.5%, while the domestic market accounted for 11.5%. The share of Suzano's revenue from pulp sales in 2016 was 41% from Asia, 32% from Europe, 15% from North America and 13% from Latin America. With regard to distribution for final applications, 55% of pulp sales were allocated to the production of paper for sanitary purposes, 18% for printing and writing papers, 18% for special papers and 9% for packaging.

The average net pulp sales price in 2016 was US\$499/ton, down 17.2% from the average price in 2015. The net average price in Brazilian real was R\$1,740/ton, down 13.3% from 2015.

## **PAPER BUSINESS UNIT**

According to the Forestry Industry Association (Ibá), Brazilian demand for Printing & Writing Paper and Paperboard (domestic industry sales + imports) contracted 2.8% from 2015. Sales in the local industry remained virtually stable (-0.5%), while imports contracted 15.1%.

Suzano's paper production reached 1.18 million tons, 2.2% lower than in 2015. This reduction is explained, among other factors, by the divestment of the Embu Unit and the start of Eucafluff® pulp production. Paper sales amounted to 1.20 million tons, down 2.8% from the volume sold in 2015, reflecting the lower production volume. Domestic paper sales amounted to 834 thousand tons in 2016, growing 0.8% on the prior year (excluding Embu from the 2015 comparison base, this growth would have been 6.1%), while paper exports amounted to 362 thousand tons in the year.

In 2016, Suzano's net revenue from paper sales was R\$3.7 billion, increasing 3.3% on the prior year. Of this revenue, 70% came from domestic sales and 30% from exports. The share of Suzano's total revenue from paper sales in 2016 was 85% in South and Central America (including Brazil), 9% in North America, 4% in Europe and 2% in other regions. Net revenue from the domestic market increased 13.4% in relation to 2015, supported mainly by the price increases implemented, while net revenue from exports decreased 14.4%, reflecting the weaker sales volume and lower international paper price.

The average net paper price in 2016 was R\$3,128/ton, 6.3% higher than in 2015. In the domestic market, the average net paper price was R\$3,140/ton, increasing 12.5% in relation to 2015. In the international market, the average price was US\$889/ton, down 9.1% from 2015. In Brazilian real, the average price in the international market was R\$3,101/ton, down 4.7% from 2015.

In a scenario still marked by the caustic macroeconomic scenario, we continued to benefit from the impacts of the “Suzano Mais” program, which essentially strengthens our relations with those at the end of our value chain; in other words, we continue to

strengthen relations with end clients. In 2016, we reached the significant mark of over 35,000 clients served and over 200,000 phone calls received/made per month.

We expanded our operations nationwide and currently are able to serve our customers in the domestic market through 16 Local Distribution Centers and four Regional Distribution Centers, as well as directly through one of our four paper mills.

In 2016, Suzano also modified its sales structure to make sure it is even closer to markets and customers. The Company created eight regional sales units to better serve the domestic market and standardized and automated various sales routines through digital platforms and significant investments in mobility. It also implemented various development and training programs for the sales team, whose variable compensation model also was enhanced.

## **ECONOMIC AND FINANCIAL PERFORMANCE**

### **Results**

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The consolidated financial statements were prepared and are presented in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil (BR GAAP), including the pronouncements issued by the Accounting Pronouncements Committee (CPC).

### **Net Revenue**

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The Company's net revenue in 2016 amounted to R\$9.9 billion, down 3.3% from R\$10.2 billion in 2015, due to the deterioration in the softwood pulp list price (average FOEX in Europe in the year of US\$696 vs. US\$784 in 2015), with this factor partially offset by the higher sales volume, weaker Brazilian real and the paper price increases implemented in the domestic market. Pulp and paper sales volume in 2016 was a record 4.7 million tons, compared to 4.6 million tons in 2015.

### **Cost of Goods Sold (COGS)**

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Cost of goods sold in 2016 amounted to R\$6.6 million, increasing 6.3% from R\$6.2 million in 2015, while unit COGS in 2016 was R\$1,391/ton, compared to R\$1,368/ton in 2015. The 1.7% increase lagged the inflation measured in the period (+6.3%) and attests to the Company's capacity to neutralize the effects from inflation on its cost structure.

### **Gross Income**

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As a result of the aforementioned factors, gross income in 2016 was R\$3.3 million, down 18.1% from R\$4.0 million in 2015.

### **Selling and Administrative Expenses**

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Selling expenses amounted to R\$408.8 million in 2016, in line with 2015 (-0.3%), as was the case of selling expenses as a ratio of net revenue, which stood at 4.1% p.p.

Administrative expenses amounted to R\$427.1 million in 2016, down 6.3% from 2015, due to lower expenses with variable compensation. Administrative expenses as a ratio of net revenue stood at 4.3%, decreasing 0.2 p.p. from the previous year.

These results reflect the Company's capacity to neutralize the effects from inflation on its expenses and to optimize its resources.

#### Other Operating Income/Expenses

Other Operating Expenses stood at R\$1.2 billion in 2016, and were affected primarily by the adjustment to fair value of biological assets, which amounted to R\$781 million (non-cash). The adjustment reflects the reduction in forestry yield caused by the effects from El Niño in the states of Piauí, Bahia and Maranhão; the lower wood price in the states of São Paulo and Piauí; and other operating and economic effects, such as the variations in planted area, inflation, WACC and other factors; which were partially neutralized by the higher yield in São Paulo and higher wood price in Bahia and Maranhão.

#### EBITDA (Earnings before Interest, Tax, Depreciation and Amortization)

Cash generation, as measured by EBITDA adjusted for non-recurring and non-cash items, amounted to R\$3.9 billion in 2016, with margin of 39.5%. The decrease in adjusted EBITDA compared to 2015 was mainly due to the deterioration in the pulp list price and the lower price of paper exports. However, a portion of this impact was neutralized by the higher paper price in the domestic market, the higher pulp sales volume, the weaker BRL and the disciplined control of costs and expenses. Unit Adjusted EBITDA in 2016 was R\$827/ton, down 18.6% from 2015.

#### Net Financial Result

The Company posted net financial income of R\$1.1 billion in 2016, compared to the net financial expense of R\$4.4 billion in 2015. This result mainly reflects monetary and exchange variations, the gain/loss on derivatives and the lower net financial expense.

Monetary and exchange variation generated a gain of R\$1.4 billion in 2016, compared to the loss of R\$2.8 billion in 2015, which is explained by effects from exchange variation on balance sheet exposure between the start and end of the year, with an accounting impact on the mark-to-market adjustment of foreign-denominated debt, but with a cash effect only upon the maturity or amortization of debt. Derivate operations recorded a gain of R\$528.8 million in 2016, compared to a loss of R\$630.3 million in 2015.

The net financial expense stood at R\$795.0 million, down 18% from 2015. This performance is mainly explained by deleveraging and the liability management operations, which reduced the cost of debt.

#### Result before Income Tax and Social Contribution

Due to the aforementioned factors, the Company posted income before income tax and social contribution of R\$2.4 billion in 2016, which compares to the loss of R\$1.4 billion in 2015.

## Income Tax and Social Contribution

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Income tax and social contribution in fiscal year 2016 amounted to R\$726.2 million, compared to the credit of R\$433.2 million in 2015.

## Net Income (Loss)

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As a result of the aforementioned factors, the Company recorded net income of R\$1.7 billion in 2016, compared to the net loss of R\$925.4 million in the previous year.

## Debt

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Gross debt on December 31<sup>st</sup>, 2016 amounted to R\$14.0 billion, composed of 88.6% long-term maturities and 11.4% short-term maturities. Debt denominated in foreign currency accounted for 66.9% of the Company's total debt, while debt denominated in local currency accounted for the remaining 33.1%. The percentage of foreign-denominated debt, considering the adjustment for derivatives, was 76.1%.

Suzano contracts foreign-denominated debt as a natural hedge, since a significant portion of its revenue is derived from exports. This structural exposure allows it to contract export financing in USD to match financing payments with receivable flows from sales.

In 2016, the average cost of debt in Brazilian real was 11.8% p.a. or 86.6% of CDI, and in U.S. dollar was 4.7% p.a. The average maturity of consolidated debt ended the quarter at 3.5 years.

On December 31<sup>st</sup>, 2016, net debt amounted to R\$10.3 billion (US\$3.2 billion). Net debt in foreign currency, considering the adjustment with derivatives, accounted for 96% of total net debt on December 31<sup>st</sup>, 2016. The net debt/Adjusted EBITDA ratio stood at 2.6x.

Suzano actively and expressly demonstrates its commitment to deleveraging sustainably and to adopting adequate and efficient structures and costs for its market positioning and for its operational and managerial capacity. The main operations in capital markets carried out in the year follow: Green Bonds (US\$500 million) and Certificate of Agribusiness Receivables - CRA (R\$1.9 billion).

## CREDIT RATING

During 2016, Suzano's credit rating on the global scale at Fitch Ratings was upgraded from "BB" to "BB+". The outlook remained positive.

Standard and Poor's attributed a "BB+" rating with a stable outlook, while Moody's attributed a "Ba1" rating with a negative outlook (impacted by the sovereign rating).

## CAPITAL EXPENDITURE

Capital expenditure amounted to R\$2.6 billion in 2016, of which R\$1.2 billion was invested in industrial and forestry maintenance. Investments in Structural Competitiveness and Adjacent Businesses projects amounted to R\$437 million and were allocated mainly to the debottlenecking projects at the Imperatriz Unit in Maranhão and to the Tissue and Lignin Project. Investments in completing the Maranhão Project, retrofitting the Wastewater Treatment Plant at the Mucuri Unit and other projects amounted to R\$252 million. Lastly, R\$789 million was invested to

acquire land and forests in Maranhão to supply the capacity expansion at the Imperatriz Unit and to optimize the wood supply mix in the region.

## OPERATING CASH GENERATION AND ROIC<sup>1</sup>

Suzano's operating cash generation (Adjusted EBITDA - Sustaining Capex) amounted to R\$2.7 billion in 2016, down 21.2% from R\$3.5 billion in 2015. The variation in the period is explained by the lower Adjusted EBITDA, which was affected by the deterioration in the pulp list price, which was partially neutralized by the higher paper price in the domestic market, the growth in pulp sales volume, the weaker BRL depreciation and the disciplined control of costs and expenses. Cash generation, including the variation in working capital, amounted to R\$3.5 billion in 2016, up 32.8% from 2015.

ROIC (R\$ million)	2016	2015
Adjusted EBITDA	3,906	4,594
Maintenance Capex	1,158	1,109
Cash Income Tax/ Social Contribution	12	13
Capital Employed	23,076	23,614
<b>ROIC<sup>1</sup> (%)</b>	<b>11.9%</b>	<b>14.7%</b>

<sup>1</sup> ROIC = (Adjusted EBITDA - Sustaining Capex - Cash taxes)/Capital Employed.

## CAPITAL MARKETS

On December 31<sup>st</sup>, 2016, the Company's capital stock was represented by 371,148,532 common shares (SUZB3) and 736,590,145 preferred shares (SUZB5 and SUZB6), for a total of 1,107,738,677 shares traded on the BM&FBovespa, of which 17,545,658 were treasury shares (6,786,194 common shares and 10,759,464 preferred shares).

Suzano's market capitalization stood at R\$15.7 billion on December 31<sup>st</sup>, 2016. In 4Q16, the free-float stood at 42.0% of the total capital.

At the end of December 2016, the preferred shares SUZB5 were quoted at R\$14.20/share. The Company's stock (SUZB5) is listed on the Level 1 corporate governance segment of the BM&FBovespa and is a component of the Ibovespa and IBrX-50 stock indexes. In 2016, the average number of trades per day in our stock was 13,800 and our average daily financial trading volume was R\$77.1 million.

## DIVIDENDS

Our bylaws, in accordance with governing law, establish a minimum mandatory dividend of 25% of adjusted net income for the year. The amount attributed to the class "A" and "B" preferred shares is 10% higher than that attributed to the common shares.

In 2017, the Company's management will propose to the Shareholders' Meeting the distribution of dividends in the amount of R\$371 million, based on net income for fiscal year 2016, which is equivalent to the mandatory minimum dividend.

## SUSTAINABILITY

Sustainability guides all of Suzano's actions and plans and is understood as the capacity to allow growth cycles to regenerate, which means building a foundation for expanding our business that incorporates competitive operations, social and environmental responsibility and quality relationships.

The Company's environmental policy establishes a commitment to preserve the environment by reducing its consumption of natural resources and mitigating the impacts of its operations.

The proactive management of water consumption and its reuse seeks to adopt tools and technologies that support the rational use of water resources, which is key to pulp and paper production in terms of both the industrial operations and forestry yields. In 2016, our operating Units reduced their absolute water consumption per ton produced. These results are made possible by measures to recover the water consumed and by investments in new equipment, which support reductions in the consumption of chemicals and steam and help to reduce electricity consumption and air emissions.

At Suzano, wastewater and solid waste management practices are adopted in all industrial and forestry processes and operations. At all industrial sites, effluents are treated by the company's own wastewater treatment plants, and includes primary treatment (physical) and secondary treatment (biological), the step when oxygen and nutrients are added, as well as pH control. Furthermore, as members of Brazil's Forestry Industry Association (Ibá) and the Corporate Commitment to Recycling (Cempre), we participate in discussions on the industry's plans related to the federal government's National Solid Waste Plan.

Suzano's silviculture practice, from planning to implementation, reflect its concern for biodiversity. Today, we work with mosaic planting, which intermingles eucalyptus planted areas with native vegetation, which function as ecological corridors to guarantee that various wildlife species have access to shelter and food. The model ensures an adequate environment for conserving and maintaining biodiversity. In 2016, the Company and The Nature Conservancy (TNC), the world's largest environmental organization, signed a partnership to expand actions to help recover the headwaters of the Mucuri River. Through the Mucuri River Headwaters Project, we are working to preserve the river for future generations and support actions to protect headwaters. The region harbors remaining tracts of Atlantic Forest, one of the planet's biomes containing the highest biodiversity, of which only 12% of the original area remains.

Regarding emissions reduction, various continuous improvement actions have been implemented in industrial plants and forestry areas, along with investments in technologies to reduce greenhouse gas emissions, increase environmental gains and meet the demands of clients, investors and consumers.

Our relations with local communities was improved by the practice of participatory land development. Through such actions, Suzano supports greater independence for local communities, strengthens their organizational structure and fosters proactive and coordinated actions for implementing initiatives. Suzano seeks to operate sustainably in all of its operational dimensions, always working jointly with local communities.

The Company publishes an annual Sustainability Report drafted in accordance with the GRI guidelines, which is filed at the CVM through the Regular and Special Information (IPE) system, under the category "Sustainability Report."



## **GOVERNANCE**

The corporate governance of Suzano Pulp and Paper S.A. is executed through the Board of Directors, which is supported by the Management, Sustainability & Strategy and Audit committees and by the Board of Executive Officers. The Corporate Governance Policy is grounded in the good governance principles and practices adopted by the Company: transparency, accountability, legal compliance and respect for shareholders, employees and other stakeholders. The policy also is guided by the Company's Mission, Vision and Values, as well as by its articles of incorporation, with the aim of establishing adequate policies and guidelines for conducting its business activities. The policy establishes the Company's guidelines and the composition and objectives of the Shareholders' Meeting, Audit Board, Board of Directors, aforementioned advisory committees to the Board of Directors, Board of Executive Officers, Internal Audit and Corporate Risk Management.

The Code of Conduct aims to disseminate and generate commitment from the managers and employees of Suzano to the ethical principles that guide the Company's business conduct, and to disseminate them to the other stakeholders.

Suzano Pulp and Paper has an Ombudsman that receives and analyzes all types of complaints and reports from employees, suppliers, clients, partners and any other stakeholders of the Company.

The Company also has the following corporate policies: Information Disclosure, Securities Trading, Anticorruption, Internal Controls and Integrated Risk Management.

## **PEOPLE**

In 2016, we continued our process of cultural transformation, which involves strengthening autonomy, expanding decision-making down to the base, continuously exchanging experiences across areas and developing inspiring leaders. We made progress in the program Together and Mixed, which is the link between the physical and psychological aspects of the transformation we seek. Through the program, we gradually expanded the practice of home office (offering employees the same conditions to work from home, such as telephone and computer) and redesigned the layout of workplaces to facilitate interaction among people and increase their satisfaction. In parallel, we worked to reinforce the new concepts (joint decisions, autonomy, etc.).

As a result of this comprehensive work, the Company received 15 awards for its technical competencies and those of its employees. These included *Você S/A* naming Suzano one of the "Best Companies to Work For" and one of the "Best Companies for Starting a Career."

## **AUDIT AND INTERNAL CONTROLS**

We use external auditors and the internal audit to evaluate our results, internal controls and our accounting practices. The findings of these analyses are presented to the Audit Committee. To assist with the independent audit, we retain the services of KPMG Auditores Independentes, whose work has enabled us to improve our internal controls, especially those related to tax, accounting and information technology aspects.

In accordance with CVM Instruction 381/2003, we inform that in the fiscal year ended December 31, 2016, we hired our independent Auditors for various services connected with the external audit involving the review of tax obligations and other matters. These services were carried out in a period shorter than one year and the corresponding fees did not exceed 5% of the consolidated fees related to the external audit services

provided to the Company. In light of their scope and the procedures executed, these services did not affect the independence and objectiveness of the Independent Auditors.

*Note: Non-financial data, such as volumes, quantity, average prices and average quotes in Brazilian real and U.S. dollar, were not examined by our Independent Auditors.*

### Company Information / Capital Breakdown

<b>Number of Shares (in thousands)</b>	<b>Last Fiscal Year 12/31/2016</b>
<b>Paid-in Capital</b>	
Common	371,149
Preferred	736,590
Total	1,107,739
<b>Treasury Shares</b>	
Common	6,786
Preferred	10,759
Total	17,545

1 **Company Information / Cash Dividends**  
2

<b>Event</b>	<b>Approval</b>	<b>Type</b>	<b>Date of Payment</b>	<b>Type of Share</b>	<b>Class of Share</b>	<b>Amount per Share (R\$/share)</b>
Annual and Extraordinary Shareholders' Meeting	4/25/2016	Dividend	5/4/2016	Preferred	Class B Preferred	0.34352
Annual and Extraordinary Shareholders' Meeting	4/25/2016	Dividend	5/4/2016	Preferred	Class A Preferred	0.28380
Annual and Extraordinary Shareholders' Meeting	4/25/2016	Dividend	5/4/2016	Common		0.25800
Extraordinary Shareholders' Meeting	11/11/2015	Dividend	11/24/2015	Preferred	Class B Preferred	0.34408
Extraordinary Shareholders' Meeting	11/11/2015	Dividend	11/24/2015	Preferred	Class A Preferred	0.11370
Extraordinary Shareholders' Meeting	11/11/2015	Dividend	11/24/2015	Common		0.10337
Annual and Extraordinary Shareholders' Meeting	4/30/2015	Dividend	5/11/2015	Preferred	Class B Preferred	0.34409
Annual and Extraordinary Shareholders' Meeting	4/30/2015	Dividend	5/11/2015	Preferred	Class A Preferred	0.14214
Annual and Extraordinary Shareholders' Meeting	4/30/2015	Dividend	5/11/2015	Common		0.12922

**Suzano papel e Celulose S.A.****Standardized Financial Statements  
at December 31, 2016 and 2015***All amounts are in thousands of Brazilian real, unless otherwise stated***Balance Sheets**

Assets	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Current assets</b>					
Cash and cash equivalents	5	841,056	569,135	1,614,697	1,477,246
Financial investments	6	2,021,298	922,728	2,080,615	970,850
Trade receivables	7	3,078,423	3,521,841	1,622,171	1,885,960
Inventories	8	968,234	895,663	1,313,143	1,315,996
Receivables from related parties	11	-	14,100	-	-
Recoverable taxes	9	390,962	586,716	425,758	596,936
Prepaid expenses		33,066	36,217	34,555	37,146
Unrealized derivative gains	4	294,143	40,440	367,145	158,930
Advances to suppliers	10	16,414	565	493,025	565
Assets held for sale	14.2	-	50,000	-	50,000
Receivables from energy sales		11,775	49,328	11,775	49,328
Other receivables		61,236	28,057	66,622	46,062
Total current assets		<u>7,716,607</u>	<u>6,714,790</u>	<u>8,029,506</u>	<u>6,589,019</u>
<b>Non-current assets</b>					
Receivables from related parties	11	13,000	-	13,000	-
Taxes and social contributions to offset	9	349,536	433,070	349,536	433,070
Deferred income and social contribution taxes	12	-	-	4,624	2,583
Unrealized derivative gains	4	58,494	11,284	77,035	36,463
Advances to suppliers	10	216,578	251,287	216,578	251,287
Judicial deposits		81,584	56,040	87,097	61,653
Other receivables		93,964	77,808	93,668	79,543
		<u>813,156</u>	<u>829,489</u>	<u>841,538</u>	<u>864,599</u>
Biological assets	13	4,198,382	4,234,664	4,072,528	4,130,508
Investments	14	233,083	300,843	873	-
Property, plant and equipment	15	15,864,199	15,817,652	16,235,280	16,346,234
Intangible assets	16	118,505	98,115	219,588	329,625
		<u>20,414,169</u>	<u>20,451,274</u>	<u>20,528,269</u>	<u>20,806,367</u>
Total non-current assets		<u>21,227,325</u>	<u>21,280,763</u>	<u>21,369,807</u>	<u>21,670,966</u>
<b>Total assets</b>		<u><u>28,943,932</u></u>	<u><u>27,995,553</u></u>	<u><u>29,399,313</u></u>	<u><u>28,259,985</u></u>

The accompanying notes are an integral part of the financial statements.

**Suzano papel e Celulose S.A.****Standardized Financial Statements  
at December 31, 2016 and 2015***All amounts are in thousands of Brazilian real, unless otherwise stated***Balance Sheets**

Liabilities	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Current liabilities</b>					
Trade payables		549,513	540,096	582,918	581,477
Loans and financing	17	1,393,446	1,939,391	1,594,720	2,024,964
Unrealized derivative losses	4	190,488	184,669	250,431	281,317
Tax liabilities		49,989	41,999	78,175	56,285
Payroll and charges		159,150	159,598	165,030	164,782
Debits payable to related parties	11	113,928	109,952	-	-
Commitments related to asset acquisitions	22	76,069	82,803	85,748	91,326
Dividends payable	23.6	370,998	122	370,998	122
Advance from customers	18.3	511,251	15,358	514,766	32,058
Other payables		85,839	127,736	187,088	278,243
Total current liabilities		3,500,671	3,201,724	3,829,874	3,510,574
<b>Non-current liabilities</b>					
Loans and financing	17	6,756,670	8,062,950	12,418,059	12,892,378
Unrealized derivative losses	4	205,292	345,152	221,047	353,814
Debits payable to related parties	11	5,628,259	4,821,230	-	-
Commitments related to asset acquisitions	22	517,064	634,059	609,107	733,538
Provision for contingencies	19	236,561	194,602	246,634	198,559
Provision for actuarial liabilities	20	339,009	263,141	339,009	263,141
Deferred income and social contribution taxes	12	1,480,390	916,631	1,559,096	1,037,889
Share-based payments	21	18,850	42,722	18,850	42,722
Provision for losses of investments in subsidiaries	14	103,529	304,959	-	-
Other payables		14,143	16,302	14,143	35,289
Total non-current liabilities		15,299,767	15,601,748	15,425,945	15,557,330
<b>Equity</b>					
Capital stock		6,241,753	6,241,753	6,241,753	6,241,753
Capital reserves		203,714	82,966	203,714	82,966
Treasury shares		(273,665)	(288,858)	(273,665)	(288,858)
Profits reserve		1,657,125	706,137	1,657,125	706,137
Equity valuation adjustment		2,314,567	2,450,083	2,314,567	2,450,083
Total equity	23	10,143,494	9,192,081	10,143,494	9,192,081
<b>Total equity and liabilities</b>		<b>28,943,932</b>	<b>27,995,553</b>	<b>29,399,313</b>	<b>28,259,985</b>

The accompanying notes are an integral part of the financial statements.

**Suzano papel e Celulose S.A.****Standardized Financial Statements  
at December 31, 2016 and 2015***All amounts are in thousands of Brazilian real, unless otherwise stated***Statement of Income**

	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net sales revenue	25	9,134,718	10,089,705	9,882,313	10,224,361
Cost of goods sold	27	(5,704,552)	(5,533,686)	(6,571,622)	(6,184,246)
<b>Gross profit</b>		<b>3,430,166</b>	<b>4,556,019</b>	<b>3,310,691</b>	<b>4,040,115</b>
<b>Operating income (expenses)</b>					
Selling expenses	27	(868,729)	(883,138)	(408,810)	(409,986)
General and administrative expenses	27	(380,331)	(409,905)	(427,100)	(455,629)
Equity pick-up in subsidiaries and affiliates	14	167,436	(306,204)	(7,127)	-
Other operating income, net	27	(921,214)	(112,372)	(1,150,561)	(104,516)
<b>Operating profit before net financial income (loss)</b>		<b>1,427,328</b>	<b>2,844,400</b>	<b>1,317,093</b>	<b>3,069,984</b>
<b>Net financial income (expenses)</b>	24				
Financial income		2,132,348	274,142	2,257,304	285,380
Financial expense		(1,114,760)	(4,496,115)	(1,156,204)	(4,713,885)
<b>Net income (loss) before income and social contribution taxes</b>		<b>2,444,916</b>	<b>(1,377,573)</b>	<b>2,418,193</b>	<b>(1,358,521)</b>
<b>Income and social contribution taxes</b>	12				
Current		(170,656)	-	(188,817)	(19,052)
Deferred		(582,262)	452,219	(537,378)	452,219
<b>Net income (loss) for the year</b>		<b>1,691,998</b>	<b>(925,354)</b>	<b>1,691,998</b>	<b>(925,354)</b>
<b>Net earnings (loss) per share for the year</b>	23.5				
Basic - Common		1.45534	(0.79728)	1.45534	(0.79728)
Basic - Class A Preferred		1.60087	(0.87701)	1.60087	(0.87701)
Basic - Class B Preferred		1.60000	(0.87097)	1.60000	(0.87097)
Diluted - Common		1.45234	(0.79444)	1.45234	(0.79444)
Diluted - Class A Preferred		1.59758	(0.87844)	1.59758	(0.87844)
Diluted - Class B Preferred		1.60000	(0.87097)	1.60000	(0.87097)

The accompanying notes are an integral part of the financial statements.

## Suzano papel e Celulose S.A.

### Standardized Financial Statements at December 31, 2016 and 2015

All amounts are in thousands of Brazilian real, unless otherwise stated

#### Statement of Comprehensive Income

	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Net income (loss) for the year</b>		<b>1.691.998</b>	(925.354)	<b>1.691.998</b>	(925.354)
Other comprehensive income (loss)		<b>(81.639)</b>	60.227	<b>(81.639)</b>	60.227
Exchange variation on conversion of financial statements and on foreign investments	<b>14</b>	<b>(45.720)</b>	39.120	<b>(45.720)</b>	39.120
Actuarial (loss) gain	<b>20</b>	<b>(54.422)</b>	31.981	<b>(54.422)</b>	31.981
Deferred income and social contribution taxes		<b>18.503</b>	(10.874)	<b>18.503</b>	(10.874)
<b>Total comprehensive income</b>		<b>1.610.359</b>	(865.127)	<b>1.610.359</b>	(865.127)

The accompanying notes are an integral part of the financial statements.

**Suzano papel e Celulose S.A.****Standardized Financial Statements  
at December 31, 2016 and 2015***All amounts are in thousands of Brazilian real, unless otherwise stated***Statement of Changes in Equity**

Note	Capital reserves					Profit reserve			Equity valuation adjustment / Other comprehensive income	Retained earnings	Total
	Capital stock	Tax incentives	Stock options granted	Costs with share issue	Treasury stock	Legal reserve	Reserve for capital increase	Special statutory reserve			
<b>Balances on December 31, 2014</b>	<b>6,241,753</b>	<b>75,317</b>	<b>25,939</b>	<b>(15,442)</b>	<b>(303,726)</b>	<b>231,926</b>	<b>1,620,368</b>	-	<b>2,438,997</b>	-	<b>10,315,132</b>
<b>Total comprehensive income (loss)</b>											
Net loss for the year	-	-	-	-	-	-	-	-	-	(925,354)	(925,354)
Actuarial gain, net of deferred income and social contribution taxes	-	-	-	-	-	-	-	-	21,107	-	21,107
Exchange variation on conversion of financial statements and on foreign investments	-	-	-	-	-	-	-	-	39,120	-	39,120
<b>Equity transactions with shareholders:</b>											
Stock options granted	-	-	(2,848)	-	-	-	-	-	-	-	(2,848)
Treasury stock used to meet the share-based payments	-	-	-	-	14,868	-	-	-	-	-	14,868
Dividends paid	-	-	-	-	-	-	(270,004)	-	-	-	(270,004)
Reversal of time-barred dividends	-	-	-	-	-	-	-	-	-	60	60
<b>Internal changes in equity:</b>											
Partial realization of assets' deemed cost adjustment, net of deferred income and social contribution taxes	-	-	-	-	-	-	-	-	(49,141)	49,141	-
Dividends proposed by the Management	-	-	-	-	-	-	(300,000)	-	-	-	(300,000)
Dividends subject to approval by the Management	-	-	-	-	-	-	300,000	-	-	-	300,000
Absorption of loss for the year	-	-	-	-	-	-	(876,153)	-	-	876,153	-
<b>Balances on December 31, 2015</b>	<b>6,241,753</b>	<b>75,317</b>	<b>23,091</b>	<b>(15,442)</b>	<b>(288,858)</b>	<b>231,926</b>	<b>474,211</b>	-	<b>2,450,083</b>	-	<b>9,192,081</b>
<b>Total comprehensive income (loss)</b>											
Net income for the year	-	-	-	-	-	-	-	-	-	1,691,998	1,691,998
Actuarial gain, net of deferred income and social contribution taxes	-	-	-	-	-	-	-	-	(35,919)	-	(35,919)
Exchange variation on conversion of financial statements and on foreign investments	-	-	-	-	-	-	-	-	(45,720)	-	(45,720)
<b>Equity transactions with shareholders:</b>											
Stock options granted	-	-	(3,337)	-	-	-	-	-	-	-	(3,337)
Treasury stock used to meet the share-based payments	-	-	-	-	15,193	-	-	-	-	-	15,193
Dividends paid	-	-	-	-	-	-	(300,000)	-	-	-	(300,000)
Reversal of time-barred dividends	-	-	-	-	-	-	-	-	-	26	26
<b>Internal changes in equity:</b>											
Partial realization of assets' deemed cost adjustment, net of deferred income and social contribution taxes	-	-	-	-	-	-	-	-	(53,877)	53,877	-
Recording of tax incentive reserves Sudene - Reduction of 75%	-	124,085	-	-	-	-	-	-	-	(124,085)	-
Special statutory reserve	-	-	-	-	-	-	-	116,639	-	(116,639)	-
Legal reserve	-	-	-	-	-	84,600	-	-	-	(84,600)	-
Capital increase reserve	-	-	-	-	-	-	1,049,749	-	-	(1,049,749)	-
Minimum mandatory dividends	-	-	-	-	-	-	-	-	-	(370,828)	(370,828)
<b>Balances on December 31, 2016</b>	<b>6,241,753</b>	<b>199,402</b>	<b>19,754</b>	<b>(15,442)</b>	<b>(273,665)</b>	<b>316,526</b>	<b>1,223,960</b>	<b>116,639</b>	<b>2,314,567</b>	-	<b>10,143,494</b>

The accompanying notes are an integral part of the financial statements.



**Suzano papel e Celulose S.A.****Standardized Financial Statements  
at December 31, 2016 and 2015***All amounts are in thousands of Brazilian real, unless otherwise stated***Statement of Cash Flows**

	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Cash and cash equivalents from operating activities</b>					
<b>Net income (loss) for the year</b>		<b>1,691,998</b>	(925,354)	<b>1,691,998</b>	(925,354)
<b>Adjustment to reconcile net income (loss) to cash and cash equivalents from operating activities</b>					
Depreciation, depletion and amortization		1,756,777	6,778,875	2,322,580	5,829,732
Income from sale of property, plant and equipment and biological assets	27	1,387,109	1,402,163	1,403,518	1,419,477
Equity pick-up in subsidiaries and affiliates	14	(9,771)	(600)	(9,767)	(641)
Exchange and monetary variations, net		(167,436)	306,204	7,127	-
Interest expenses, net		(1,632,342)	3,553,055	(1,442,918)	2,807,372
Derivative (gains)/losses, net		975,695	1,113,187	1,000,287	1,137,476
Fair value adjustment of biological assets	13	(515,931)	635,821	(528,839)	630,251
Expenses/(income) from deferred income and social contribution taxes	12	780,666	(23,145)	780,666	(23,145)
Interest on actuarial liabilities	20	582,262	(452,219)	537,378	(452,219)
Addition to (reversal of) provision for contingencies	19	36,856	33,629	36,856	33,629
Provision for share-based payments	21	14,176	(35,883)	20,498	(38,110)
Addition to allowance for doubtful accounts, net	7	2,808	32,228	2,808	32,228
Addition to/(reversal of) provision for discounts - loyalty program		8,101	21,308	9,505	21,425
Provision for inventory losses and write-offs	8	2,463	(613)	(35,497)	67,861
Write-off of unratified tax credits	9	9,564	19,589	9,564	19,589
Provision for losses and write-off with property, plant and equipment and biological assets	27	-	40,943	-	40,943
Realization of loss due to asset divestment	27	160,188	53,164	316,646	53,164
Partial write-off of intangible assets		-	20,731	-	20,731
Other provisions		-	-	78,799	-
		122,369	59,313	135,949	59,701
<b>Changes in current and non-current operating assets and liabilities:</b>					
Decrease in related parties		1,313,649	(615,571)	(1,011,403)	(2,302,126)
Decrease/(increase) in accounts receivable		1,592,946	1,830,032	-	-
Increase in inventories		371,445	(1,057,894)	190,377	(824,881)
Increase in recoverable taxes		(114,728)	(112,839)	(39,304)	(275,563)
(Increase)/decrease in other current and non-current assets		(22,678)	(87,169)	(39,689)	(86,701)
(Increase) decrease in trade accounts payable		(23,781)	9,691	(483,406)	20,987
Increase (decrease) in other current and non-current liabilities		18,701	61,546	(4,696)	92,235
Payment of interest		1,148,365	274,755	1,103,688	397,377
Payment of other taxes and contributions		(1,068,993)	(1,061,281)	(1,102,090)	(1,100,351)
Payment of income and social contribution taxes		(504,661)	(405,638)	(545,751)	(449,726)
		(62,967)	(66,774)	(90,532)	(75,503)
<b>Net cash and cash equivalents provided by operating activities</b>		<b>4,762,424</b>	5,237,950	<b>3,003,175</b>	2,602,252
<b>Cash and cash equivalents from investing activities</b>					
Additions to property, plant and equipment	15	(885,013)	(530,816)	(885,999)	(536,830)
Additions to intangible assets	16	(11,604)	(12,748)	(11,640)	(12,748)
Additions to biological assets	13	(1,448,397)	(1,135,766)	(1,426,699)	(1,115,320)
Proceeds from asset divestment		35,235	41,868	35,235	41,868
Financial investments	6	(1,047,965)	(886,887)	(1,053,381)	(934,186)
<b>Net cash and cash equivalents used in investing activities</b>		<b>(3,357,744)</b>	(2,524,349)	<b>(3,342,484)</b>	(2,557,216)
<b>Cash and cash equivalents from financing activities</b>					
Funding	17	3,702,577	1,879,546	5,665,635	4,107,776
Settlement of derivative operations	4	80,977	(254,173)	117,261	(251,646)
Payment of loans	17	(4,624,901)	(6,123,996)	(4,853,038)	(6,123,996)
Payment of dividends		(299,926)	(269,936)	(299,926)	(269,936)
Dividends (acquisition) of own shares	23	8,514	8,514	8,514	8,514
<b>Net cash and cash equivalents used in financing activities</b>		<b>(1,132,759)</b>	(4,760,045)	<b>638,446</b>	(2,529,288)
Exchange variation on cash and cash equivalents		-	-	(161,686)	275,383
<b>Increase (reduction) in cash and cash equivalents</b>		<b>271,921</b>	(2,046,444)	<b>137,451</b>	(2,208,869)
Cash and cash equivalents at the beginning of the year	5	569,135	2,615,579	1,477,246	3,686,115
Cash and cash equivalents at the end of the year	5	841,056	569,135	1,614,697	1,477,246
<b>Statement of the increase (reduction) in cash and cash equivalents</b>		<b>271,921</b>	(2,046,444)	<b>137,451</b>	(2,208,869)

The accompanying notes are an integral part of the financial statements.

**Suzano papel e Celulose S.A.****Standardized Financial Statements  
at December 31, 2016 and 2015***All amounts are in thousands of Brazilian real, unless otherwise stated***Statement of Value Added**

	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Income</b>					
Sale of goods, products and services	25	10,212,164	11,047,326	10,969,878	11,195,335
Other (expenses) income, net		(770,082)	41,031	(999,430)	48,887
Income from construction of own assets		518,295	355,364	518,295	355,364
Addition to (reversal of) allowance for doubtful accounts, net	7	(8,101)	(21,308)	(9,505)	(21,425)
		<u>9,952,276</u>	<u>11,422,413</u>	<u>10,479,238</u>	<u>11,578,161</u>
<b>Input acquired from third parties</b>					
Cost of products and goods sold and services rendered		(4,098,613)	(4,235,266)	(4,098,613)	(4,235,266)
Supplies, electricity, outsourced services and others		(1,989,559)	(1,723,880)	(2,375,104)	(1,945,882)
		<u>(6,088,172)</u>	<u>(5,959,146)</u>	<u>(6,473,717)</u>	<u>(6,181,148)</u>
<b>Gross added value</b>					
		3,864,104	5,463,267	4,005,521	5,397,013
Depreciation, amortization and depletion		(1,387,109)	(1,402,163)	(1,403,518)	(1,419,477)
<b>Net added value produced by the Company</b>		<u>2,476,995</u>	<u>4,061,104</u>	<u>2,602,003</u>	<u>3,977,536</u>
<b>Added value received through transfers</b>					
Equity pick-up in subsidiaries and affiliates	14	167,436	(306,204)	(7,127)	-
Financial income		551,110	1,117,127	823,430	1,258,657
		<u>718,546</u>	<u>810,923</u>	<u>816,303</u>	<u>1,258,657</u>
<b>Distribution of value added</b>		<u>3,195,541</u>	<u>4,872,027</u>	<u>3,418,306</u>	<u>5,236,193</u>
Personnel		955,351	935,935	984,707	957,859
Direct compensation		766,468	761,297	792,683	780,557
Benefits		150,466	134,961	153,607	137,625
F.G.T.S. (Government Severance Indemnity Fund for Employees)		38,417	39,677	38,417	39,677
Taxes, fees and contributions		944,290	(550,387)	944,886	(561,423)
Federal		1,040,288	(382,720)	1,068,751	(393,628)
State		(101,191)	(172,534)	(128,918)	(172,534)
Municipal		5,193	4,867	5,053	4,739
Value distributed to providers of capital		(396,098)	5,411,833	(203,285)	5,765,111
Interest		(466,478)	5,339,100	(277,670)	5,687,162
Rentals		70,380	72,733	74,385	77,949
Value distributed to shareholders		1,691,998	(925,354)	1,691,998	(925,354)
Dividends		370,828	-	370,828	-
Net income (loss) for the year		1,321,170	(925,354)	1,321,170	(925,354)
<b>Distribution of value added</b>		<u>3,195,541</u>	<u>4,872,027</u>	<u>3,418,306</u>	<u>5,236,193</u>

The accompanying notes are an integral part of the financial statements.

## **Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

### **1 Company Information**

Suzano Papel e Celulose S.A., hereinafter referred to as the “Suzano”, together with its subsidiaries hereinafter referred to as “Company”, with registered office in the city of Salvador, state of Bahia, Brazil, is a corporation whose shares are traded on BM&FBOVESPA S.A. - Securities, Commodities and Futures Exchange, listed on Corporate Governance segment Level 1.

Suzano has five (5) industrial units in Brazil: one each in Bahia and Maranhão and three in São Paulo. These industrial units produce hardwood pulp from eucalyptus and paper (coated paper, paperboard, uncoated paper and cut size paper) to serve the domestic and international markets, in addition to generating energy for the Company’s consumption and selling surplus energy to third parties. Pulp and paper are sold in the international market directly by Suzano, as well as through its subsidiaries in Argentina, the United States and Switzerland and its sales offices in China and England.

The Company’s corporate purpose also includes the commercial operation of eucalyptus forest for its own use and for sale to third parties, the operation of port terminals, and the holding of interest, as partner or shareholder, in any other company or project.

The Company is controlled by Suzano Holding S.A., which holds a 98.2% interest in the common shares of its capital stock.

The issue of these financial statements was approved by the Company’s Board of Directors on February 8, 2017.

#### **1.1 Major events in 2016 and 2015**

##### **a) Operational events**

##### **i) Acquisition of Forestry Assets, Rural Properties and Other Covenants**

On December 8, 2016, the Company concluded the transaction underlying the Agreement for the Purchase and Sale of Forestry Assets, and the Rural Properties Purchase and Sale Commitment and Other Covenants, whereby, among others, the Company acquired a part of the real estate and forestry assets held by Companhia Siderúrgica Vale do Pindaré and by COSIMA - Siderúrgica do Maranhão Ltda.

The assets acquired include: i) approximately 75,000 hectares of properties in the states of Maranhão and Tocantins, of which approximately 40,000 hectares is arable land; and, ii) planted forests on said arable lands (“Acquisition of Forestry Assets”). The total price paid for the acquisition of the properties and forests is US\$245 million (equivalent to R\$830,354 in Brazilian currency), which was fully settled on the closing date.

The Acquisition of Forestry Assets has the following objectives: i) increase the supply of wood to the Imperatriz Unit to meet the demand for expansion of pulp

## Suzano Papel e Celulose S.A.

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

production at said unit; ii) to reduce the average distance of forests supplying the Imperatriz Unit; and iii) to ensure increased competitiveness in wood costs in the long term.

### ii) Issue of Certificates of Agribusiness Receivables (“CRA”)

On November 28, 2016, the first issue of green bonds in Brazil’s domestic market was concluded, with the placement of Agribusiness Receivables Certificates (CRA) of the 98<sup>th</sup> Series of the 1st Issue of Eco Securitizadora de Direitos Creditórios do Agronegócio S.A., in the amount of one million reais (R\$1,000,000.00), secured by Export Credit Notes issued by Suzano.

The bonds mature in eight (8) years and may be renegotiated in the fourth year, with semiannual interest payments corresponding to 96% of the CDI rate, which is the lowest rate ever obtained in Brazil from the issue of CRAs in operations with similar terms.

The proceeds from the operation will be invested in projects with positive environmental attributes and which foster sustainable development. The use of the proceeds raised by Suzano will be monitored by an independent expert audit firm to ensure their allocation to projects that qualify as green projects. (Note 17 item (e)).

### iii) Acquisition of Small Hydroelectric Power Plant (“PCH”)

On October 25, 2016, the Company executed an Agreement to Purchase Shares and Other Covenants with Queiroz Galvão Energia S.A., whereby the Company acquired 100% of the shares issued by Mucuri Energética S.A., which owns a small hydroelectric plant located in the cities of Carlos Chagas and Pavão, with generation capacity of 19 MW-average, for a price in local currency equivalent to fourteen million U.S. dollars (US\$14 million).

Conclusion of the transaction depends on compliance with certain contractual and legal terms, including approval from the National Electric Power Agency (ANEEL).

### iv) Green Bonds (“Senior Notes”) Offering

On July 7, 2016, the Company issued in the international market, through its wholly-owned subsidiary Suzano Áustria GmbH (former Bahia Sul Holdings GmbH), Senior Notes in the aggregate principal of US\$500 million. The Senior Notes comply with the Green Bonds Principles established by the International Capital Market Association.

Suzano plans to invest the proceeds in sustainable projects in forest management, restoration of native forests, maintenance or development of environmental preservation areas, water management, energy efficiency, renewable energy, reduction of greenhouse gas emissions, in addition to paying the coupon charged for the issue of these Notes (Note 17, item (f)).

## Suzano Papel e Celulose S.A.

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v) Acquisition of eucalyptus forests

On January 27, 2016, Suzano entered into with Eco Brasil Florestas S.A. an instrument for acquisition of eucalyptus forests of the estimated area of seven million and five hundred thousand (7,500,000) cubic meters of wood located in the state of Tocantins. The transfer of the forest area property takes place only when the Acknowledgement of Receipt of Area is signed by the parties, at the start of planning the harvest of mature forests, with minimum age of seven (7) years and maximum age of nine (9) years from the respective date of plantation.

Up to the year ended December 31, 2016, the Company prepaid the amount of R\$30,000 recorded as other receivables under non-current assets. Other amounts due from this transaction will be calculated based on the volume of wood recorded upon delivery at the Suzano plant in Imperatriz/MA.

This transaction aims to increase the wood supply to Imperatriz unit, to support the expansion of pulp production in this unit.

vi) Revision of duties and affirmative decision in dumping process

On January 12, 2016, the U.S. Department of Commerce delivered a new decision revising the anti-dumping duty on Suzano from 33.09% to 22.16%, to be levied solely on sheet and cut size uncoated paper exported to the United States of America.

On March 3, 2016, the International Trade Commission (“ITC”) approved the request for review of the anti-dumping duty and provided complementary decision that adjusts rate to 22.37% for the Company.

Suzano will request the annual tax revisions envisaged in applicable USA laws.

In the fiscal years ended December 31, 2016 and 2015, the recognition of anti-dumping duties totaled R\$57,642 and R\$28,056, respectively, and recorded in profit or loss for the year as cost of these products exported and will remain deposited with the U.S. government at least until the final decision is taken, which is expected in the first quarter of 2017.

vii) Start of production and sale of fluff pulp

On December 7, 2015, the Company started producing and selling fluff pulp, which was named Eucafluff.

Eucafluff production is concentrated in the Suzano unit located in São Paulo and is certified by the Forest Stewardship Council (“FSC”). The investment of R\$30,000 in modernizing a printing and writing machine provided flexibility in the production of this type of paper and of Eucafluff. The annual production capacity of the machine is 100,000 tons.

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### viii) Contracting of a syndicated Pre-Export Financing Transaction

On May 14, 2015, continuing its financial liabilities management program (Liability Management Program), the Company contracted, through its subsidiary Suzano Pulp and Paper Europe S.A. ("Suzano Europe"), a syndicated Pre-Export Financing Transaction in the amount of US\$600 million for a term of five years, with amortization of principal starting from the 36<sup>th</sup> month, and margin of LIBOR plus interest of 2% p.a. initially, which could vary according to Company's risk ratings (Note 17, item (g)).

### ix) Approval of genetically modified eucalyptus for commercial use

On April 9, 2015, the National Biosafety Technical Commission ("CTNBio"), a collegiate responsible, among other things, for setting the standards and technical guidelines related to activities involving authorization for commercial use of genetically modified organisms in Brazil, has approved the request from FuturaGene Brasil Ltda. ("Futuragene") for the commercial use of genetically modified eucalyptus - event H421. The decision is still subject to appealing, in accordance with the applicable laws.

## **b) Corporate events**

### i) Operation with Ibema Companhia Brasileira de Papel ("Ibema")

On January 4, 2016, after all the conditions precedent were met and approvals from all regulatory agencies were obtained, the operation with Ibema and Ibemapar was concluded.

From that date, Ibema owns the unit in Embu, São Paulo, and Ibemapar and Suzano are shareholders of Ibema in the initial proportion of 62% and 38%, respectively, of its capital stock (Note 14.2).

The control of the investee is shared (joint venture), and this investment is classified as a joint arrangement, recognized at the acquisition cost of R\$8,000 (capital contribution) and evaluated through the equity method of accounting.

## **2 Presentation of the Financial Statements**

### **2.1 Preparation basis and presentation**

The parent company and consolidated financial statements were prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and the pronouncements issued by the Brazilian Accounting Pronouncements Committee ("CPC").

The financial statements were prepared using the historical cost as the basis of value, except for available-for-sale financial assets, financial assets and liabilities and biological assets that are measured at fair value.

## Suzano Papel e Celulose S.A.

Notes to the Financial Statements

December 31, 2016 and 2015

All amounts are in thousands of Brazilian real, unless otherwise stated

The Company affirms that all the information relevant to its financial statements is reported and that it corresponds to that used by the Management for its management.

### 2.1.1 Consolidated financial statements

The consolidated financial statements were prepared based on the information provided by Suzano and its subsidiaries on the reference date, as well as in accordance with consistent accounting practices and policies.

The subsidiaries are consolidated as from the date of ownership control up to the date control ceases to exist. In the case of joint control (joint venture) with other companies, these investments are measured by the equity method for both the individual and consolidated financial statements.

In the consolidation process, the balances in the balance sheet and income statement accounts corresponding to the transactions carried out with subsidiaries are eliminated, as well as the unrealized gains and losses and the investments in these subsidiaries and their respective equity accounting results.

Companies included in the Company's consolidated financial statements:

	Type of interest	Interest in capital (%)	
		12/31/2016	12/31/2015
Amulya Empreendimentos Imobiliários Ltda ("Amulya")	Direct	100%	100%
Asapir Produção Florestal e Comércio Ltda ("Asapir") <sup>(a)</sup>	Direct	50%	50%
Suzano Áustria GmbH ("Suzano Áustria") <sup>(b)</sup>	Direct	100%	100%
Ondurman Empreendimentos Imobiliários Ltda ("Ondurman")	Direct	100%	100%
Comercial e Agrícola Paineiras Ltda ("Paineiras")	Direct	100%	100%
Stenfar S.A. Indll. Coml. Imp. Y. Exp. ("Stenfar")	Direct / Indirect	100%	100%
Paineiras Logística e Transporte Ltda ("Paineiras Logística")	Direct	100%	100%
Sun Paper and Board Limited ("Sun Paper")	Direct	100%	100%
Suzano Pulp and Paper America Inc ("Suzano América")	Direct	100%	100%
Suzano Pulp and Paper Europe S.A. ("Suzano Europa")	Direct	100%	100%
Suzano Trading Ltd ("Suzano Trading")	Direct	100%	100%
FuturaGene Ltd ("Futuragene")	Indirect	100%	100%
Ibema Companhia Brasileira de Papel ("Ibema") <sup>(c)</sup>	Joint venture	38%	-

(a) On August 31, 2008, the total spin-off and extinction of Ripasa S.A. Celulose e Papel ("Ripasa") took place, and a small portion of its assets was used to create Asapir, in which Suzano has shared control and holds proportional interest in the joint operation.

(b) On July 7, 2016, after the issue of Green Bonds, the new corporate name of Bahia Sul Holding GmbH.

(c) Unconsolidated, jointly-controlled company.

### 2.2 Statement of Value Added ("DVA")

The Company prepared the individual and consolidated Statements of Value Added - DVA as part of the financial statements, as required by the Brazilian corporate law and the accounting practices adopted in Brazil.

## **Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

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IFRS standards do not require the DVA, therefore, they are considered as supplemental information.

### **2.3 Functional currency and presentation currency**

The Company's functional and presentation currency is the Brazilian Real (BRL).

The financial statements of each subsidiary, which is also that used as basis of evaluation of investments by the equity accounting method, is prepared based on each entity's functional currency.

#### **a) Foreign-currency translation**

Monetary assets and liabilities denominated in foreign currency are translated into the Brazilian real (BRL) using the exchange rate effective on the respective balance sheets dates. Gains and losses resulting from the adjustment of these assets and liabilities, verified between the exchange rate effective on the date of transaction and end of years are recognized as financial income or expenses in the income statement.

#### **b) Foreign subsidiaries**

Foreign subsidiaries prepare their individual financial statements in the functional currency.

When these consolidated financial statements are translated for presentation, these subsidiaries have their monetary assets and liabilities translated from their functional currency to Brazilian reais, using the exchange rates of balance sheets closing dates and respective revenues and expenses accounts are translated by the monthly average rates of the years. Concerning non-monetary assets and liabilities, they are translated from their functional currency to Brazilian reais by exchange rate of the accounting transaction date (historical rate).

Gains and losses from exchange variation on investments in foreign subsidiaries are measured under the equity accounting method, and gains and losses from exchange variation calculated in the translation process for consolidating the financial statements are recognized in asset valuation adjustment and presented in other comprehensive income.

The exchange rates applied when translating the financial statements of foreign subsidiaries are the following:



## Suzano Papel e Celulose S.A.

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Subsidiary	Country	Name	Currency	Final rate		Average rate	
				12/31/2016	12/31/2015	12/31/2016	12/31/2015
Suzano Trading	Cayman Islands						
Suzano America	United States	U.S. Dollar	USD	3.2591	3.9048	3.4901	3.3315
Suzano Áustria <sup>(a)</sup>	Austria						
FuturaGene Sun Paper	United Kingdom	Pound Sterling	GBP	4.0364	5.7881	4.7465	5.0929
Suzano Europa	Switzerland	Swiss Franc	CHF	3.2056	3.9284	3.5419	3.4568
Stenfar	Argentina	Argentine Peso	ARS	0.2055	0.3016	0.2342	0.3539

- (a) As a result of the Green Bonds issue mentioned in Note 1.1 item iv), the functional currency of this subsidiary has been prospectively changed from Euro to US Dollar as of 2016. Due to the change in functional currency, Suzano Austria's assets, liabilities, capital and other items recorded under shareholders' equity in Euro as of December 31, 2015 have been converted into US Dollar at the fixed exchange rate of EUR\$1 to US\$1.0840 on December 31, 2015.

### 2.4 Presentation of information by operating segment

Management defined Pulp and Paper as the Group's operational segments.

i) Pulp: comprises production and sale of hardwood eucalyptus pulp and fluff mainly to supply the export market, with any surplus destined to the domestic market.

ii) Paper: comprises production and sale of paper to meet the demands of both domestic and export markets.

### 3 Critical accounting practices

Suzano, its subsidiaries and joint operations adopted the accounting practices described below consistently in all the years reported in these financial statements.

The reclassifications in the comparative financial statements at December 31, 2015 were conducted for better presentation and comparison with information for the year ended December 31, 2016:

- i) The amount of R\$206,454 in the Balance Sheets under current liabilities was reclassified from Commercial Transactions with Suppliers to Loans and Financing, related to confirming operations. These operations were settled in the first quarter of 2016.
- ii) The amount of R\$251,543 in the parent company and consolidated Statement of Cash Flow, were reclassified among Operating, Financing and Investing Activities, mainly composed of the same drawee risk operations.

## **Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

### **3.1 Cash and cash equivalents**

Cash and cash equivalents include balances of cash, banks and marketable securities maturing within 90 days from their initial contracting date, which are subject to insignificant risk of change in their value.

### **3.2 Financial assets and liabilities**

#### **a) Overview**

Financial instruments are recognized as of the date the Company becomes party of financial instruments contractual provisions. These are initially recorded at their fair value, plus transaction costs which are directly attributable to their acquisition or issue, except for the financial assets and liabilities classified under the fair value category through profit or loss, where these costs are directly recorded in financial income line. Their subsequent measure occurs every balance sheet date according to the rules set forth for each type of financial assets and liabilities classification.

The Company does not adopt hedge accounting as required by CPC 38, 39 and 40.

The fair value of financial instruments actively traded on the organized markets is determined based on the market quotes on the balance sheets closing dates. In the lack of an active market, the fair value is determined through valuation techniques, which include the use of recent market arm's length transactions, benchmark to the fair value of similar financial instruments, discounted cash flows analysis or other valuation models.

The gain or loss from the initial recognition of financial assets and liabilities, arising from the difference between the fair value and present value of cash flows from the instrument discounted at the contractual rate, called day one profit or loss, is recognized as profit or loss proportionally to the duration of the operation until the full amount is considered at maturity, if the fair value is not observable directly in an open market.

#### **b) Financial assets**

Financial assets are classified among the categories below according to the purpose to which they were acquired or issued:

##### **i) Financial assets measured at fair value through profit or loss**

These include financial assets held for trading and those assets designated in the initial recognition at fair value through profit or loss and derivatives. These are classified as held for trading if originated with the purpose of sale or repurchase in the short term. These are measured at their fair value at every balance sheet date. Interest rates, monetary restatement, exchange variation and those variations deriving from fair value valuation are recognized as financial income or expenses in the income statement when incurred.

##### **ii) Loans (granted) and receivables**

These include non-derivative financial assets with fixed or determinable payments, but not quoted on the active market. After initial recognition, these are measured by the

## **Suzano Papel e Celulose S.A.**

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amortized cost through the effective interest rate method. Interest rates, monetary restatement, exchange variation, less impairment, when applicable, are recognized as financial income or expenses in the income statement when incurred.

The Company does not hold financial assets that would be classified in the held-to-maturity investments category.

### **c) Financial liabilities**

Financial liabilities are classified between the categories below according to the nature of financial instruments contracted or issued:

#### **i) Financial liabilities measured at fair value through profit or loss**

These include financial liabilities usually traded before maturity, liabilities designated in the initial recognition at fair value through profit or loss and derivatives. They are measured by their fair value at every balance sheet date. Interest rates, monetary restatement, exchange variation and those variations deriving from fair value valuation, where applicable, are recognized in the income statement when incurred.

#### **ii) Loans and financing**

Loans and financing are initially recognized at fair value, net of any attributable transaction costs and, subsequently, stated at the amortized cost through the effective interest rate method. The interest rates, monetary restatement and exchange variation, where applicable, are recognized in the income statement when incurred.

### **3.3 Trade receivables**

Accounts receivable from customers are booked at the nominal amount billed on the sale date, plus exchange rate variation in case of amounts denominated in foreign currency. Considering the average term for receipt of accounts receivable, their amount corresponds to fair value.

Based on an individual analysis, an allowance for probable loss is accrued in an amount considered sufficient by the Management to cover eventual losses in the accounts receivable realization, as a contra entry to selling expenses.

### **3.4 Inventories**

Inventories are shown at the lowest average value between average acquisition or production cost, net of recoverable taxes, and its realization value. Imports in progress are presented at the cost incurred until the balance sheet date. Cost of wood transferred from biological assets is equivalent to its fair value plus harvest and freight costs.

The balance of inventories is presented net of provisions for losses established to cover probable losses identified or estimated by Management.

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### **3.5 Assets held for sale**

Net non-current assets held for sale are classified as such if it is highly probable that they will be recovered primarily through sale instead of their continuous use.

These assets are normally measured by the lowest amount between their book value and their fair value less selling expenses. Possible impairment loss is initially allocated to goodwill and then to remaining assets and liabilities. Losses arising from this valuation are recognized in profit or loss. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

### **3.6 Biological assets**

Biological assets are reforestation eucalyptus forests, with a seven-year growth cycle from planting to harvest, and measured at fair value, less estimated sales costs during the cutting process, and any changes in fair value are recognized in other operating income/expenses (Note 13).

### **3.7 Investments**

Investments are represented by the Company's interest in other subsidiaries or in jointly-controlled companies (joint venture) and measured by the equity method of accounting. The exchange variation on investments abroad is recorded as asset valuation adjustment in shareholder's equity and realized upon the disposal or write-off of the investment.

Gains and losses from such transactions between these companies are excluded in the consolidation for equity accounting and the consolidated balance sheet.

### **3.8 Business combination**

Business combinations are recorded using the acquisition method when control is transferred to the Company. The consideration is generally measured at fair value, as well as identifiable net assets acquired. Any goodwill calculated in the transaction is tested annually for impairment. Gains from a beneficial purchase are recognized immediately in profit or loss. Transaction costs are recorded in profit or loss as incurred, except for costs related to the issue of debt or equity instruments.

Acquisitions of interest with shared control of net assets traded are subject to guidelines complementary to CPC 15 (R1) - Business Combination, the CPC 19 - Joint Ventures and CPC 18 - Investment in Affiliates, Subsidiaries and Joint Ventures.

Based on the equity method of accounting, an investment in a joint venture is initially recorded at cost. The book value of the investment is adjusted for recognition of variations in the Company's interest in the shareholders' equity of the joint venture as of the acquisition date. The goodwill associated with the joint venture, if any, is included in the book value of the investment; however it is not an intangible asset nor is it subject to amortization. Other intangible assets identified in the transaction must be proportionally allocated to the Company's interest, based on the difference between

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the book values recorded in the company traded and the calculated fair values (asset surplus value), being subject to amortization.

### **3.9 Property, plant and equipment**

Property, plant and equipment items are recorded at the cost of acquisition or construction, net of recoverable taxes, including interest and other financial charges incurred during the project design or development, less accumulated depreciation and accumulated probable impairment losses, when incurred.

Items of property, plant and equipment are depreciated using the straight-line method in the profit or loss statement of the year, based on the economic-useful life of each item (Note 15) and leased items are depreciated by the shortest period between the estimated useful life of the asset and the term of the contract.

Property, plant and equipment from financial lease agreements are recognized by the lower amount between the present value of minimum lease payments and the fair value of the related assets, plus, when applicable, initial direct costs incurred in the transaction.

On December 31, 2016, the Company revised the useful life of its assets based on use and estimated use of assets and did not identify the need for adjustments to the used economic useful life.

Maintenance and repair expenses of key industrial equipment that do not significantly increase the useful life of these assets, referred to as General Stoppage costs, are booked directly as profit or loss in the year when they are incurred in costs of goods sold.

### **3.10 Intangible assets**

#### **i. Goodwill based on expected future profitability**

Goodwill is the positive difference between the amount transferred for acquisition and the net fair value of assets acquired from a company. Goodwill balance should be attributed to one or more cash generating units, which are subject to impairment tests at least once a year and are not amortized. If the recoverable value of the cash generating unit is less than the book value of the investment including goodwill, an impairment loss is recognized with a corresponding entry in profit or loss for the year. Impairment losses, when incurred, cannot be reversed in subsequent periods.

#### **ii. Intangible assets with defined useful life**

Other intangible assets acquired by the Company and that have defined useful lives are measured at cost, less amortization based on the useful lives and accumulated impairment losses, when incurred.

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### **3.11 Dividends and interest on shareholders' equity**

Distribution of dividends or interest on equity is recognized as liabilities, pursuant to corporate law and the Company's bylaws, up to the limit of minimum mandatory dividends. The surplus dividends declared by Management are presented under proposed dividends, together with the profit reserves in shareholders' equity. When the surplus is approved by shareholders, the portion is transferred to current liabilities.

### **3.12 Other assets and liabilities (current and non-current)**

Assets are recognized only when it is probable that the economic benefit associated with the transaction will flow to the entity and its cost or value can be measured reliably.

A liability is recognized when the Company has a legal or constructive obligation arising from a past event, and it is probable that an economic resource will be required to settle this liability.

### **3.13 Current and deferred corporate income tax ("IRPJ") and social contribution on net income ("CSLL")**

Income tax and social contribution in the fiscal year are determined based on current and deferred bases. These taxes are calculated based on the tax laws in force on the balance sheet date in countries where the Company operates, and are recognized in the income statement, except when referring to items recorded in shareholders' equity.

Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities and they are related to income tax levied by the same tax authority on the same entity subject to taxation.

A deferred income and social contribution tax asset is recognized for tax losses, tax credits and unused deductible temporary differences when it is probable that future profits subject to taxation will be available to be used against such assets.

Deferred income and social contribution tax assets are revised at each reporting date and will be deducted as their realization is no longer probable.

### **3.14 Contingent assets and liabilities**

Contingent assets are recorded only when court decisions favorable to the Company are final and unappealable and whose amount can be reliably measured.

Contingent liabilities are recognized according to following criteria: i) Contingent liability whose probability of loss is remote is not recorded in provision or disclosed; ii) Contingent liability whose probability of loss is possible is not recorded in provision, but disclosed in the notes to the financial statements; and, iii) Contingent liability whose probability of loss is probable is recorded in provision for an amount deemed sufficient by the Management and its legal advisors to cover future cash disbursements.

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### **3.15 Provisions**

Provisions are recognized based on past events, if the Company has a legal or constructive obligation that can be reliably ascertained and for which it is probable that economic resources will be required for settlement. Provisions are recorded based on the best estimates of the risks involved.

The actuarial liabilities are evaluated by an independent actuary in order to determine the commitments with health care plans and life insurance provided to active employees and retirees, at the end of each year.

Actuarial gains or losses are recognized directly in shareholders' equity. The interest rates on actuarial liability are directly recorded in the income statement under financial expenses.

### **3.16 Share-based payments**

The Company's executives and managers receive their compensation partially as share-based payment plans to be paid in cash and shares, and alternatively in cash.

Plan-related expenses are firstly recognized in the income statement as a corresponding entry to financial liabilities during the vesting period (grace period) when services will be rendered. The financial liability is measured by its fair value every balance sheet date and its variation is recorded in the income statement as administrative expenses.

However, at the option exercise date, if such options are exercised by executive in order to receive Company shares, financial liabilities are reclassified to a shareholders' equity account called "Stock options reserve". In case of option exercise paid in cash, the Company settles the financial liability on behalf of the officer.

### **3.17 Government grants and assistance**

Government grants and assistance are recognized when it is reasonably certain that the conditions established by the granting governmental authority were observed and that these subsidies will be obtained. These are recorded as revenue or expense deduction in the income statement for the period of enjoyment of benefit and subsequently are allocated to the tax incentives reserve under shareholders' equity.

### **3.18 Adjustment at present value of assets and liabilities**

The monetary assets and liabilities are monetarily restated, therefore, they are adjusted by their present value. The present value adjustment of current monetary assets and liabilities is calculated and only recorded, if deemed as relevant when compared to the financial statements taken as a whole. For the purposes of recording and determining materiality, the present value adjustment is calculated taking into account contractual cash flows and explicit interest rates, and implicit interest rates in certain cases, of respective assets and liabilities. Based on the analyses made and the Management's

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best estimate, the present value adjustment of current monetary assets and liabilities is irrelevant when compared to the financial statements taken as a whole, thus, no adjustments were recorded.

### **3.19 Operating revenue**

Operating revenue from product sales are stated at their net amounts excluding taxes, returns, unconditional discounts and bonus to clients. Sales revenue is recognized when its amounts can be measured reliably, all risks and rewards inherent to the product are transferred to the buyer, the Company no longer has any relation with the goods sold and it is probable that the economic benefits will be generated for the Company. Revenues are not recognized if there is significant uncertainty to their realization.

Moreover, the Company sells indirectly the surplus of electric power produced as a by-product of the industrial process.

### **3.20 Related-party transactions**

To conduct business and operations with related parties, the Company establishes that these operations must observe typical market prices and conditions for this type of transaction as well the corporate governance practices adopted by the Company and those recommended and/or required by law.

### **3.21 Estimates, judgments and significant accounting assumptions**

When preparing these financial statements, the Management used estimates, judgments and accounting assumptions about the future affecting the application of the Companies' accounting policies and practices and the amounts of assets, liabilities, income and expenses. Actual results may differ from such estimates.

The Company reviews its estimates and assumptions continuously and any change thereof is prospectively recognized.

See below information on judgments and assumptions used while applying accounting practices and policies that have significant effects on the amounts recognized in the financial statements and which have significant risk of causing material adjustment:

#### **i) Fair value measurement**

The Company selects methods and uses judgments in the assumptions for determining the fair value as well as defining the sensitivity analysis scenarios.

When measuring the fair value of an asset or liability, the Company uses market data as much as possible. Fair values are classified at different hierarchy levels based on the inputs used for valuation techniques (Note 4.7).

Significant changes in the assumptions used may affect the Company's equity position.



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Additional information on the assumptions used to measure relevant fair values are included in the following notes to the financial statements:

- i) Note 4 - Financial instruments and risks;
- ii) Note 14.2 - Business combination;
- iii) Note 13 - Biological assets;
- iv) Note 20 - Actuarial liabilities;
- v) Note 21 - Long-term share-based compensation plan.

### ii) Financial instruments (derivative and non-derivative)

Valuation techniques are used by the Company to calculate the fair value of financial instruments not traded in the active market.

The Company uses recent operations contracted with third parties, related to other substantially similar instruments, analyzes cash flow and uses other operations with a minimum of information generated by Management. It also depends on its own judgment to establish the sensitivity analysis scenarios (Note 4).

### iii) Biological assets

The discounted cash flow methodology is used to calculate the fair value of forest biological assets, whereby several critical economic and forest assumptions are made with a high level of judgment (Note 13).

The main assumptions and critical judgments are: i) Average sale price - R\$/m<sup>3</sup>; and, ii) mean annual increment - IMA - m<sup>3</sup>/hectare.

### iv) Useful life and recoverable value of tangible and intangible assets

The useful life of relevant tangible assets was defined by independent experts and in the specifications of machine and equipment manufacturers, at the operational level of industrial units and the quality of preventive and corrective maintenance. The intangible assets with defined useful life are based on reports of independent valuation experts. All this material involves a high degree of judgment and uncertainties.

In the case of events or changes in circumstances signaling that the book value of an asset or group of assets may not be recoverable based on future cash flows, Management will re-evaluate and adjust the asset's useful life according to the new outlook. (Notes 15 and 16).

### v) Lease

During the normal course of business, the Company can enter into commercial agreements with certain suppliers to sustain a part of its production process. In this case, judgement will be exercised about the general aspects of the agreement and operation to determine if the agreement has a lease and its classification (Note 18).

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### vi) Deferred income and social contribution taxes

The recognition and amount of deferred tax assets depend on the future generation of taxable income, which requires the use of estimates related to the Company's future performance.

These estimates are part of a long-term plan, which is reviewed annually by Management and submitted to Board of Directors for the approval. This plan is drawn up using several macroeconomic variables, such as exchange and interest rates; variables in the market segment, such as curves of expected offer/supply and projected sale prices; operating variables, such as expected production costs and volumes. This set of variables evidences the Company's level of judgment regarding the expected materialization of these assumptions and uncertainties.

Management understands that, based on projected results and recorded results, the realization of deferred credit assets is probable (Note 12).

### vii) Contingent liabilities and lawsuits

The Company is a party to legal and administrative proceedings involving civil, tax and labor issues in the normal course of its operations, and Management makes an estimate to determine the liability amounts and the probability of money outflows based on the opinion of its external legal counsel, which makes judgments to perform such an evaluation (Note 19).

### viii) Actuarial liability

The Company has actuarial commitments of post-employment benefits related to health insurance for former employees. These commitments and costs depend on a series of economic and demographic assumptions, mainly discount rates, long-term inflation, variation in medical and hospital costs, and variability in the actuarial table used, which imply some level of judgment regarding the assumptions adopted.

These and other estimates are reviewed annually by independent experts and can differ from the actual results due to changes in market and economic conditions (Note 20).

## **3.22 New standards, revisions and interpretations not effective yet**

The following standards were issued and approved by IASB, which are not effective yet and the Company has not early adopted while preparing these financial statements, since CPC has not yet issued the equivalent pronouncements.

The Management is evaluating and measuring the impacts of the adoption of the following standards:

- i) IFRS 9 Financial instruments - It replaces IAS 39, except for recognition and derecognition of financial instruments. It also includes reviewed requirements for classifying and measuring financial instruments, a new model for expected loss of credit for calculating the impairment of financial assets and new requirements on

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hedge accounting. IFRS 9 becomes effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the changes introduced by this new standard and, based on analyses conducted up to the conclusion of these financial statements, did not identify changes that may have a significant impact on its financial statements.

- ii) IFRS 15 Revenue from contracts with customers - It replaces the existing IAS 18 / IAS 11 guidelines and mainly determines that revenue be recognized through transfer of control to the client instead of transfer of risks and benefits, because the former establishes that the achievement of performance obligations, recognized over the time or in a certain moment, identified in agreements are crucial for evaluating the consideration to which it expects to be entitled in exchange for the control of goods or services, hence the portion of revenue to be recognized. IFRS 15 is effective for the years beginning on January 1, 2018. The Company is evaluating the changes introduced by this new standard and, based on analyses conducted up to the conclusion of these financial statements, did not identify changes that may have a significant impact on its financial statements.
- iii) IFRS 16 - Leases - replaces IAS 17 and essentially requires that lessees recognize future payments in liabilities and the right to use a leased item in assets for practically all lease agreements. Also, financing lease and operating lease agreements receive the same accounting treatment, although certain short-term leases or small items are outside the scope of this standard. This standard will be effective as of January 1, 2019. The Company, based on preliminary assessments, believes that the biggest impact of this standard is related to the recognition on the balance sheet of the lease agreements for land used to plant eucalyptus forests, with terms of up to 3 cycles of forest formation, that is around 21 years (Note 18.3).

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### 4 Financial Instruments and Risks

#### 4.1 Management of financial risks

##### a) Overview

The Company's Management is focused on generating consistent and sustainable results over time. Factors of external risk related to fluctuations in market prices, exchange variations and volatility of macroeconomic indexes may introduce an unwelcome level of volatility in the Company's cash flows and income statement. To manage this volatility, so as to not distort or hinder the Company's consistent growth over a long time, the Company has policies and procedures for managing market risk.

These policies aim to: i) protect the Company's cash flows and assets against fluctuations in the market prices of raw material and products, exchange rates and interest rates, price and restatement indexes, or other assets or instruments traded in liquid or other markets ("market risk") to which the value of the assets, liabilities and cash flows of the Company are exposed; and ii) optimize the process of contracting financial instruments for protection against exposure to risk, drawing on natural hedges and correlations between the prices of different assets and markets, avoiding any waste of funds used to contract inefficient operations. All financial transactions entered into by the Company have the objective of protecting it against existing exposures, with the assumption of new risks prohibited, except those arising from the operating activities of Suzano.

The process to manage market risk comprises the following sequential and recurring phases: i) identification of risk factors and the exposure of the value of the assets, cash flows and results of the Company to market risks; ii) measuring and reporting the values at risk; iii) evaluating and formulating strategies for managing market risks; and iv) implementing and monitoring the performance of strategies.

The Company uses the most liquid financial instruments and: i) does not contract leveraged transactions or other types of embedded options that alter the ultimate purpose of hedging; ii) does not hold dual-index debt or other forms of implicit options; and iii) does not hold operations that require margin deposits or other forms of guarantees for the credit risk of the counterparties.

The main financial risk factors considered by Management are:

- Liquidity risk;
- Credit risk;
- Currency risk;
- Interest rate risks;
- Risk of changes in commodity prices; and
- Capital risk.

The Company does not adopt hedge accounting. Therefore, all results (gains and losses) from derivative operations (settled and outstanding) are fully recognized in

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the Parent company and Consolidated statements of income, as presented in Note 24.

**b) Valuation**

All operations with financial instruments are recognized in the Company's financial statements, as shown below. No reclassifications between categories were made during the fiscal year.

	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Assets</b>					
Fair value through profit or loss					
Cash and cash equivalents	5	841,056	569,135	1,614,697	1,477,246
Financial investments	6	2,021,298	922,728	2,080,615	970,850
Unrealized gains from derivative operations		352,637	51,724	444,180	195,393
Loans and receivables					
Trade receivables	7	3,078,423	3,521,841	1,622,171	1,885,960
		<u>6,293,414</u>	<u>5,065,428</u>	<u>5,761,663</u>	<u>4,529,449</u>
<b>Liabilities</b>					
Liabilities through amortizable cost					
Trade payables		549,513	540,096	582,918	581,477
Loans and financing	17	8,150,116	10,002,341	14,012,779	14,917,342
Loans with related parties		5,732,759	4,892,504	-	-
Commitments related to asset acquisitions		593,133	716,862	694,855	824,864
Fair value through profit or loss					
Unrealized losses from derivative operations		395,780	529,821	471,478	635,131
		<u>15,421,301</u>	<u>16,681,624</u>	<u>15,762,030</u>	<u>16,958,814</u>

**c) Fair value versus book value**

The financial instruments recorded on the balance sheets, such as cash and banks, loans and financing, are stated at their contractual values. The marketable securities and derivative agreements, which are used solely for hedge purposes, are valued at their fair value.

To determine the fair value of assets or liquid financial instruments traded in public markets, the closing market quote on the date of the balance sheet was used. The fair value of interest rate and index swaps is calculated as the present value of their future cash flows, discounted at the current interest rates available for operations with similar conditions and remaining terms. This calculation is made based on the BM&FBovespa and Brazilian Financial and Capital Markets Association (ANBIMA) quotes for interest rate operations denominated in Brazilian real, and the British Bankers Association and Bloomberg for operations in London InterBank Offered Rate ("Libor"). The fair value of futures or forward currency contracts is determined using forward currency rates prevailing on the dates of the balance sheet, according to BM&FBovespa quotes.

In order to determine the fair value of assets or financial instruments traded on the over-the-counter markets or without liquidity, several assumptions and methods are used based on normal market conditions (and not for settlement or forced sale) at each balance-sheet date, including the use of option pricing models, such as Black & Scholes, and estimates of future discounted cash flows. The fair value of

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agreements for pulp and paper pricing is obtained through the price quotes for corresponding instruments with similar conditions and remaining terms with major players in this market. Finally, the fair value of agreements for oil bunker pricing is based on the Platts index quotes.

The result of financial instruments trading is recognized on the closing or contracting dates of the operations, on which the Company undertakes to buy or sell these instruments. The liabilities deriving from the contracting of financial instruments are eliminated from our financial statements only when these instruments expire or when the risks, obligations and rights deriving therefrom are transferred.

The comparison between the fair value and carrying value of outstanding financial instruments is shown below:

	Consolidated			
	12/31/2016		12/31/2015	
	Book Value	Fair Value	Book Value	Fair Value
<b>Assets</b>				
Cash and cash equivalents	1,614,697	1,614,697	1,477,246	1,477,246
Financial investments	2,080,615	2,080,615	970,850	970,850
Unrealized gains from derivative operations (current and non-current)	444,180	444,180	195,393	195,393
Trade receivables	1,622,171	1,622,171	1,885,960	1,885,960
	<b>5,761,663</b>	<b>5,761,663</b>	<b>4,529,449</b>	<b>4,529,449</b>
<b>Liabilities</b>				
Trade payables	582,918	582,918	581,477	581,477
Loans and financing (current and non-current)	14,012,779	14,334,732	14,917,342	15,627,331
Commitments related to asset acquisitions (current and non-current)	694,855	700,754	824,864	636,504
Unrealized losses from derivative operations (current and non-current)	471,478	471,478	635,131	635,131
	<b>15,762,030</b>	<b>16,089,882</b>	<b>16,958,814</b>	<b>17,480,443</b>

**4.2 Liquidity risk**

The Company's guidance is to maintain a strong cash and financial investment position to meet its financial and operating obligations. The amount kept as cash is used for payments expected in the normal course of its operations, while the surplus amount is invested in highly liquid financial investments.

The following tables show the maturities of financial liabilities settled with cash, including the estimated payment of interest and exchange variation. These refer to the remaining term on the base date of the financial statements up to the maturity of the agreement.

The amounts disclosed below refer to contracted cash flows not discounted and, therefore, may not be reconciled with the amounts disclosed in the balance sheet.

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Consolidated	12/31/2016					
	Total Book Value	Total Future Value	Up to 1 year	1 - 2 years	2 - 5 years	More than 5 years
<b>Liabilities</b>						
Loans and financing	14.012.779	17.262.517	2.231.491	3.215.466	9.356.691	2.458.869
Trade payables	582.918	582.918	582.918	-	-	-
Commitments related to asset acquisition	694.855	806.967	87.239	9.517	190.616	519.595
Derivatives payable	471.478	386.459	245.865	130.787	9.807	-
Other payables	201.231	201.231	187.088	14.143	-	-
	<b>15.963.261</b>	<b>19.240.092</b>	<b>3.334.601</b>	<b>3.369.913</b>	<b>9.557.114</b>	<b>2.978.464</b>

  

Consolidated	12/31/2015					
	Total Book Value	Total Future Value	Up to 1 year	1 - 2 years	2 - 5 years	More than 5 years
<b>Liabilities</b>						
Loans and financing	14.917.342	18.870.887	3.084.727	2.336.556	9.733.487	3.716.117
Trade payables	581.477	581.477	581.477	-	-	-
Commitments related to asset acquisition	824.864	882.051	109.948	106.316	286.358	379.429
Derivatives payable	635.131	782.808	289.603	273.558	219.647	-
Other payables	313.532	313.532	278.243	35.289	-	-
	<b>17.272.346</b>	<b>21.430.755</b>	<b>4.343.998</b>	<b>2.751.719</b>	<b>10.239.492</b>	<b>4.095.546</b>

**4.3 Credit risk**

The Company has sales and credit policies, determined by the Management, which aim to mitigate any risks arising from their clients' default. This is achieved through meticulous selection of the client portfolio, which takes into account payment capacity (credit analysis) and diversification of sales (risk pooling), as well as the guarantees or financial instruments contracted to reduce these risks, such as credit insurance policies, both for exports and domestic sales.

The Company's credit evaluation matrix is based on an analysis of the qualitative and quantitative aspects for determining credit limits to clients on an individual basis. After analyses, they are submitted for approval according to established hierarchy. In some cases, the approval from the management's meeting and the Credit Committee is applicable.

The Company accrues provisions for all amounts overdue more than 90 days and not renegotiated by clients, and for which there are no real guarantees. The Company also accrues provisions for outstanding amounts from clients under judicial reorganization.

To mitigate credit risk, the Company maintains its financial operations diversified across various banks, with most of these operations concentrated in prime banks rated high grade by the main risk rating agencies.

The book value of financial assets representing the exposure to credit risk on the date of the financial statements was as follows:

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	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Assets</b>					
Cash and cash equivalents	5	<b>841,056</b>	569,135	<b>1,614,697</b>	1,477,246
Financial investments	6	<b>2,021,298</b>	922,728	<b>2,080,615</b>	970,850
Trade receivables	7	<b>3,078,423</b>	3,521,841	<b>1,622,171</b>	1,885,960
Derivatives receivable		<b>352,637</b>	51,724	<b>444,180</b>	195,393
		<b>6,293,414</b>	5,065,428	<b>5,761,663</b>	4,529,449

### 4.4 Market risk

The Company is exposed to several market risks, the main ones being the variation in exchange rates, interest rates, inflation rates and commodity prices that may affect its results and financial situation.

To reduce the impacts on results in adverse scenarios, the Company has processes to monitor exposures and policies that support the implementation of risk management.

The policies establish the limits and instruments to be implemented for the purpose of: (i) protecting cash flow due to currency mismatch, (ii) mitigating exposure to interest rates, (iii) reducing the impacts of fluctuation in commodity prices, and (iv) change of debt indexes.

The market risk management process comprises identification, assessment and implementation of the strategy, with the actual contracting of adequate financial instruments.

An independent area monitors if the limits established in the Company's financial policy are met for the maximum volume of operations contracted.



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The contracting of financing and the currency hedge policy of the Company are guided by the fact that around 70% of net revenue comes from exports with prices negotiated in U.S. dollar, while most of the production costs is tied to the Brazilian real (BRL). This structure allows the Company to contract export financing in U.S. dollar and to reconcile financing payments with the flows of receivables from sales in foreign market, using the international bond market as an important portion of its capital structure, and providing a natural cash hedge for these commitments.

In addition, the Company contracts short positions in the futures markets, including strategies involving options, to ensure attractive levels of operating margins for a portion of revenue. Sales in the futures market are limited to a percentage of the net surplus foreign currency (net exposure) over an 18-month time horizon and therefore are matched to the availability of currency for sale in the short term.

The following table shows the net exposure of assets and liabilities in foreign currency:

	Note	Consolidated	
		12/31/2016	12/31/2015
<b>Assets</b>			
Cash and cash equivalents	5	787.888	900.565
Financial investments	5	-	29.265
Receivables <sup>(a)</sup>	7	957.269	1.212.702
Derivatives receivable		352.637	372.105
		<u>2.097.794</u>	<u>2.514.637</u>
<b>Liabilities</b>			
Trade payables		(24.630)	(56.084)
Loans and financing	17	(9.367.865)	(9.676.957)
Commitments related to asset acquisitions		(354.664)	(455.495)
Derivatives payable		(397.468)	(823.180)
		<u>(10.144.627)</u>	<u>(11.011.716)</u>
<b>Net liability exposure</b>		<u>(8.046.833)</u>	<u>(8.497.079)</u>

<sup>(a)</sup> Amounts are net of Provision for Doubtful Accounts.

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### Sensitivity analysis - foreign exchange exposure

For market risk analysis, the Company uses scenarios to jointly evaluate the long and short positions in foreign currency, and the possible effects on its results. The probable scenario represents the amounts already booked.

The other scenarios were created considering the depreciation of the Brazilian real against the U.S. dollar at the rates of 25% and 50%.

The following table presents the potential impacts on results assuming these scenarios:

Consolidated	12/31/2016		
	Probable	Possible Incr. ( Δ 25%)	Remote Incr. ( Δ 50%)
Cash and cash equivalents	787,888	196,971	393,942
Receivables	957,269	239,317	478,635
Trade payables	(24,630)	(6,157)	(12,315)
Loans and financing	(9,367,865)	(2,341,966)	(4,683,933)
Commitments related to asset acquisitions	(354,664)	(88,666)	(177,332)
Derivative Non deliverable forward ("NDF")	95	270	540
Derivatives Swap	(168,048)	(580,877)	(1,161,755)
Derivatives Options	123,122	(355,333)	(878,403)
	<u>(8,046,833)</u>	<u>(2,936,441)</u>	<u>(6,040,621)</u>

### 4.4.2 Interest rate risk

Fluctuations in interest rates could result in increase or decrease in costs of new financing and operations already contracted.

The Company constantly seeks alternatives to use financial instruments in order to avoid negative impacts on its cash flows.

### Sensitivity analysis - exposure to interest rates

For market risk analysis, the Company uses scenarios to evaluate the sensitivity that variations in operations impacted by the rates: CDI, TJLP and Libor may have on its results. The probable scenario represents the amounts already booked.

The other scenarios were developed considering appreciation of 25% and 50% in the market interest rates.

The following table shows the potential impacts on the results in the event of these scenarios:

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Consolidated	12/31/2016		
	Probable	Possible Incr. ( Δ 25%)	Remote Incr. ( Δ 50%)
<b>Interbank deposit certificate ("CDI")</b>			
Cash and cash equivalents	826,809	30,487	61,958
Financial investments	2,080,615	76,717	155,914
Loans and financing	(3,138,908)	(115,739)	(235,219)
Derivative Swap	(168,048)	66,091	131,392
Derivative Options	123,122	(28,595)	(57,816)
	<u>(276,410)</u>	<u>28,961</u>	<u>56,229</u>
<b>Long-term interest rate ("TJLP")</b>			
Loans and financing	(849,260)	(15,924)	(31,847)
	<u>(849,260)</u>	<u>(15,924)</u>	<u>(31,847)</u>
<b>London InterBank Offered Rate ("Libor")</b>			
Loans and financing	(4,503,733)	(18,980)	(37,959)
Derivative Swap	(3,627)	746	1,489
	<u>(4,507,360)</u>	<u>(18,234)</u>	<u>(36,470)</u>

**4.4.3. Commodity price risk**

The Company is exposed to commodity prices that reflect mainly on the pulp sale price in the international market. The dynamics of opening and closing production capacities in the global market and the macroeconomic conditions may have an impact on the operating results.

It is not possible to guarantee that the price will be maintained at levels favorable to the results. The Company can use financial instruments to reduce the sale price of a part of its production; however, at times, contracting a hedge for pulp price may not be available.

The Company is also exposed to international oil prices, which reflects on logistical costs for selling to the export market.

On December 31, 2016, the Company's long position in oil bunker is US\$ 2 million (long position of R\$3 million on December 31, 2015) to hedge its logistics costs. On December 31, 2016, there is no exposure of contracts indexed to pulp commodity prices (on December 31, 2015, the amount was US\$ 6 million).

**Sensitivity analysis - exposure to commodity prices**

For market risk analysis, the Company uses scenarios to evaluate the sensitivity that variations in operations pegged to commodity prices may generate in its results. The probable scenario represents the amounts already booked.

The other scenarios were developed considering appreciation of 25% and 50% in the market price of commodities.

The following table shows the potential impacts on the results in the event of these scenarios:

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Consolidated	12/31/2016		
	Probable	Possible Incr. ( Δ 25%)	Remote Incr. ( Δ 50%)
Derivative Oil	2.861	382	764
	<u>2.861</u>	<u>382</u>	<u>764</u>

### 4.5 Derivative financial instruments

The Company determines the fair value of derivative contracts and recognizes that these amounts can differ from the amounts realized in the event of early settlement. The difference in amount can occur due to liquidity reasons, dismantling costs, interest of the counterparty in early settlement, among other aspects. The amounts reported by the Company are based on a calculation made by a specialized consulting firm and are reviewed by Management.

#### a) Outstanding derivatives by type of contract

On December 31, 2016 and 2015, the consolidated positions of outstanding derivatives are presented below:

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Consolidated	Notional value in US\$		Fair value	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Cash flow hedge</b>				
<b>Exchange hedge</b>				
Zero-cost collar (R\$ x US\$)	800,000	500,000	123,122	(121,955)
NDF (R\$ x US\$)	-	159,470	-	(81,676)
Exchange lock (R\$ x US\$)	-	68,000	-	231
NDF (MXN x US\$)	331	-	95	10,963
NDF (ARS x US\$)	-	19,343	-	-
<b>Subtotal</b>	<b>800,331</b>	<b>746,813</b>	<b>123,217</b>	<b>(192,437)</b>
<b>Commodity hedge</b>				
Pulp	-	5,642	-	(548)
Bunker (oil)	1,526	31,526	2,861	(8,130)
<b>Subtotal</b>	<b>1,526</b>	<b>37,168</b>	<b>2,861</b>	<b>(8,678)</b>
<b>Debt hedge</b>				
<b>Exchange hedge</b>				
Swap CDI x <i>Fixed</i> (US\$)	291,725	-	709	-
Swap CDI x <i>Libor</i> (US\$)	150,000	150,000	(157,773)	(258,638)
Swap Fixed (US\$) x CDI	29,500	-	(5,668)	-
<b>Subtotal</b>	<b>471,225</b>	<b>150,000</b>	<b>(162,732)</b>	<b>(258,638)</b>
<b>Interest hedge</b>				
Swap Libor x Fixed (US\$)	46,312	72,782	(3,627)	(10,838)
Swap Coupom x Fixed (US\$)	220,000	380,000	12,983	30,853
<b>Subtotal</b>	<b>266,312</b>	<b>452,782</b>	<b>9,356</b>	<b>20,015</b>
<b>Total result in derivatives</b>	<b>1,539,394</b>	<b>1,386,763</b>	<b>(27,298)</b>	<b>(439,738)</b>
<b>Accounting classification</b>				
In current assets			367,145	158,930
In non-current assets			77,035	36,463
In current liabilities			(250,431)	(281,317)
In non-current liabilities			(221,047)	(353,814)
			<b>(27,298)</b>	<b>(439,738)</b>

Fair value does not represent an obligation for immediate disbursement or cash receipt, given that such effect will only occur on the dates of contractual fulfillment or on the maturity of each transaction, when the result will be determined, depending on the case and market conditions on said dates.

Contracts outstanding on December 31, 2016 are over-the-counter operations without any margin or early settlement clause imposed due to mark-to-market variations.

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Next, each existing contract and respective protected risks are described:

i) DI x US\$ Swap: positions in conventional swaps exchanging the variation in the Interbank Deposit (“DI”) rate for a fixed rate in dollars. The purpose is to change the currency of debt indexes from reais to dollars;

ii) DI x Libor Swap: positions in conventional swaps exchanging the variation in the Interbank Deposit (“DI”) rate for a floating rate in dollars. The purpose is to change the currency of debt indexes from reais into dollars;

iii) US\$ x DI Swap: positions in conventional swaps exchanging the variation in the fixed rate in dollars for Interbank Deposit (“DI”) rate. The purpose is to revert debts in dollars to reais;

iv) Libor x Fixed Swap: positions in conventional swaps exchanging the floating rate for a fixed rate in dollars. The purpose is to hedge the cash flow from fluctuations in the US interest rate;

v) Coupon x US\$ Swap: positions in swaps exchanging dollar coupon for a fixed offshore dollar rate in order to reduce debt costs.

vi) Zero-Cost Collar: positions in an instrument consisting of a simultaneous combination of purchase of put options and sale of call options in dollars, with the same principal amount and maturity, in order to hedge cash flows from exports. According to this strategy, a range is fixed where there is no deposit or receipt of a financial margin on position adjustments;

vii) US\$ x MXN\$ NDF: long positions in dollars and short positions in Mexican peso in order to protect the sale of products in the Mexican market;

viii) Bunker (oil): long positions in oil bunker in order to protect logistics costs related to contracting maritime freight.

### b) Fair value by maturity

Derivatives mature as follows:

Maturity of derivatives	Fair value	
	12/31/2016	12/31/2015
In 2016	-	(112,263)
In 2017	113,957	(169,688)
In 2018	(40,936)	(157,511)
In 2019	(49,690)	(276)
In 2020	(50,629)	-
	<u>(27,298)</u>	<u>(439,738)</u>

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On December 31, 2016 and 2015, the consolidated positions of outstanding derivatives are presented below:

Consolidated	Currency	Notional value		Fair value in R\$	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Debt hedge</b>					
<b>Assets</b>					
Swap CDI x Fixed (US\$)	R\$	950.000	-	73.590	-
Swap CDI x Libor (US\$)	R\$	331.335	331.335	347.900	31.733
Swap Fixed (US\$) x CDI	US\$	29.500	-	95.447	-
Swap Libor x Fixed (US\$)	US\$	46.312	72.782	149.210	-
Swap Coupon x Fixed (US\$)	US\$	220.000	380.000	88.682	132.665
<b>Subtotal</b>				<b>754.829</b>	<b>164.398</b>
<b>Liabilities</b>					
Swap CDI x Fixed (US\$)	US\$	291.725	-	(72.881)	-
Swap CDI x Libor (US\$)	US\$	150.000	150.000	(505.673)	(290.372)
Swap Fixed (US\$) x CDI	R\$	100.374	-	(101.115)	-
Swap Libor x Fixed (US\$)	US\$	46.312	72.782	(152.837)	(10.838)
Swap Coupon x Fixed (US\$)	US\$	220.000	380.000	(75.699)	(101.811)
<b>Subtotal</b>				<b>(908.205)</b>	<b>(403.021)</b>
<b>Total swap agreements</b>				<b>(153.376)</b>	<b>(238.623)</b>
<b>Cash flow hedge</b>					
Zero-cost collar (US\$ x R\$)	US\$	800.000	500.000	123.122	(121.955)
NDF (R\$ x US\$)	US\$	-	159.470	-	(81.676)
Exchange lock (R\$ x US\$)	US\$	-	68.000	-	231
NDF (MXN x US\$)	US\$	331	-	95	-
NDF (ARS x US\$)	US\$	-	19.343	-	10.963
<b>Subtotal</b>				<b>123.217</b>	<b>(192.437)</b>
<b>Commodity hedge</b>					
Bunker (oil)	US\$	1.526	31.526	2.861	(8.678)
<b>Subtotal</b>				<b>2.861</b>	<b>(8.678)</b>
<b>Total result in derivatives</b>				<b>(27.298)</b>	<b>(439.738)</b>

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In the years ended December 31, 2016 and 2015, the consolidated positions of settled derivatives were as follows:

<b>Consolidated</b>	<b>Settlement value (accumulated on)</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Cash flow hedge</b>		
<b>Exchange hedge</b>		
Zero-cost collar (R\$ x US\$)	<b>10,805</b>	-
NDF (R\$ x US\$)	<b>(151,199)</b>	(267,586)
NDF (MXN x US\$)	<b>(52)</b>	-
NDF (ARS x US\$)	<b>17,069</b>	(3,329)
Exchange lock (US\$ x R\$)	<b>34,118</b>	-
<b>Subtotal</b>	<b>(89,259)</b>	(270,915)
<b>Commodity hedge</b>		
Pulp	<b>(475)</b>	(3,821)
Bunker (oil)	<b>902</b>	(4,602)
<b>Subtotal</b>	<b>427</b>	(8,423)
<b>Debt hedge</b>		
<b>Exchange hedge</b>		
Swap CDI x Fixed (US\$)	<b>24,726</b>	27,162
Swap Fixed (US\$) x CDI	<b>(69,039)</b>	-
Swap CDI x Libor (US\$)	<b>28,792</b>	-
<b>Subtotal</b>	<b>(15,521)</b>	27,162
<b>Interest hedge</b>		
Swap Libor x Fixed (US\$)	<b>(6,026)</b>	(9,695)
Swap Coupon x Fixed (US\$)	<b>14,774</b>	10,225
<b>Subtotal</b>	<b>8,748</b>	530
<b>Total result in derivatives</b>	<b>(95,605)</b>	(251,646)

<sup>(a)</sup> On December 31, 2016, proceeds from the sale of premiums on outstanding derivatives in the amount of R\$212,868 are not included in the above table.

**4.6 Capital management**

The main objective of Company's capital management is to ensure it maintains a solid credit rating, in addition to mitigating risks that may affect capital availability in business development.



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The Company monitors constantly significant indicators, such as: i) consolidated financial leverage index, which is the total net debt divided by adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (“EBITDA”); ii) management of contractual financial covenants, maintaining safety margin to not exceed these covenants. Management prioritizes new loans denominated in the same currency of its main cash generation source, in order to obtain a natural hedge in the long term for its cash flow. The Company manages its capital structure and makes adjustments based on changes in economic conditions.

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Loans and financing	<b>8,150,116</b>	10,002,341	<b>14,012,779</b>	14,917,342
(-) Cash and financial investments	<b>(2,862,354)</b>	(1,491,863)	<b>(3,695,312)</b>	(2,448,096)
Net debt	<b>5,287,762</b>	8,510,478	<b>10,317,467</b>	12,469,246
Shareholders' equity	<b>10,143,494</b>	9,192,081	<b>10,143,494</b>	9,192,081
Shareholders' equity and net debt	<b>15,431,256</b>	17,702,559	<b>20,460,961</b>	21,661,327

**4.7 Fair value hierarchy**

The financial instruments and other financial statement items assessed at fair value are presented in accordance with the levels defined below:

- Level 1 - Prices quoted (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than the prices quoted in active markets included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3 - Inputs for assets or liabilities that are not based on observable market variables (unobservable inputs).

Consolidated	12/31/2016			
	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	<b>1,614,697</b>	<b>793,196</b>	<b>821,501</b>	-
Financial investments	<b>2,080,615</b>	-	<b>2,080,615</b>	-
Derivatives receivable	<b>444,180</b>	-	<b>444,180</b>	-
Biological assets <sup>(a)</sup>	<b>4,072,528</b>	-	-	<b>4,072,528</b>
	<b>8,212,020</b>	<b>793,196</b>	<b>3,346,296</b>	<b>4,072,528</b>
<b>Liabilities</b>				
Loans and financing	<b>14,334,732</b>	-	<b>14,334,732</b>	-
Commitments related to asset acquisitions	<b>700,754</b>	-	<b>700,754</b>	-
Derivatives payable	<b>471,478</b>	-	<b>471,478</b>	-
	<b>15,506,964</b>	-	<b>15,506,964</b>	-

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Consolidated	12/31/2015			
	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	1,477,246	949,780	527,466	-
Financial investments	970,850	-	970,850	-
Derivatives receivable	195,393	-	195,311	82
Biological assets <sup>(a)</sup>	4,130,508	-	-	4,130,508
	<u>6,773,997</u>	<u>949,780</u>	<u>1,693,627</u>	<u>4,130,590</u>
<b>Liabilities</b>				
Loans and financing	15,627,331	-	15,627,331	-
Commitments related to asset acquisitions	636,504	-	636,504	-
Derivatives payable	635,131	-	626,372	8,759
	<u>16,898,966</u>	<u>-</u>	<u>16,890,207</u>	<u>8,759</u>

<sup>(a)</sup> Changes in fair value of biological assets and other details regarding assumptions used to measure such values are shown in Note 13.

### 4.8 Guarantees

On December 31, 2016, the Company had guarantees pegged to consolidated accounts receivable operations related to exports amounting to US\$274 million (equivalent to R\$893,435 on this date).

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	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash and banks				
In Brazil	4,758	18,724	5,308	19,950
Abroad	15,623	-	787,888	900,565
	<u>20,381</u>	<u>18,724</u>	<u>793,196</u>	<u>920,515</u>
Financial investments				
In Brazil	820,675	521,146	821,501	527,466
Abroad	-	29,265	-	29,265
	<u>820,675</u>	<u>550,411</u>	<u>821,501</u>	<u>556,731</u>
	<u><b>841,056</b></u>	<u>569,135</u>	<u><b>1,614,697</b></u>	<u>1,477,246</u>

Financial investments in local currency are low risk and correspond to investments indexed to the Interbank Deposit Certificate ("CDI"). On December 31, 2016 and 2015, yield rates ranged from 94% to 110% and from 97% to 110% of the CDI, respectively.

**6 Financial Investments**

	Average annual remuneration rate	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Investment funds</b>					
Itaú Investment Grade <sup>(a)</sup>	103.63%	638,710	572,468	667,463	606,221
Itaú Referenciado DI <sup>(a)</sup>	101.09%	682,528	243,711	713,092	258,080
Bradesco <sup>(b)</sup>	101.74%	132,027	-	132,027	-
		<u>1,453,265</u>	<u>816,179</u>	<u>1,512,582</u>	<u>864,301</u>
<b>Financial investments</b>					
Bank Deposit Certificates	101.99%	568,033	106,549	568,033	106,549
		<u>568,033</u>	<u>106,549</u>	<u>568,033</u>	<u>106,549</u>
		<u><b>2,021,298</b></u>	<u>922,728</u>	<u><b>2,080,615</b></u>	<u>970,850</u>

<sup>(a)</sup> On December 31, 2016, the Consolidated column includes interest of Futuragene Brasil (1.8% of quotas), Paineiras (1.8% of quotas), Ondurman and Amulya (0.85% of quotas summed) (December 31, 2015, 3.0% of quotas, 2.1% of quotas, and 0.5% of quotas summed, respectively) in market investment fund.

<sup>(b)</sup> On December 31, 2016, only Suzano holds interest in Market investment fund.

Investment funds invest in fixed income instruments, diversified between private institution bonds and government bonds. Investment portfolios are frequently monitored by the Company for the purpose of checking compliance with the investment policy, which seeks low risk and high liquidity of securities.

Investment funds operate with daily liquidity, have a conservative profile and are available for sale. The investment policy seeks to invest in prime financial institutions with

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high ratings to avoid counterparty credit risks. The Company uses the average ratings of two or more rating agencies for decision-making. Investments are distributed among financial institutions, thus avoiding concentration.

**7 Trade Receivables****7.1 Breakdown of balances**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Domestic clients				
Third parties	667,451	701,367	667,450	701,368
Subsidiaries	339	6	-	-
Related parties <sup>(a)</sup>	32,759	16,478	32,759	16,478
Foreign clients				
Third parties	35,116	26,096	958,979	1,209,368
Subsidiaries	2,378,067	2,822,481	-	-
Related parties <sup>(a)</sup>	-	-	-	3,770
Allowance for doubtful accounts	(35,309)	(44,587)	(37,017)	(45,024)
	<u>3,078,423</u>	<u>3,521,841</u>	<u>1,622,171</u>	<u>1,885,960</u>

<sup>(a)</sup> See Note 11.**7.2 Overdue securities**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Amounts overdue:				
Up to two months	46,415	31,460	69,778	66,967
Two to six months	14,095	22,048	29,838	24,749
Over six months	55,822	36,791	56,958	37,089
	<u>116,332</u>	<u>90,299</u>	<u>156,574</u>	<u>128,805</u>

**7.3 Changes in allowance for doubtful accounts**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Opening balance	(44,587)	(25,278)	(45,024)	(25,748)
Credits accrued in the period	(9,674)	(21,575)	(11,078)	(22,587)
Credits recovered in the period	1,573	267	1,573	1,162
Credits definitively written-off from position	17,379	1,999	17,379	1,999
Foreign exchange variation	-	-	133	150
Closing balance	<u>(35,309)</u>	<u>(44,587)</u>	<u>(37,017)</u>	<u>(45,024)</u>

The Company has guarantees for overdue securities in its commercial transactions, through credit insurance policies, letters of credit and collateral. Part of these guarantees is equivalent to the need to recognize an allowance for doubtful accounts, in accordance with the credit policy (Note 4.3).

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	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Finished goods				
Pulp				
Domestic	82,532	87,930	82,532	87,930
Foreign	-	-	263,681	341,856
Paper				
Domestic	210,326	168,382	210,326	168,382
Foreign	-	-	69,043	67,920
Work in process	57,708	45,616	57,708	45,616
Raw materials	427,783	404,975	427,783	404,975
Warehouse materials	161,946	163,248	173,855	173,805
Advances to suppliers	27,939	25,512	28,215	25,512
	<b>968,234</b>	<b>895,663</b>	<b>1,313,143</b>	<b>1,315,996</b>

On December 31, 2016 and 2015, inventories are net of provision for losses amounting to R\$28,206 and R\$42,466, respectively. Additions to and reversals of provision and direct write-offs are recognized under profit or loss, in cost of goods sold, amounting to R\$9,564 and R\$19,589 on December 31, 2016 and 2015, respectively.

No inventory items were given as collateral for or guarantee of liabilities for the periods presented.

**9 Recoverable taxes**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
IRPJ and CSLL - advances and withheld taxes	269,448	158,747	282,073	163,237
PIS and COFINS - on acquisition of fixed assets <sup>(a)</sup>	62,232	70,275	62,232	70,275
PIS and COFINS - other operations <sup>(b)</sup>	22,584	323,731	23,761	323,731
ICMS - on acquisition of fixed assets <sup>(a)</sup>	68,393	75,795	68,393	75,795
ICMS - other operations <sup>(b)</sup>	284,326	230,029	301,578	235,651
Other taxes and contributions <sup>(c)</sup>	44,916	169,207	48,658	169,315
Provision for losses of ICMS credits	(11,401)	(7,998)	(11,401)	(7,998)
	<b>740,498</b>	<b>1,019,786</b>	<b>775,294</b>	<b>1,030,006</b>
Total current assets	390,962	586,716	425,758	596,936
Total non-current assets	349,536	433,070	349,536	433,070

<sup>(a)</sup> Credits whose realization is linked to the depreciation period of the corresponding asset.

<sup>(b)</sup> Credits available for immediate usage. The Company is realizing the credits through transfers to third parties ("sale of credits"), after approval and clearance by the Ministry of Finance and through consumption in its paper operations in the local market, which have started and are in progress in the states of Bahia and Maranhão.

<sup>(c)</sup> On December 31, 2016 and 2015, includes the amount of R\$32,514 and R\$157,021, respectively, referring to credits of the Special Regime of Tax Refunds for Export Companies ("Reintegra").

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### **9.1 Corporate Income Tax (“IRPJ”) and Social Contribution on Net Income (“CSLL”)**

Represents IRPJ and CSLL credits relating to estimates overpaid in the current and previous year, as well as withholding income tax on redemption of financial investments for the year. The credits are adjusted for inflation at the Selic rate and used to offset other federal taxes due and withholding taxes payable.

### **9.2 Social integration program (“PIS”) and Contribution for social security financing (“COFINS”)**

The amounts refer substantially to the credits from inputs and services acquired for product manufacturing, the sale of which were not taxed upon billing, as they were exported, and on the acquisition of property, plant and equipment and services related to the Imperatriz/MA industrial unit, whose part of tax credit will be based on the depreciation term of these assets. The Company will realize these credits with debits deriving from business activities and through other federal tax carryforwards.

### **9.3 State value-added tax on goods and services (“ICMS”)**

On December 31, 2016, the credits of R\$74,713 and R\$178,623 of the Mucuri/BA and Imperatriz/MA units, respectively (R\$80,264 and R\$125,297, respectively, on December 31, 2015) were chiefly due to the non-utilization of credits in outflows of tax-exempted pulp and paper exports.

Suzano requested the Treasury Departments of Bahia and Maranhão to inspect and ratify these credits for their realization. The amounts of R\$50,791 in Bahia, which was negotiated in the market and will be transferred in installments to third parties, and R\$148,774 in Maranhão, which are under negotiation for transfer to interested third parties, are released and may also be used to offset ICMS (State VAT) under normal calculation, according to regulations of these states.

Suzano recorded a provision for the partial loss of these ICMS credits of Maranhão in the amount of R\$ 11,401 (December 31, 2015, provision amounted to R\$7,988).

## **10 Advance to suppliers**

### **10.1 Development Program**

The Development Program is a partnership system encouraging regional forest production whereby independent producers plant eucalyptus at their own farms in order to supply the agricultural product (timber) to Suzano. The purpose is to achieve the social and economic development of the regions where the Company operates.

Suzano supplies eucalyptus seedlings, subsidy in inputs and cash advances, the latter not being subject to measurement at present value as they will be preferably settled in exchange for goods. Furthermore, the Company supports producers by providing

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technical assistance in forest management; however, it does not have joint control over the decisions actually taken.

At the end of production cycles, the Company makes a contract-based offer to buy the agricultural products (wood) at market value, after deducting the subsidies granted earlier. However, the Company does not impede producers from selling their produce to other market players, provided the subsidies are repaid.

On December 31, 2016 and 2015, the balance of advances of funds and inputs for timber development amounted to R\$232,992 and R\$251,852, respectively, classified in the balance sheet according to the expected realization, among current and non-current liabilities.

**10.2 Advance for the purchase of finished product**

On December 31, 2016, the Company had paid advance for the purchase of finished product through its subsidiary Suzano Trading in the amount of US\$146 million (equivalent to R\$476,611).

**11 Related parties****11.1 Balances and transactions in the fiscal year ended December 31, 2016**

Transactions	Nature of the main operation	ASSETS		LIABILITIES		RESULT
		Current	Non-current	Current	Non-current	Income (expenses)
<b>With subsidiaries</b>						
Suzano Trading	Sale of pulp and paper	2,363,438 <sup>(b)</sup>	-	60,122 <sup>(a)</sup>	4,024,108 <sup>(a)</sup>	4,603,672 <sup>(b)</sup>
Suzano Europa	Shared expenses	232	-	-	-	237
Suzano Austria GmbH	Capital raising	2,417	-	44,381 <sup>(a)</sup>	1,604,151 <sup>(a)</sup>	(48,411)
Paineiras	Land lease	115	-	835	-	(4,545)
Paineiras Logística	Commissioning of road transport	-	-	7,018	-	(252,979)
Stenfar	Sale of paper	12,204 <sup>(b)</sup>	-	1,572	-	63,674 <sup>(b)</sup>
Ondurman	Land lease	-	-	-	-	(15,146)
Amulya	Land lease	-	-	-	-	(10,307)
		<b>2,378,406</b>	<b>-</b>	<b>113,928</b>	<b>5,628,259</b>	<b>4,336,195</b>
<b>With related parties</b>						
Suzano Holding S.A.	Guarantees and administrative expenses	1,000	-	31	-	(18,976)
IPLF Holding S.A.	Shared expenses	11	-	-	-	22
Central	Sale of paper	9,036 <sup>(b)</sup>	-	-	-	47,273 <sup>(b)</sup>
Nemonorte	Real-estate consulting services	-	-	-	-	(287)
Mabex	Aircraft services	-	-	-	-	(171)
Lazam - MDS	Insurance consulting and advisory services	-	-	-	-	(343)
Bexma	Administrative expenses	12	-	-	-	13
Ecofuturo	Social services	-	-	400	-	(4,499)
Ibema	Sale of pulp	22,441 <sup>(b)</sup>	13,000	7,591	-	71,878 <sup>(b)</sup>
Futuragene	Shared expenses	259	-	-	-	265
		<b>32,759</b>	<b>13,000</b>	<b>8,022</b>	<b>-</b>	<b>95,176</b>
		<b>2,411,165</b>	<b>13,000</b>	<b>121,950</b>	<b>5,628,259</b>	<b>4,431,371</b>

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Transactions	Nature of the main operation	ASSETS		LIABILITIES		RESULT
		Current	Current	Non-current	Income (expenses)	
<b>With subsidiaries</b>						
Suzano Trading	Sale of pulp and paper	2,786,432 <sup>(b)</sup>	72,033 <sup>(a)</sup>	4,821,230 <sup>(a)</sup>		5,202,095
Paineiras	Land lease	-	417	-		(5,078)
Paineiras Logística	Commissioning of road transport	14,100	29,928	-		(226,316)
Stenfar	Sale of paper	36,049 <sup>(b)</sup>	7,574	-		84,219
Ondurman	Land lease	-	-	-		(14,009)
Amulya	Land lease	-	-	-		(9,953)
Futuragene	Shared expenses	6 <sup>(d)</sup>	-	-		39
		<b>2,836,587</b>	<b>109,952</b>	<b>4,821,230</b>		<b>5,030,997</b>
<b>With related parties</b>						
Suzano Holding S.A.	Guarantees and administrative expenses	15	345	-		(27,100)
IPLF Holding S.A.	Shared expenses	2	-	-		23
Central	Sale of paper	16,461 <sup>(b)</sup>	15,493 <sup>(c)</sup>	-		47,928
Nemonorte	Real-estate consulting services	-	-	-		(320)
Mabex	Aircraft services	-	-	-		(277)
Lazam - MDS	Insurance consulting and advisory services	-	-	-		(342)
Ecofuturo	Social services	-	-	-		(3,642)
Bexma	Administrative expenses	-	-	-		39
		<b>16,478</b>	<b>15,838</b>	<b>-</b>		<b>16,309</b>
<b>Between related parties</b>						
Stenfar	Shared expenses	3,770	-	-		523
IPLF Holding S.A.	Shared expenses	-	3,770	-		(523)
		<b>3,770</b>	<b>3,770</b>	<b>-</b>		<b>-</b>
		<b>2,856,835</b>	<b>129,560</b>	<b>4,821,230</b>		<b>5,047,306</b>

(a) New loans through subsidiaries (Note 17, items (f) and (g)).

(b) Pulp and paper sales operations;

(c) Vendor operations classified as loans and financing (Note 17)

(d) Includes expenses with telephone calls and facilities and administrative expenses.

**Legend of company names:**

Bexma Comercial Ltda. ("Bexma")

Central Distribuidora de Papéis Ltda. ("Central")

Instituto Ecofuturo - Futuro para o Desenvolvimento Sustentável ("Ecofuturo")

Lazam MDS Corretora e Adm. Seguros S.A. ("Lazam-MDS")

Mabex Representações e Participações Ltda. ("Mabex")

Nemonorte Imóveis e Participações Ltda. ("Nemonorte")

Transactions with subsidiaries and related parties are recorded under the following items in the balance sheet:



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	Note	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Balance receivable</b>					
Trade receivables	7	2.411.165	2.838.967	32.759	20.248
Receivables from subsidiaries - current		-	14.100	-	-
Receivables from other related parties - non-current		13.000	-	13.000	-
		<u>2.424.165</u>	<u>2.853.067</u>	<u>45.759</u>	<u>20.248</u>
<b>Balance payable</b>					
Loans and financing	17	31	15.838	31	15.838
Trade payables		7.991	-	7.991	-
Payables to related parties - current		113.928	109.952	-	-
Payables to related parties - non-current		5.628.259	4.821.230	-	-
		<u>5.750.209</u>	<u>4.947.020</u>	<u>8.022</u>	<u>15.838</u>
		<u>(3.326.044)</u>	<u>(2.093.953)</u>	<u>37.737</u>	<u>4.410</u>

**11.3 Management compensation**

On December 31, 2016 and 2015, expenses related to the compensation of key management personnel, which include the Board of Directors, Fiscal Council and Board of Executive Officers, in addition to certain executives, recognized in the statement of income for the years, amounted to R\$72,094 and R\$86,685, respectively.

	Parent Company and Consolidated	
	12/31/2016	12/31/2015
<b>Short-term benefits</b>		
Salary or compensation	20.593	20.183
Direct and indirect benefits	1.997	2.802
Bonus	20.181	18.591
	<u>42.771</u>	<u>41.576</u>
<b>Long-term benefits</b>		
Share-based payments	29.323	45.109
	<u>29.323</u>	<u>45.109</u>
<b>Total</b>	<u>72.094</u>	<u>86.685</u>

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Short-term benefits include fixed compensation (salaries and fees, vacation, mandatory “13<sup>th</sup> salary” bonus), and payroll charges (company share of contributions to social security - INSS) and variable compensation such as profit sharing, bonus and benefits (company car, health plan, meal voucher, grocery voucher, life insurance and private pension plan).

Long-term benefits include the stock option plan and phantom shares for executives and key Management members, in accordance with the specific regulations (see Note 21).

**12 Deferred income and social contribution taxes**

The Company, based on expected generation of future taxable income as determined by a technical study approved by Management, recognized deferred tax assets over temporary differences, income and social contribution tax loss carryforwards, which do not expire.

Deferred income and social contribution taxes are originated as follows:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Tax losses	690,186	743,526	694,810	746,109
Social contribution tax loss carryforward	81,199	153,973	81,199	153,973
Provision for tax, civil and labor contingencies	78,610	64,633	78,610	64,633
Operating provisions and provisions for other losses	180,733	185,745	180,733	185,745
Provision for non-recovery of goodwill <sup>(a)</sup>	158,921	158,921	158,921	158,921
Biological assets - fair value	18,895	-	18,895	-
Losses with derivatives	156,804	187,454	156,804	187,454
Other temporary differences	94,380	171,267	94,380	171,267
<b>Non-current assets</b>	<b>1,459,728</b>	<b>1,665,519</b>	<b>1,464,352</b>	<b>1,668,102</b>
Goodwill – Tax offset on goodwill not amortized in books	162,671	159,574	162,671	159,574
Property, plant and equipment - deemed cost adjustment	1,530,027	1,545,233	1,608,733	1,666,491
Biological assets - fair value	-	231,746	-	231,746
Incentivized accelerated depreciation	1,100,239	604,209	1,100,239	604,209
Gains with derivatives	143,459	38,515	143,459	38,515
Other temporary differences	3,722	2,873	3,722	2,873
<b>Non-current liabilities</b>	<b>2,940,118</b>	<b>2,582,150</b>	<b>3,018,824</b>	<b>2,703,408</b>
<b>Total non-current assets, net</b>	<b>-</b>	<b>-</b>	<b>4,624</b>	<b>2,583</b>
<b>Total non-current liabilities, net</b>	<b>1,480,390</b>	<b>916,631</b>	<b>1,559,096</b>	<b>1,037,889</b>

<sup>(a)</sup> In the transition to international accounting standards, the Company assigned a new cost (Deemed Cost) to certain classes of property, plant and equipment of Consórcio Paulista de Papel e Celulose (Conpacel). It also applied CPC 1 (R1) - Impairment of Assets on this investment and recorded a provision for losses on the residual value of existing goodwill.

Except for tax losses, the social contribution tax loss carryforwards and accelerated incentivized depreciation, which is obtained only through IRPJ, the other taxable income was obtained by both taxes.

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The breakdown of accumulated tax losses and social contribution tax loss carryforwards is shown below:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Tax losses	2,760,745	2,974,104	2,779,241	2,984,436
Social contribution tax loss carryforward	902,216	1,710,812	902,216	1,710,812

**12.1 Reconciliation of the effects of income tax and social contribution on profit or loss**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Income (Loss) before income and social contribution taxes	2,444,916	(1,377,573)	2,418,193	(1,358,521)
Income and social contribution taxes at the nominal rate of 34%	(831,271)	468,375	(822,186)	461,897
<b>Adjustment for accounting of tax rate:</b>				
Tax effects of Law 11,941/09 and IFRS	4,749	480	-	-
Taxation on profit of subsidiaries abroad	(7,880)	(10,767)	(7,880)	(10,767)
Tax incentive - Reduction SUDENE <sup>(a)</sup>	124,085	-	124,085	-
Income and social contribution taxes on the result of equity interest	(13,288)	(13,150)	2,422	-
Profit or loss taxed at effective rates that differ from nominal rate	-	-	20,327	(12,574)
Reintegra credit	1,812	25,432	1,812	25,432
Taxation on interest on transactions with subsidiaries "Thin Cap" - IN SFRB 1.154/2011	(20,135)	(19,685)	(20,135)	(19,685)
Other	(10,988)	1,533	(24,640)	(11,137)
<b>Income tax</b>				
Current	(180)	-	(16,502)	(17,688)
Deferred	(520,046)	330,630	(486,426)	330,630
	(520,226)	330,630	(502,928)	312,942
<b>Social Contribution</b>				
Current	(170,476)	-	(172,315)	(1,364)
Deferred	(62,216)	121,589	(50,952)	121,589
	(232,692)	121,589	(223,267)	120,225
Income and social contribution taxes (expenses)/income recorded as profit or loss in the years	(752,918)	452,219	(726,195)	433,167
<i>Effective rate of income and social contribution taxes recorded as profit or loss</i>	30.8%	32.8%	30.0%	31.9%

(a) The Company used the benefit of reducing 75% calculated based on Exploration Profit of Mucuri/BA and Imperatriz/MA units.

Deferred income tax expense in the period is composed of: i) use of tax benefit of Stimulated Accelerated Depreciation ("DAI"), with deferred income tax totaling R\$496,030 and ii) tax credits on use of tax losses and on temporary differences amounting to R\$78,533.

Deferred social contribution expenses are composed of: i) realization of tax credits on tax loss carryforwards amounting to R\$72,499; and ii) realization of tax credits on temporary differences amounting to R\$9,343.

**12.2 Tax incentives**

The industrial units at Mucuri/BA and Imperatriz/MA are located in an area under the supervision of SUDENE, the agency for the development of northeast Brazil, and are benefitted by tax incentives for a 75% reduction in the income tax on the exploration profit and the Stimulated Accelerated Depreciation ("DAI").

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For Mucuri/BA unit, Lines 1 and 2 have tax benefit for 75% of income tax on the exploration profit up to the calendar years 2024 and 2018, respectively. Imperatriz unit is benefitted from tax incentive until 2024. This tax incentive is calculated in profit or loss of stimulated operations calculated based on the exploration profit. The result obtained from this tax benefit is the reduction in income tax expense. The amount reduced from income tax is allocated to the capital reserve account, pursuant to law.

The benefit of DAI represents the deferred payment of Income Tax (“IRPJ”) and is not applicable to Social Contribution on net Income (“CSLL”). This tax benefit is controlled in the part “B” of Tax Accounting Records (“ECF”) and hence does not affect depreciation expenses recorded for such assets in subsequent years.

At the Mucuri/BA unit, full depreciation of property, plant and equipment acquired for Line 2 took place with the operational start-up of the Line. For other items of property, plant and equipment of the units of Bahia and Maranhão, the tax incentive obtained, which applied to acquisitions taking place until December 2018, may be exercised up to 4 years after acquisition of the asset.

**13 Biological assets**

	<u>Parent Company</u>	<u>Consolidated</u>
Balances on December 31, 2014	3,743,131	3,659,421
Additions <sup>(a)</sup>	1,135,766	1,115,320
Depletion for the year	(602,418)	(602,418)
Gain on adjustment to fair value	23,145	23,145
Disposals <sup>(b)</sup>	(18,303)	(18,303)
Other write-offs <sup>(c)</sup>	(46,657)	(46,657)
Balances on December 31, 2015	<u>4,234,664</u>	<u>4,130,508</u>
<b>Additions <sup>(a)</sup></b>	<b>1,448,397</b>	<b>1,426,699</b>
<b>Depletion for the period</b>	<b>(565,331)</b>	<b>(565,331)</b>
<b>Loss from adjustment to fair value <sup>(d)</sup></b>	<b>(780,666)</b>	<b>(780,666)</b>
<b>Disposals <sup>(b)</sup></b>	<b>(24,341)</b>	<b>(24,341)</b>
<b>Other write-offs <sup>(c)</sup></b>	<b>(114,341)</b>	<b>(114,341)</b>
<b>Balances on December 31, 2016</b>	<b><u>4,198,382</u></b>	<b><u>4,072,528</u></b>

<sup>(a)</sup> Additions - On December 31, 2016 and 2015, leased land costs incurred with subsidiaries in the amount of R\$21,789 and R\$20,446, respectively, were excluded from the consolidated statements;

<sup>(b)</sup> Sales - On December 31, 2016 and 2015, the amounts refer to transactions related to the sale of eucalyptus forests in the year;

<sup>(c)</sup> Other write-offs - represent forest losses arising from fires, plagues, plantation abandonment due to water deficit and/or other causes related to forest formation. On December 31, 2016, Suzano recognized losses from fires, mainly in the regions of Urbano Santos in the state of Maranhão and in the region of Teresina in the state of Piauí;

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<sup>(d)</sup> Adjustment to fair value restatement - The loss recorded is mainly composed of reduction of IMA in the regions of Piauí and Maranhão, reduction in the average market price of wood in São Paulo, and other economic effects and operating forest turnover.

The Company's biological assets are mainly made of eucalyptus forest for reforestation used to supply wood to pulp and paper mills and are located in the states of São Paulo, Bahia, Maranhão, Minas Gerais, Pará and Tocantins. Permanent preservation and legal reserve areas were not included in the calculation of fair value of the forests as they are not intended for supplying wood to the mills.

The fair value of eucalyptus forests is determined annually through the income approach method by using the Discounted Cash Flow method.

The assumptions used in determining the fair value of biological assets were:

- i) average cycle of forest formation of 7 years;
- ii) forests are measured at their fair value as of the plantation year;
- iii) mean annual increment - IMA consists of the volume of production of wood with bark estimated in m<sup>3</sup> per hectare at the end of the formation cycle, ascertained based on the genetic material used in each region, forestry practices and forest management, production potential, climate factors and soil conditions;
- iv) the estimated average standard cost per hectare includes expenses on forestry and forest management each year of formation of the biological cycle of the forests, net of recoverable taxes. The cost of leased land and the cost of assets that contribute (own land) based on the average of lease agreements existing in the same regions;
- v) the average eucalyptus sale prices were based on specialized research in each region and/or on transactions made by the Company with third parties, affected by the average distance from the forests to the mills less costs needed for having the product in sale and consumption conditions;
- vi) discount rate used in cash flows is calculated based on capital structure and other economic assumptions for the business of selling timber, taking into consideration the tax benefits.

The pricing model considers net cash flows, after deduction of taxes on profit at the applicable rates.

Main assumptions for calculation of fair value of the biological assets:

<b>Assumptions Used</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Planted useful area (hectare)	<b>450.474</b>	431.677
Mature assets	<b>84.084</b>	56.863
Immature assets	<b>366.390</b>	374.814
Weighted average IMA - (m <sup>3</sup> /hectare/year)	<b>33,8</b>	36,5
Average eucalyptus sale price - R\$/m <sup>3</sup>	<b>53,45</b>	56,36
Utilization cost of Company's assets that contribute - %	<b>5%</b>	5%
Discount rate - %	<b>10,54%</b>	10,39%

The Company manages the financial risks related to agricultural activities in a preventive manner. To reduce risks from edaphoclimatic factors, the weather is

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monitored through meteorological stations and, in the event of pests and diseases, our Department of Forestry Research and Development, an area that specializes in physiological and phytosanitary aspects of the Company, has procedures to diagnose and act rapidly against any occurrences and losses.

The Company does not have any type of government incentive related to biological assets, or biological assets given as collateral on the dates of these financial statements.

### **Sensitivity analysis**

The calculation of fair value of the biological assets falls under Level 3 in the hierarchy set forth in CPC 46 (equivalent to IFRS 13) - Measurement of Fair Value, due to the complexity and structure of calculation.

The main assumptions, MAI and Average Price are the most sensitive, given that any increase in these assumptions causes significant gains and any reduction thereof causes significant negative impacts on fair value measurement.

Forest assets acquired on December 8, 2016, as mentioned in Note 1.1 a), item i), were not included in the calculation for restatement of the fair value of Biological Assets on December 31, 2016. This is because Management understood that they were traded at their fair value as the transaction was made between unrelated parties and at normal market conditions for this kind of transaction. Furthermore, the interval between the acquisition date and the reference date for calculation of the fair value is not big enough to cause relevant changes in the characteristics of the assets and in market conditions. The areas acquired were not included in the assumptions used for restating the fair value of the biological assets of 2016.

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Subsidiaries	Information on Subsidiaries on 12/31/2016					Equity Accounting		Investments and (Provision) for Investment Losses	
	Equity Interest %	Balance sheet			Result in the year ended 12/31/2016	12/31/2016	12/31/2015	12/31/2016	12/31/2015
		Assets	Current and Non-Current Liabilities	Adjusted Equity					
<b>Subsidiaries and joint ventures</b>									
Amulya	100%	33.040	48.218	(15.178)	(27.737)	(27.736)	3.095	(15.178)	12.557
Asapir	50%	13.784	9.700	4.084	1.498	747	691	2.042	1.293
Suzano Austria	100%	1.651.576	1.653.663	(2.087)	(2.148)	(2.148)	(70)	(2.087)	63
Onduman	(a) 100%	86.273	54.988	(66.710)	7.407	(9.284)	(9.518)	(66.710)	(57.427)
Paineiras	(a) 100%	283.493	79.389	172.604	(76.690)	(81.698)	(1.526)	172.605	255.559
Paineiras Logística	100%	13.350	11.412	1.938	(6.502)	(6.502)	(3.819)	1.938	4.440
Stenfar	(a) 90%	70.155	41.110	22.779	6.747	10.053	585	19.872	20.717
Sun Paper	100%	5.259	724	4.535	246	246	149	4.535	6.214
Suzano America	(a) 100%	328.335	287.262	(19.554)	3.404	42.374	(50.964)	(19.554)	(54.180)
Suzano Europa	(a) 100%	2.699.850	2.640.832	1.416	8.275	162.292	(147.691)	1.416	(148.429)
Suzano Trading	(a) 100%	6.722.407	6.692.577	29.802	54.970	86.219	(97.136)	29.802	(44.923)
Ibema	38%	321.581	330.716	(9.135)	(17.132)	(7.127)	-	873	-
						167.436	(306.204)	129.554	(4.116)
<b>Total investments</b>								233.083	300.843
<b>Total provisions for losses</b>								(103.529)	(304.959)
<b>Total net investments</b>								129.554	(4.116)
<b>Indirect subsidiaries</b>									
Futuragene	100%	62.755	36.213	26.542	(7.441)	(7.441)	(29.356)	26.542	36.310
Stenfar	(a) 10%	70.155	41.110	22.779	6.747	675	478	2.908	3.440
						(6.766)	(28.878)	29.450	39.750

- (a) The adjusted shareholders' equity of these subsidiaries considers the elimination of the unrealized profits.

**14.1 Changes in investments**

	<u>Parent Company</u>
Investment on December 31, 2014	247,740
Equity accounting	(306,204)
Exchange variations in investees <sup>(a)</sup>	39,120
Capital increase	8,550
Share acquisition	6,679
Investment on December 31, 2015	<u>(4,116)</u>
<b>Equity accounting</b>	<b>167,436</b>
<b>Exchange variations in investees <sup>(a)</sup></b>	<b>(45,720)</b>
<b>Capital increase <sup>(b)</sup></b>	<b>4,000</b>
<b>Share acquisition <sup>(c)</sup></b>	<b>8,000</b>
<b>Capital decrease <sup>(d)</sup></b>	<b>(47)</b>
<b>Investment on December 31, 2016</b>	<b><u>129,554</u></b>

- (a) Includes exchange variation on translation of financial statements and foreign investments.  
(b) During the first six months of 2016, the Company increased capital stock in the amount of R\$4,000 in the subsidiary Paineiras Logística.  
(c) See Note 1.1 b) item i).  
(d) During the last six months of 2016, the Company decreased capital stock in the amount of R\$47 in Paineiras Comercial.

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On January 4, 2016, after all conditions were met and approvals from all regulatory agencies were obtained, the operation with Ibema was concluded.

The transaction was aligned with the Company's strategy of pursuing structural competitiveness and consisted of transferring to Ibema Suzano's paperboard mill located in Embu, São Paulo, for R\$50,000, whose net book value was recorded under "Assets Held for Sale" on December 31, 2015 and was paid through the assumption by Ibema of debts of the same amount owned by Suzano. Furthermore, Suzano injected R\$8,000 in the company, obtaining an initial share ownership of 38%, which will reach 49.9% when the subsequent corporate acts are fulfilled.

The following intangible assets were identified in the transaction: Client Portfolio and Brand. Net assets involved in the joint venture, recorded at their fair value on the acquisition date, are shown below:

Fair value recognized upon acquisition			
			In thousands of reais (R\$)
			12/31/2015
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>120,310</b>	<b>Current liabilities</b>	<b>190,819</b>
Cash and cash equivalents	16,243	Trade payables	62,528
Inventories	23,959	Loans	104,867
Securities	24,870	Payroll and charges	4,859
Trade receivables	54,866	Deferred taxes	13,155
Recoverable taxes and contributions	372	Tax liabilities	901
		Other payables	4,509
<b>Non-current assets</b>	<b>205,311</b>	<b>Non-current liabilities</b>	<b>119,020</b>
Recoverable taxes and contributions	10,060	Other payables	8,986
Judicial deposits	262	Loans	85,328
Other non-current assets	429	Deferred taxes	23,697
Property, plant and equipment	177,460	Contingencies	1,009
Intangible assets	17,100		
		<b>Total identifiable assets, net</b>	<b>15,782</b>
<b>Total assets</b>	<b>325,621</b>	<b>Total liabilities</b>	<b>325,621</b>

The net assets involved in transactions valued based on their fair values are stated as follows:



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	<u>100%</u>	<u>49,9%</u>
	<u>R\$</u>	<u>R\$</u>
Total assets at fair value, net	15.782	7.875
Total consideration transferred	-	8.000
<b>Goodwill upon acquisition</b>	<u>15.782</u>	<u>125</u>

The net assets were valued by external appraisers engaged by the Company to determine their fair values.

The goodwill calculated, corresponding to R\$125 (1.6%) of the consideration transferred, is attributable mainly to the operating synergies.

**15 Property, Plant and Equipment**

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Other assets</u>	<u>Land and farms</u>	<u>Work in progress</u>	<u>Parent Company Total property, plant and equipment</u>
<b>Annual average depreciation rate</b>	<b>3,91%</b>	<b>5,30%</b>	<b>17,67%</b>	-	-	-
<b>Cost</b>						
Balances on December 31, 2014	2.525.758	14.639.844	230.797	3.822.859	402.977	21.622.235
Transfers	117.120	410.183	33.512	9.943	(570.758)	-
Transfers between other assets	(17.266)	(77.066)	(1.903)	(1.291)	(15.377)	(112.903)
Additions	(200)	118.709	12.643	-	392.734	523.886
Write-offs	(1.100)	(34.400)	(1.539)	(12.196)	-	(49.235)
Interest capitalization	-	-	-	-	6.930	6.930
Balance on December 31, 2015	2.624.312	15.057.270	273.510	3.819.315	216.506	21.990.913
<b>Transfers</b>	<b>59.153</b>	<b>278.749</b>	<b>17.609</b>	<b>229.269</b>	<b>(584.780)</b>	<b>-</b>
Transfers between other assets	-	32.593	-	-	(27.577)	5.016
Additions	-	87.392	11.099	-	783.074	881.565
Write-offs	(1.774)	(120.191)	(12.787)	(4.159)	-	(138.911)
Provision for losses (impairment)	-	-	-	(36.080)	-	(36.080)
Interest capitalization	-	-	-	-	3.448	3.448
<b>Balances on December 31, 2016</b>	<b>2.681.691</b>	<b>15.335.813</b>	<b>289.431</b>	<b>4.008.345</b>	<b>390.671</b> <sup>(c)</sup>	<b>22.705.951</b>
<b>Depreciation</b>						
Balance on December 31, 2014	(609.553)	(4.710.743)	(145.310)	-	-	(5.465.606)
Transfers between other assets	10.031	65.328	2.590	-	-	77.949
Write-offs	965	25.138	984	-	-	27.087
Depreciation	(86.327)	(706.703)	(19.661)	-	-	(812.691)
Balance on December 31, 2015	(684.884)	(5.326.980)	(161.397)	-	-	(6.173.261)
<b>Transfers</b>	<b>(41)</b>	<b>1.830</b>	<b>(1.789)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Write-offs	759	111.525	12.552	-	-	124.836
Depreciation	(77.558)	(690.699)	(25.070)	-	-	(793.327)
<b>Balance on December 31, 2016</b>	<b>(761.724)</b>	<b>(5.904.324)</b>	<b>(175.704)</b>	<b>-</b>	<b>-</b>	<b>(6.841.752)</b>
<b>Residual value</b>						
<b>Balance on December 31, 2016</b>	<b>1.919.967</b>	<b>9.431.489</b>	<b>113.727</b>	<b>4.008.345</b>	<b>390.671</b> <sup>(c)</sup>	<b>15.864.199</b>
Balance on December 31, 2015	1.939.428	9.730.290	112.113	3.819.315	216.506	15.817.652

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	Buildings	Machinery and equipment	Other assets	Land and farms	Work in progress	Consolidated Total property, plant and equipment
<b>Annual average depreciation rate</b>	<b>3,91%</b>	<b>5,30%</b>	<b>17,67%</b>	-	-	-
<b>Cost</b>						
Balances on December 31, 2014	2.527.065	14.646.051	239.455	4.338.167	402.977	22.153.715
Transfers	117.792	411.720	32.418	10.429	(572.359)	-
Transfers between other assets	(17.266)	(77.066)	(1.903)	(1.291)	(15.376)	(112.902)
Additions	(21)	119.554	15.058	975	394.334	529.900
Write-offs	(1.100)	(34.401)	(1.734)	(12.196)	-	(49.431)
Interest capitalization	-	-	-	-	6.930	6.930
Balances on December 31, 2015	2.626.470	15.065.858	283.294	4.336.084	216.506	22.528.212
<b>Transfers</b>	<b>59.153</b>	<b>278.749</b>	<b>17.609</b>	<b>229.269</b>	<b>(584.780)</b>	<b>-</b>
<b>Transfers between other assets</b>	<b>-</b>	<b>32.593</b>	<b>-</b>	<b>-</b>	<b>(27.577)</b>	<b>5.016</b>
<b>Additions</b>	<b>(22)</b>	<b>88.561</b>	<b>11.018</b>	<b>(80)</b>	<b>783.074</b>	<b>882.551</b>
<b>Write-offs</b>	<b>(1.774)</b>	<b>(120.191)</b>	<b>(12.790)</b>	<b>(4.159)</b>	<b>-</b>	<b>(138.914)</b>
<b>Provision for losses (impairment)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(192.538)</b>	<b>-</b>	<b>(192.538)</b>
<b>Interest capitalization</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.448</b>	<b>3.448</b>
<b>Balances on December 31, 2016</b>	<b>2.683.827</b>	<b>15.345.570</b>	<b>299.131</b>	<b>4.368.577</b>	<b>390.671</b> <sup>(c)</sup>	<b>23.087.775</b>
<b>Depreciation</b>						
Balances on December 31, 2014	(610.208)	(4.713.702)	(148.552)	-	-	(5.472.462)
Transfers between other assets	10.031	65.328	2.590	-	-	77.949
Write-offs	965	25.138	1.142	-	-	27.245
Depreciation	(86.469)	(707.510)	(20.731)	-	-	(814.710)
Balances on December 31, 2015	(685.681)	(5.330.746)	(165.551)	-	-	(6.181.978)
<b>Transfers</b>	<b>(41)</b>	<b>1.830</b>	<b>(1.789)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Write-offs</b>	<b>759</b>	<b>111.525</b>	<b>12.552</b>	<b>-</b>	<b>-</b>	<b>124.836</b>
<b>Depreciation</b>	<b>(77.723)</b>	<b>(691.552)</b>	<b>(26.078)</b>	<b>-</b>	<b>-</b>	<b>(795.353)</b>
<b>Balances on December 31, 2016</b>	<b>(762.686)</b>	<b>(5.908.943)</b>	<b>(180.866)</b>	<b>-</b>	<b>-</b>	<b>(6.852.495)</b>
<b>Residual value</b>						
<b>Balances on December 31, 2016</b>	<b>1.921.141</b>	<b>9.436.627</b>	<b>118.265</b>	<b>4.368.577</b>	<b>390.671</b> <sup>(c)</sup>	<b>16.235.280</b>
Balances on December 31, 2015	1.940.789	9.735.112	117.743	4.336.084	216.506	16.346.234

(a) In addition to disposals, write-offs include obsolescence and scrapping.

(b) Includes transfers between the lines of inventory, intangible assets and assets held for sale.

(c) The balance of Construction in Progress comes from investments made in line with its strategy to maximize return for shareholders, and are broken down as follows: i) adjacent business - R\$143,677; ii) structural competitiveness - R\$187.626; and iii) other investments - R\$59.368.

Machinery and equipment include amounts recognized as financial leasing outlined in Note 18.1.

On December 31, 2016, the Company reviewed the fair value of its assets. However, except for some rural land in the regions of Urbano Santos and Imperatriz in Maranhão and in the region of Teresina in Piauí, the Company did not identify any other event that implied impairment of its assets. To evaluate rural land, the Company hired an independent valuation expert, who issued a valuation report in accordance with guidelines established by the Brazilian Association of Technical Standards (ABNT) and CPC 01 - Asset Impairment, and found losses in these assets of R\$36,080 in the Subsidiary and of R\$192,538 in the Consolidated. Loss at subsidiary Paineiras Comercial in the amount of R\$125,153 represents the partial realization of the deemed cost adjustment made at the time of adoption of IFRS on January 1, 2009.

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### 15.1 Assets given as collateral

On December 31, 2016, the Company and its subsidiaries had property, plant and equipment given as collateral in loan operations and lawsuits amounting to R\$11,155,204 (R\$10,932,132 on December 31, 2015).

### 15.2 Capitalized expenses

During 2016, interests were capitalized in the amount of R\$3,448 referring to the investments in adjacent business and structural competitiveness (December 31, 2015 the amount of R\$6,930 referring to the investments in structural competitiveness).

## 16 Intangible Assets

### 16.1 Goodwill

Suzano calculated goodwill on acquisition of Vale Florestar, an already merged investment, and on Paineiras Logística, in the amounts of R\$45,435 and R\$10, respectively.

The goodwill on Vale Florestar is mainly attributable to operating synergies related to forest management of areas assumed through land lease agreements for up to 3 cycles (21 years).

### 16.2 Intangible assets with determined useful life

						Consolidated	Parent Company
	Customer relationship	Trademarks and patents	Software	R&D Agreements	Other	Total	Total
Useful life (years)	5	10	5	18.8	11.8		
Acquisition cost	22,617	1,176	82,237	309,711	8,129	423,883	107,226
Accumulated amortization	(21,863)	(829)	(31,864)	(82,026)	(3,108)	(139,703)	(54,556)
<b>Balances on December 31, 2015</b>	<b>754</b>	<b>347</b>	<b>50,373</b>	<b>227,685</b>	<b>5,021</b>	<b>284,180</b>	<b>52,670</b>
Acquisitions	-	-	11,640	-	-	11,640	11,604
Foreign currency translation adjustment	-	-	-	(38,318)	(256)	(38,574)	-
Amortization	(754)	(91)	(17,669)	(12,950)	(387)	(31,851)	(18,513)
Write-offs	-	-	(277)	(75,370) <sup>(a)</sup>	(3,182) <sup>(a)</sup>	(78,829)	(277)
Transfers and others	-	459	27,118	-	-	27,577	27,577
<b>Book balance</b>	<b>-</b>	<b>715</b>	<b>71,185</b>	<b>101,047</b>	<b>1,196</b>	<b>174,143</b>	<b>73,060</b>
Acquisition cost	22,617	1,635	120,718	196,023	4,691	345,697	146,129
Accumulated amortization	(22,617)	(920)	(49,533)	(94,976)	(3,495)	(171,554)	(73,069)
<b>Balances on December 31, 2016</b>	<b>-</b>	<b>715</b>	<b>71,185</b>	<b>101,047</b>	<b>1,196</b>	<b>174,143</b>	<b>73,060</b>

(a) Write-off of contracts for research and biotechnological development of plants executed with independent companies and recognized in the acquisition of subsidiary FuturaGene Ltd. The intangible asset related to these contracts, with fixed useful life, was written off following a joint decision of the parties to discontinue ongoing research for strategic reasons.

(b) The amounts recorded in the Subsidiary on December 31, 2016 are mainly formed by software investments.

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### 17 Loans and Financing

	Index	Annual average interest rate on 12/31/2016	Maturity	Parent Company		Consolidated		
				12/31/2016	12/31/2015	12/31/2016	12/31/2015	
Property, plant and equipment:								
BNDES - Finem	(a) (b)	Fixed rate /TJLP	8.92%	2017 a 2026	1,068,482	1,335,246	1,096,648	1,353,777
BNDES - Finem	(b)	Currency basket / US\$	6.41%	2017 a 2023	490,718	675,576	490,718	675,576
BNDES - Finame	(a)	Fixed rate /TJLP	4.27%	2017 a 2024	18,548	21,982	18,548	21,982
FNE - BNB	(b)	Fixed rate	5.21%	2017 a 2024	218,937	200,794	218,937	200,794
FINEP	(b)	Fixed rate	4.15%	2017 a 2020	35,263	49,948	35,263	49,948
Rural credit		Fixed rate			-	112,424	-	112,424
Financial lease		CDI / US\$		2017 a 2022	23,632	32,619	23,632	32,619
Export Credit Agency - ECA	(b) (c)	US\$	2.89%	2017 a 2022	1,078,696	1,571,288	1,078,696	1,571,288
					<b>2,934,276</b>	<b>3,999,877</b>	<b>2,962,442</b>	<b>4,018,408</b>
Working capital:								
Export financing	(d)	US\$	4.73%	2017 a 2022	1,940,764	2,501,592	1,940,764	2,501,592
Export credit note	(e)	CDI / Fixed rate	13.63%	2017 a 2026	3,242,035	3,077,244	3,242,035	3,077,244
Senior Notes	(f)	US\$ / Fixed rate	5.82%	2021 a 2026	-	-	3,787,755	2,553,535
Trade notes discount-Vendor				2017	32,957	38,470	32,957	38,470
Bank Credit Note-CCB		CDI			-	178,271	-	178,271
Syndicated Loan	(g)	Libor	3.01%	2018 a 2020	-	-	1,950,463	2,329,362
Confirming operations					-	206,454	-	206,454
Other				2017	84	433	96,363	14,006
					<b>5,215,840</b>	<b>6,002,464</b>	<b>11,050,337</b>	<b>10,898,934</b>
					<b>8,150,116</b>	<b>10,002,341</b>	<b>14,012,779</b>	<b>14,917,342</b>
<b>Current (including interest payable)</b>					<b>1,393,446</b>	<b>1,939,391</b>	<b>1,594,720</b>	<b>2,024,964</b>
<b>Non-current</b>					<b>6,756,670</b>	<b>8,062,950</b>	<b>12,418,059</b>	<b>12,892,378</b>
Non-current loans and financing mature as follows:								
2017					-	1,398,348	-	1,398,348
2018					1,833,525	1,822,151	2,488,976	2,605,788
2019					1,696,671	3,014,360	2,569,759	4,058,317
2020					2,368,459	852,056	2,807,001	1,354,486
2021					636,983	753,023	2,733,599	3,244,635
2022					123,309	147,265	105,600	149,942
2023 onwards					97,723	75,747	1,713,124	80,862
					<b>6,756,670</b>	<b>8,062,950</b>	<b>12,418,059</b>	<b>12,892,378</b>

- (a) Transactions at 6% p.a. of the Long-term Interest Rate ("TJLP") published by the Central Bank of Brazil. The model of operation of the term of capitalization, that is, exceeding 6% p.a., is merged into the principal and subject to the interest rate mentioned.
- (b) Loans and financing are secured, depending on the agreement, by i) plant mortgages; ii) rural properties; iii) fiduciary sale of the asset being financed; iv) guarantee from shareholders, and (v) bank guarantee.
- (c) Suzano contracted a US\$150 million loan agreement to finance import of equipment for the Mucuri Unit and obtained funds through two import financing operations (Export Credit Agency ("ECA")) for equipment to be installed in the future pulp producing unit in Maranhão. The total amount contracted is equivalent to US\$535 million, for a term of up to 9.5 years, with total guarantee furnished by the Export Credit Agencies Finnvera. These agreements establish covenants regarding the maintenance of determined levels of leverage, which are verified for compliance after 60 and 120 days of the closing of the months of June and December of each fiscal year, respectively. With regard to the results of June 2016, the Company met all covenants established in the agreements.
- (d) In the period from January to December 2016, no new Export Financing operation was contracted.
- (e) In 2016, Suzano contracted Export Credit Note ("NCE") transactions, one (1) of R\$1,000,000 in November, two (2) in May of R\$100,000 and R\$200,000, and one (1) in April of R\$600,000, all guaranteed by Agribusiness Receivables Certificate ("CRA"), at a cost between 96% and 98% of the CDI, while interest will be paid bi-annually and the principal in a single installment at the end of each transaction between 2018 and 2020. In this period, Suzano settled NCE transactions amounting to R\$1,313,500.
- (f) On July, 2016, Suzano, through its subsidiary Suzano Áustria, issued Senior Notes (Green Bonds) in the international market in the amount of US\$ 500 million, maturing on July 14, 2026, and a coupon of

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5.75% p.a. paid semiannually for final yield for investors. In September 2010, the Company, through its subsidiary Suzano Trading, placed in the international market US\$650 million in Senior Notes due on January 23, 2021, with semiannual interest payments of 5.88% p.a. and return for investors of 6.13% p.a. Suzano is guarantor of these issues, which corresponds to a senior obligation without security interest of the issuer or Suzano and is entitled to the same rights as other obligations of similar nature of these companies.

- <sup>(9)</sup> In May 2015, the Company, through its subsidiary Suzano Europa, contracted a syndicated loan in the amount of US\$600 million, with payment of quarterly interest and amortization of the principal between May 2018 and May 2020. This loan has clauses establishing the maintenance of certain levels of leverage, which are verified and have compliance confirmed after 60 and 120 days from the end of June and December of each fiscal year, respectively. With regard to the results of June 2016, the Company met all the established levels.

Certain financing agreements have financial and non-financial covenants. Financial covenants establish some maximum levels of leverage, normally expressed as a ratio of Net Debt to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), which are met by the Company on the date of these financial statements. Non-financial covenants establish the maximum level of assignment of receivables, guarantees to third parties and sale of operating assets.

**17.1 Changes in loans and financing**

	<u>Parent Company</u>	<u>Consolidated</u>
Balances on December 31, 2014	12,279,088	14,012,129
Funding	1,879,546	4,107,775
Recognized interest	893,192	1,053,077
Exchange variation	1,926,567	2,871,789
Settlement of principal	(6,123,996)	(6,123,996)
Settlement of interest	(877,588)	(1,015,806)
Funding costs	(16,351)	(39,395)
Amortization of funding costs	41,883	51,769
<b>Balances on December 31, 2015</b>	<b>10,002,341</b>	<b>14,917,342</b>
Funding	3,702,577	5,665,635
Recognized interest	714,214	948,918
Exchange variation	(831,521)	(1,651,688)
Settlement of principal	(4,624,901)	(4,853,038)
Settlement of interest	(822,989)	(1,012,334)
Negative goodwill	-	(15,236)
Amortization of negative goodwill	-	570
Funding costs	(25,518)	(33,978)
Amortization of funding costs	35,913	46,588
<b>Balances on December 31, 2016</b>	<b>8,150,116</b>	<b>14,012,779</b>

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### 17.2 Transaction costs and premiums of securities issues

Nature	Total cost	Amortization	Consolidated	
			Balance to be amortized	
			12/31/2016	12/31/2015
Senior Notes	64,669	(34,975)	<b>29,694</b>	32,394
NCE	67,747	(34,425)	<b>33,322</b>	28,983
Import (ECA)	101,811	(62,915)	<b>38,896</b>	53,679
Syndicated Loan	19,629	(7,849)	<b>11,780</b>	20,887
Other	2,990	(1,112)	<b>1,878</b>	1,829
Total	<b>256,846</b>	<b>(141,276)</b>	<b>115,570</b>	137,772

The cost of funding in foreign currency is amortized on the contractual dates based on the effective interest rate and the currency of origin, and is converted into Reais for reporting purposes.

### 17.3 Guarantees for loans and financings

Some loan and financing contracts have clauses of guarantee of the financed equipment itself or other fixed assets indicated by the Company (Note 15.1).

## 18 Lease

### 18.1 Financial lease agreements

The Company has financial lease agreements related to equipment used in the pulp and paper industrial process, in which the Company assumes the risks and benefits inherent to the property. Some agreements are denominated in U.S. dollar or the CDI overnight rate and contain purchase option clauses for these assets upon the expiration of the lease term, which varies from 5 to 15 years, for a price substantially lower than their fair value. Management intends to exercise the purchase options on the dates estimated in each agreement.

The amounts booked as property, plant and equipment, net of depreciation, and the present value of mandatory installments of the agreement (financing) corresponding to these assets are stated below:

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	<b>Parent Company and Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Machinery and equipment	<b>108,565</b>	108,565
(-) Accumulated depreciation	<b>(97,617)</b>	(95,335)
Property, plant and equipment, net	<b>10,948</b>	13,230
Present value of mandatory installments (financing):		
Less than 1 year	<b>4,796</b>	5,509
From 1 to 5 years	<b>18,836</b>	25,830
Over 5 years	-	1,280
Total present value of mandatory installments (financing)	<b>23,632</b>	32,619
Financial charges to be recognized in the future	<b>5,937</b>	6,911
Total mandatory installments at the expiration of agreements	<b>29,569</b>	39,530

**18.2 Operating lease agreements**

The Company maintains operating lease agreements related to the lease of areas, offices, properties, vehicles, call centers, hardware equipment and installation services, whose agreements were executed in Brazilian real. Management has no intention of buying the assets at the end of the agreement, and the term of the agreements are not equivalent to a significant portion of the useful life of assets.

Operating lease payments are recognized as operating expenses in the Company's income statement.

<b>Description</b>	<b>Monthly installment amount</b>	<b>Index</b>	<b>Maturity</b>
Administrative offices and deposits	1 to 1.092	IGP-M and IPCA/IBGE	1/1/2017 to 1/27/2024
Call center and licenses	1 to 208	IGP-DI	9/30/2017

The minimum payments of maturing operating were as follows:

	<b>12/31/2016</b>
Less than 1 year	<b>13,934</b>
From 1 year to 3 years	<b>23,635</b>
From 3 years to 5 years	<b>20,968</b>
Total installments due	<b>58,537</b>

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In the normal course of its operations, the Company enters into contracts and commercial commitments to guarantee better operating conditions to expand its business. The most relevant are:

(i) Land lease agreements to form eucalyptus forests, the terms of which can be as much as 21 years (3 cycles of forest formation) and have renewal option clauses. Payments made are recorded as cost of forest formation under "Biological Assets", recognized in income when the forest base is depleted. The installments falling due on the date of these financial statements are equivalent to R\$1,377,014.

(ii) Contracts for future sale of finished products, backed by performance sale operations recorded in the short term. The amounts are initially recognized in "Advances from Customers" and are recorded in income as these products are delivered. On December 31, 2016, the amount of R\$495,918 was recorded in "Advances from Customers".

**19 Provision for Contingencies**

	Parent Company					
	Balance on 12/31/2015	New lawsuits	Reversals	Inflation adjustment	Settlement of lawsuits	Balance on 12/31/2016
Tax and social security	167,185	21,201	(21,443)	32,289	-	199,232
Labor	25,428	17,354	(1,501)	6,641	(12,432)	35,490
Civil	1,989	1,180	(2,615)	1,285	-	1,839
	<u>194,602</u>	<u>39,735</u>	<u>(25,559)</u>	<u>40,215</u>	<u>(12,432)</u>	<u>236,561</u>
	Consolidated					
	Balance on 12/31/2015	New lawsuits	Reversals	Inflation adjustment	Settlement of lawsuits	Balance on 12/31/2016
Tax and social security	167,185	28,334	(21,443)	32,289	-	206,365
Labor	29,385	17,488	(2,446)	6,685	(12,682)	38,430
Civil	1,989	1,180	(2,615)	1,285	-	1,839
	<u>198,559</u>	<u>47,002</u>	<u>(26,504)</u>	<u>40,259</u>	<u>(12,682)</u>	<u>246,634</u>

**19.1 Tax and Social Security Suits and Proceedings**

On December 31, 2016, the Company is a defendant in 307 administrative and legal proceedings on tax and social security issues that discuss matters related to offsets of certain tax credits, deficiency notices, fines and collection of some tax credits.

On December 31, 2016 and 2015, the Company holds R\$49,433 and R\$37,869, respectively, in judicial deposits related to these proceedings.



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### 19.2 Labor claims

On December 31, 2016, the Company was a defendant in 2,320 labor claims.

In general, labor claims are related primarily to matters frequently contested by employees in agribusiness companies, such as certain wages and/or severance payments, in addition to suits filed by outsourced employees of the Company.

On December 31, 2016 and 2015, the Company holds R\$37,664 and R\$23,784, respectively, in judicial deposits related to these proceedings.

### 19.3 Civil claims

On December 31, 2016, the Company is a defendant in approximately 303 civil claims.

Civil proceedings are related primarily to payment of damages, such as those resulting from contractual obligations, traffic-related injuries, possessory actions, environmental claims and others.

### 19.4 Unprovisioned lawsuits

The Company is involved in tax, civil and labor lawsuits, for which there is no reserve, as they involve risks with a possible probability of loss, according to Management and its legal counsel. In nature, said lawsuits are equivalent to those that have been classified as probable loss but with the probability of possible loss.

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Tax and social security	193,922	212,734	193,922	212,734
Labor	37,909	29,046	38,667	29,810
Civil	1,310	1,410	1,310	1,410
	<u>233,141</u>	<u>243,190</u>	<u>233,899</u>	<u>243,954</u>

## 20 Actuarial Liabilities

### 20.1 Defined benefits plans

The Company guarantees coverage of healthcare costs for former employees who retired by 2003 (until 1998 for former employees of Ripasa, current Limeira unit), as well as their spouses for life and dependents while they are minors.

For other group of former employees, who exceptionally, according to the Company's criteria and resolution or according with rights related to the compliance with pertinent legislation, the Company ensures the healthcare program.

The Company offers life insurance benefit provided to retirees.

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On December 31, 2016 and 2015, the amount of the future liabilities of these benefits was R\$339,009 and R\$263,141, respectively.

### 20.2 Key actuarial economic and biometric assumptions used in the calculations of liability

	12/31/2016	12/31/2015
Discount rate - health plan	<b>5.65% p.a.</b>	7.30% p.a.
Discount rate - life insurance	<b>5.65% p.a.</b>	7.30% p.a.
Medical cost growth rate above basic inflation	<b>3.0% p.a.</b>	3.0% p.a.
Economic inflation	<b>5.50% p.a.</b>	5.70% p.a.
Biometric table of general mortality	<b>AT-2000</b>	AT-2000
Biometric table of mortality of disabled persons	<b>IAPB 57</b>	IAPB 57

On December 31, 2016, the sensitivity of the balance of actuarial liabilities to the changes in the main assumptions used, considering that all others remain unchanged, is as follows:

	Change	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease of 5.75 %	Increase of 6.41 %
Medical cost growth rate	0.50%	Increase of 6.38 %	Decrease of 5.77 %
Mortality rate	1 year	Increase of 4.41 %	Decrease of 4.27 %

### 20.3 Changes in actuarial liabilities

#### **Parent Company and Consolidated**

Opening balance on December 31, 2014	277,463
Interest on actuarial liability	33,629
Actuarial gain	(31,981)
Benefits paid in the year	(15,970)
Opening balance on December 31, 2015	263,141
Interest on actuarial liability	<b>36,856</b>
Actuarial loss	<b>54,422</b>
Benefits paid in the period	<b>(15,410)</b>
<b>Closing balance on December 31, 2016</b>	<b>339,009</b>

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### 21 Long-term Share-Based Payments

#### 21.1 Phantom Stock Options (“PSO”)

The Company has a long-term remuneration plan for certain executives and Management’s key members linked to the Company share price and paid in cash.

The general conditions were established for the acquisition of options, such as exercise price, number of options, vesting period and grant of options of phantom shares to these executives (beneficiaries), who are defined in specific regulations, in accordance with the guidelines and conditions established by the Company’s Bylaws and Board of Directors.

The Company granted on October 3, 2016 the Share Appreciation Rights (SAR) Program of phantom share options. In this program, participants should invest 5% of the total amount corresponding to the number of options of phantom shares at the grant date and 20% after three years to acquire the option.

The vesting period of options may vary from 3 to 6 years, as of grant date, in accordance with the characteristics of each plan.

The amount of the share is calculated based on the average share quote of the 90 previous trading sessions starting from the closing quote on the last business day of the month prior to the month of the grant. The installments of these programs will be adjusted by the variation in the price of the Suzano’s shares (SUZB5) between the granting and the payment period. On dates when the SUZB5 stock is not traded, the quote of the previous trading session will be considered.

The phantom share options will only be due if the beneficiary is an employee of the Company on the payment date. In case of termination of the employment by initiative of the Company or by initiative of the beneficiary, before the vesting period is completed, the executive will not be entitled to receive all benefits, unless otherwise established in the agreements.

	<b>12/31/2016</b>	12/31/2015
	<b>Shares (No.)</b>	Shares (Nº)
<b>Available at the beginning of the period</b>	<b>3,570,103</b>	3,800,036
Granted during the period	<b>1,092,921</b>	1,423,596
Intercompany transfer	<b>32,061</b>	-
Abandoned / prescribed voluntarily	-	(281,590)
Exercised <sup>(a)</sup>	<b>(1,144,900)</b>	(999,613)
Exercised due to dismissal <sup>(a)</sup>	<b>(138,896)</b>	(98,335)
Abandoned / prescribed due to dismissal	<b>(362,298)</b>	(273,991)
<b>Available at the end of the period</b>	<b>3,048,991</b>	3,570,103

<sup>(a)</sup> On December 31, 2016 and 2015, for share options exercised and those exercised due to employment termination, the average prices were R\$10.63 and R\$17.30, respectively.

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On December 31, 2016, outstanding phantom shares option plans are as follows:

Program	Grant Date	2 <sup>nd</sup> exercise date	Fair value on the grant date	No. of options in effect on 12/31/2016
ILP 2012	3/1/2012	3/1/2018	R\$7.49	24,812
SAR 2014	4/1/2014	4/1/2019	R\$8.93	809,797
Deferral 2014	3/1/2015	3/1/2018	R\$10.80	234,378
Deferral 2014	3/1/2015	3/1/2019	R\$10.80	234,378
SAR 2015	4/1/2015	4/1/2020	R\$11.69	665,740
SAR 2015 - September	9/1/2015	9/1/2020	R\$15.99	4,340
ILP 2015	9/1/2015	9/1/2021	R\$15.99	25,016
Deferral 2015	3/1/2016	3/1/2019	R\$16.93	85,159
Deferral 2015	3/1/2016	3/1/2020	R\$16.93	85,159
SAR 2016	4/1/2016	4/1/2021	R\$15.96	662,409
PLUS 2016	4/1/2016	4/1/2021	R\$15.96	208,869
SAR 2016 - October	10/3/2016	10/3/2021	R\$11.03	8,934
<b>TOTAL</b>				<b>3,048,991</b>

**21.2 Class A preferred stock options or alternatively in currency**

Certain executives, management and employees (beneficiaries) are entitled to the plan. The general acquisition conditions, such as exercise price, number of shares, vesting period and grant of stock options to these executives (beneficiaries) are defined in specific regulations in accordance with the guidelines and conditions established by the Company's Bylaws and the Board of Directors.

The options granted cannot exceed 2% of the Company's total paid-up and subscribed capital stock, and must derive from: i) the issue of new shares, within the limit of the Company's authorized capital; and/or ii) treasury shares.

The Program III gives beneficiaries the right to acquire the Company shares at a fixed price, provided targets related to the following aspects are met: i) appreciation of the Company's shares; ii) Net Debt/Earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio; and iii) Return on Equity (ROE). If these targets are exceeded, the vesting period will be reduced by 12 months.

During the vesting period of options exercise, the beneficiary is prohibited from selling or encumbering these options.

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Program	Granted series	Grant date	1 <sup>st</sup> exercise date	2 <sup>nd</sup> exercise date and expiration	Price on the grant date	Granted shares	Exercised shares	No. of options in effect on 12/31/2016
Program III	Series I	1/18/2013	1/18/2015	4/18/2015	3,53	1.800.000	1.800.000	-
	Series II	1/18/2013	1/18/2016	4/18/2016	3,71	1.800.000	1.800.000	-
	Series III	1/18/2013	1/18/2018	4/18/2018	3,91	1.800.000	1.800.000	-
	Series IV	1/18/2013	1/18/2019	4/18/2019	3,96	1.800.000	-	1.800.000
	Series V	1/18/2013	1/18/2020	4/18/2020	3,99	1.800.000	-	1.800.000
<b>Total</b>						<b>9.000.000</b>	<b>5.400.000</b>	<b>3.600.000</b>

On December 31, 2016, there were 8,845 thousand class A preferred treasury shares to guarantee the options granted by the Plan.

**21.3 Measurement assumptions**

In the case of the phantom shares plan, since the settlement is in cash, the fair value of options is measured again at the end of each period based on the Monte Carlo (MMC) Method, which is multiplied by the Total Shareholder Return ("TSR") in the period (which varies between 75% and 125%, depending on the performance of SUZB5 in relation to its peers in Brazil).

Class A preferred stock option plan of Program III, the fair value was estimated based on the binomial probability model, which considers the dividends distribution rate and the following assumptions:

Description of assumptions	Indexes			
	Options			
	Program III	SAR 2014	SAR 2015	SAR 2016 and Plus 2016
Calculation Model	Binomial	Monte Carlo	Monte Carlo	Monte Carlo
Asset base price <sup>(a)</sup> (per share)	R\$7.73	R\$11.68	R\$11.13	R\$10.39
Expectation of volatility <sup>(b)</sup>	40.47% p.a.	36.82% p.a.	34.77% p.a.	33.85% p.a.
Phantom stock/options average life expectancy <sup>(c)</sup>	Equal to option life			
Dividends expectancy <sup>(d)</sup>	3.49% p.a.	2.94% p.a.	2.94% p.a.	4.80% p.a.
Risk-free weighted average interest rate <sup>(e)</sup>	8.99%	11.90%	12.83%	14.33%

(a) The expectation of volatility was calculated for each exercise date, taking into account the remaining time to complete the vesting period, as well as the historical volatility of returns, considering a standard deviation of 745 observations of returns;

(b) The expectation of average life of phantom stocks and stock options was defined by the remaining term until the limit exercise date;

(c) The expectation of dividends was defined based on historical earnings per share of the Suzano;

(d) Risk-free weighted average interest rate used was the BRL yield curve (DI expectation) observed on the open market, which is the best comparison basis with the Brazilian market risk-free interest rates. The rate used for each exercise date changes according to the vesting period.

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The amounts corresponding to the services received and recognized in the quarterly statements are presented below:

	Parent Company and Consolidated			
	Liabilities and equity		Profit or loss	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Non-current liabilities</b>				
Provision for phantom stock plan	18,850	42,722	529	(29,380)
<b>Shareholders' equity</b>				
Stock option reserve	19,755	23,091	(3,337)	(2,848)
<b>Total general and administrative expenses from share-based transactions</b>			<b>(2,808)</b>	<b>(32,228)</b>

**22 Commitments Related to Asset Acquisitions****22.1 Real Estate Receivables Certificates ("CRI")**

On December 31, 2016, the commitments related to the acquisition of land, farms, reforestation and houses under construction in Maranhão totaled R\$57,735 in the Parent Company and R\$159,457 in the Consolidated, presented under Commitments from acquisition of assets in current and non-current liabilities (R\$59,483 and R\$167,485, respectively, on December 31, 2015).

**22.2 Acquisition of Vale Florestar Fundo de Investimento em Participações ("VFFIP")**

The Company acquired VFFIP in August 2014 for the sum of R\$528,941, with a down payment of R\$44,998 and the outstanding balance, a portion restated at the variation of the Broad Consumer Price Index ("IPCA") and the other portion restated at the variation of the U.S. dollar exchange rate, plus average coupon of 5.07% p.a.

On December 31, 2016 and 2015, the restated outstanding balance is R\$535,398 and R\$657,379, respectively, at the Parent Company and Consolidated.

**23 Shareholders' Equity****23.1 Capital stock**

On December 31, 2016, the capital stock of Suzano is R\$6,241,753, divided into 1,107,739 thousand shares without par value, of which 371,149 thousand are registered common shares, 734,649 thousand are class A preferred shares and 1,941 thousand are Class B preferred shares. A total of 17,546 thousand shares are held in treasury, of which 6,786 thousand are common shares, 8,847 thousand are class A preferred shares, and 1,912 thousand are class B preferred shares.

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The composition of the capital stock is presented below:

SHAREHOLDER	COMMON SHARES		CLASS A PREFERRED SHARES		CLASS B PREFERRED SHARES		TOTAL SHARES	
	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
Suzano Holding S.A.	364,349,459	98.17	3,245,077	0.44	17,698	0.91	367,612,234	33.19
Controlling Shareholders and Management	12,879	0.00	257,347,769	35.03	1,050	0.05	257,361,698	23.23
<b>Subtotal</b>	<b>364,362,338</b>	<b>98.17</b>	<b>260,592,846</b>	<b>35.47</b>	<b>18,748</b>	<b>0.97</b>	<b>624,973,932</b>	<b>56.42</b>
Treasury	6,786,194	1.83	8,846,932	1.20	1,912,532	98.54	17,545,658	1.58
BNDESPAR	-	-	75,909,985	10.33	-	-	75,909,985	6.85
Mondrian Investment Partners	-	-	72,878,900	9.92	-	-	72,878,900	6.58
Other shareholders	-	-	316,420,663	43.08	9,539	0.49	316,430,202	28.57
<b>TOTAL</b>	<b>371,148,532</b>	<b>100.00</b>	<b>734,649,326</b>	<b>100.00</b>	<b>1,940,819</b>	<b>100.00</b>	<b>1,107,738,677</b>	<b>100.00</b>

By resolution of the Board of Directors or General Meeting, the capital may be increased, independent of an amendment to the Bylaws, up to the limit of 260,040 thousand common shares, 517,080 thousand class "A" preferred shares and 3,000 thousand class "B" preferred shares, all exclusively book-entry shares.

On December 31, 2016 and 2015, SUZB5 preferred stock ended the year quoted at R\$14,20 and R\$18,69, respectively.

**23.2 Reserves****Profit reserve**

The Reserve for Capital Increase is composed of 90% of the remaining balance of net income for the year, after dividends, legal reserve and tax incentive reserve and aims to ensure the Company adequate operational conditions.

The Special Statutory Reserve includes the remaining 10% of the remaining balance of net income for the year and aims to ensure the distribution of dividends.

**Capital reserve**

The Capital Reserve is composed of the balances of the tax incentive reserve, the stock option reserve, the treasury shares and the costs directly attributable to the Share Offering, which are primarily composed of the expenses with the fees and commissions charged by legal counsel, consultants and auditors.

**23.3 Treasury shares**

	Number of shares			R\$ (‘000)	Average price per share (R\$)	
	Common	Pref. A	Pref. B			Total
Balance on 12/31/2014	6.786.194	12.444.988	1.909.699	21.140.881	303.726	14,37
Shares sold <sup>(a)</sup>	-	(1.800.000)	-	(1.800.000)	(14.868)	8,26
Shares transferred <sup>(b)</sup>	-	9	-	9	-	-
Balance on 12/31/2015	<u>6.786.194</u>	<u>10.644.997</u>	<u>1.909.699</u>	<u>19.340.890</u>	<u>288.858</u>	<u>14,94</u>
Shares sold <sup>(a)</sup>	-	(1.800.000)	-	(1.800.000)	(15.193)	8,44
Shares transferred <sup>(c)</sup>	-	1.935	2.833	4.768	-	-
<b>Balance on 12/31/2016</b>	<b><u>6.786.194</u></b>	<b><u>8.846.932</u></b>	<b><u>1.912.532</u></b>	<b><u>17.545.658</u></b>	<b><u>273.665</u></b>	<b><u>15,60</u></b>

**Suzano Papel e Celulose S.A.**

## Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

- (a) Treasury shares used to meet the share-based compensation plan (Note 21).
- (b) Reversal of loan through transfer of shares held by Directors to Suzano.
- (c) Ownership of shares transferred from Comercial e Agrícola Paineiras Ltda. to Suzano Papel e Celulose S.A.

**23.4 Equity valuation adjustment**

The balance represents the initial adjustment, net of deferred income and social contribution taxes, subsequent realizations through depreciation and write-off of property, plant and equipment items that had new deemed cost upon the initial adoption of the IFRS on January 1, 2009. Additionally, this item includes the exchange variation of subsidiaries located abroad, gains (losses) from the restatement of actuarial liabilities and the income (loss) from the conversion of debentures of the 5<sup>th</sup> issue into shares for Related Parties, net of deferred income and social contribution taxes.

**23.5 Earnings (losses) per share****Basic**

Basic earnings per share is calculated by dividing the profit attributable to the Company's shareholders by the weighted average common shares issued during the period, excluding the common shares acquired by the Company and held as treasury shares.

	12/31/2016			
	Common	Class A Preferred	Class B Preferred	Total
Earnings attributed to shareholders	530.271	1.161.679	48	1.691.998
Weighted average number of shares in the period	371.149	734.649	1.941	1.107.739
Weighted average treasury shares	(6.786)	(8.996)	(1.911)	(17.693)
Weighted average number of outstanding shares	364.363	725.653	30	1.090.046
<b>Basic earnings per share</b>	<b>1,45534</b>	<b>1,60087</b>	<b>1,60000</b>	<b>-</b>

	12/31/2015			
	Common	Class A Preferred	Class B Preferred	Total
Loss attributed to shareholders	(290.500)	(634.827)	(27)	(925.354)
Weighted average number of shares in the period	371.149	734.649	1.941	1.107.739
Weighted average treasury shares	(6.786)	(10.795)	(1.910)	(19.491)
Weighted average number of outstanding shares	364.363	723.854	31	1.088.248
<b>Basic loss per share</b>	<b>(0,79728)</b>	<b>(0,87701)</b>	<b>(0,87097)</b>	<b>-</b>



**Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated***Diluted**

Diluted earnings per share is calculated by adjusting the weighted average of outstanding preferred and common shares assuming the conversion of all preferred and common shares that would cause dilution. The Company presents dilution potential: call options exercisable at the discretion of the holder.

	12/31/2016			
	Common	Class A Preferred	Class B Preferred	Total
Earnings attributed to shareholders	529.178	1.162.772	48	1.691.998
Weighted average number of outstanding shares	364.363	725.653	30	1.090.046
Adjustment by stock options	-	2.182	-	2.182
Weighted average number of shares (diluted)	364.363	727.835	30	1.092.228
<b>Diluted earnings per share</b>	<b>1,45234</b>	<b>1,59758</b>	<b>1,60000</b>	-

	12/31/2015			
	Common	Class A Preferred	Class B Preferred	Total
Loss attributed to shareholders	(289.465)	(635.862)	(27)	(925.354)
Weighted average number of outstanding shares	364.363	723.854	31	1.088.248
<b>Diluted loss per share <sup>(a)</sup></b>	<b>(0,79444)</b>	<b>(0,87844)</b>	<b>(0,87097)</b>	-

<sup>(a)</sup> On December 31, 2015 the Company calculated loss for the year. Accordingly, its dilution on stock option plans of R\$3,770 thousand was not adopted.

**23.6 Allocation of net income from the year and dividends**

	2016	2015
Net income for the year	1.691.998	(925.354)
Recording of legal reserve - 5%	(84.600)	-
Recording of tax incentive reserve	(124.085)	-
Dividend calculation base	1.483.313	(925.354)
Minimum mandatory dividends - 25%	370.828	-
Profit reserve based dividends	-	300.000
<b>Total dividends</b>	<b>370.828</b>	<b>300.000</b>

Dividends paid in full and by type of share in prior periods are shown below:

**Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

Date of Approval AGO/E	Total amount (R\$ '000)	Amount per share			Shareholding position (reference date)	Payment date
		Common	Pref. A	Pref. B		
4/25/2016	300.000	R\$ 0,25800	R\$ 0,28380	R\$ 0,34352	4/25/2016	5/4/2016
11/11/2015	120.000	R\$ 0,10337	R\$ 0,11370	R\$ 0,34408	11/12/2015	11/24/2015
4/30/2015	150.000	R\$ 0,12922	R\$ 0,14214	R\$ 0,34409	4/30/2015	5/11/2015

**24 Net Financial Result**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Interest income	<b>327.754</b>	265.458	<b>333.168</b>	269.188
Other financial income	<b>22.149</b>	8.684	<b>28.016</b>	16.192
Total financial income	<b>349.903</b>	274.142	<b>361.184</b>	285.380
Interest expenses	<b>(1.064.688)</b>	(1.177.690)	<b>(1.091.322)</b>	(1.203.143)
Other financial expenses	<b>(50.072)</b>	(39.636)	<b>(64.882)</b>	(52.084)
Total financial expenses	<b>(1.114.760)</b>	(1.217.326)	<b>(1.156.204)</b>	(1.255.227)
Monetary and exchange variations on loans and financing	<b>1.637.133</b>	(3.282.273)	<b>1.619.202</b>	(3.286.245)
Monetary and exchange variations on other assets and liabilities	<b>(370.619)</b>	639.305	<b>(251.921)</b>	457.838
Monetary and exchange variation, net	<b>1.266.514</b>	(2.642.968)	<b>1.367.281</b>	(2.828.407)
Derivative gains	<b>689.536</b>	(14.929)	<b>804.129</b>	156.777
Derivate losses	<b>(173.605)</b>	(620.892)	<b>(275.290)</b>	(787.028)
Net derivative	<b>515.931</b>	(635.821)	<b>528.839</b>	(630.251)
Financial income	<b>2.132.348</b>	274.142	<b>2.257.304</b>	285.380
Financial expenses	<b>(1.114.760)</b>	(4.496.115)	<b>(1.156.204)</b>	(4.713.885)
Net financial income (expenses)	<b>1.017.588</b>	(4.221.973)	<b>1.101.100</b>	(4.428.505)

**25 Net Revenue**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Gross sales revenue</b>	<b>10,275,204</b>	11,107,460	<b>11,056,340</b>	11,263,266
<b>Deductions</b>				
Sales taxes <sup>(a)</sup>	<b>(1,077,447)</b>	(957,621)	<b>(1,087,566)</b>	(970,974)
Returns and cancelations	<b>(53,232)</b>	(52,664)	<b>(76,654)</b>	(60,461)
Discounts and rebates	<b>(9,807)</b>	(7,470)	<b>(9,807)</b>	(7,470)
<b>Net revenue</b>	<b>9,134,718</b>	10,089,705	<b>9,882,313</b>	10,224,361

- a) Includes 1% up to November 2015 and 2.5% as of December 2015 of gross revenue from domestic sales, relating to the social contribution paid to Brazil's National Institute of Social Security (INSS), valid indefinitely, as per Law 12,546/11, Article 8, Annex I and its amendments.

**Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated***26 Information by Segment and Geographic Areas**

The Company evaluates the performance of its operating segments through the operating result. The information presented under “Not Segmented” is related to income statement and balance sheet items not directly attributed to the pulp and paper segments, such as, net financial result and income and social contribution taxes expenses, in addition to the balance sheet classification items of assets and liabilities.

	12/31/2016				12/31/2015			
	Pulp	Paper	Not segmented	Total Consolidated	Pulp	Paper	Not segmented	Total Consolidated
<b>Net revenue</b>	<b>6,141,891</b>	<b>3,740,422</b>	-	<b>9,882,313</b>	6,603,405	3,620,956	-	10,224,361
Domestic market	706,488	2,617,811	-	3,324,299	822,294	2,308,969	-	3,131,263
Foreign market	5,435,403	1,122,611	-	6,558,014	5,781,112	1,311,987	-	7,093,098
Asia	2,502,344	32,054	-	2,534,398	2,664,452	78,071	-	2,742,522
Europe	1,957,569	143,036	-	2,100,605	2,130,941	144,017	-	2,274,958
North America	898,442	327,718	-	1,226,160	883,422	365,663	-	1,249,085
South and Central America	71,725	568,253	-	639,978	102,297	648,637	-	750,934
Africa	5,323	51,550	-	56,873	-	75,599	-	75,599
<b>Cost of products sold</b>	<b>(4,077,292)</b>	<b>(2,494,330)</b>	-	<b>(6,571,622)</b>	(3,654,206)	(2,530,040)	-	(6,184,246)
<b>Gross profit</b>	<b>2,064,599</b>	<b>1,246,092</b>	-	<b>3,310,691</b>	2,949,199	1,090,916	-	4,040,115
<i>Gross margin (%)</i>	<i>33.6%</i>	<i>33.3%</i>	-	<i>33.5%</i>	<i>44.7%</i>	<i>30.1%</i>	-	<i>39.5%</i>
<b>Operating expenses (income)</b>	<b>(1,347,490)</b>	<b>(638,981)</b>	-	<b>(1,986,471)</b>	(425,800)	(544,331)	-	(970,131)
Equity pick-up	-	(7,127)	-	(7,127)	-	-	-	-
<b>Operating income or loss (EBIT)</b>	<b>717,109</b>	<b>599,984</b>	-	<b>1,317,093</b>	2,523,399	546,585	-	3,069,984
<i>Operating margin (%)</i>	<i>11.7%</i>	<i>16.0%</i>	-	<i>13.3%</i>	<i>38.2%</i>	<i>15.1%</i>	-	<i>30.0%</i>
<b>Net financial result</b>	-	-	1,101,100	1,101,100	-	-	(4,428,505)	(4,428,505)
<b>Income or loss before taxes on profit</b>	<b>717,109</b>	<b>599,984</b>	<b>1,101,100</b>	<b>2,418,193</b>	2,523,399	546,585	(4,428,505)	(1,358,521)
<b>Income and social contribution taxes on profit</b>	-	-	(726,195)	(726,195)	-	-	433,167	433,167
<b>Net income (loss) for the year</b>	<b>717,109</b>	<b>599,984</b>	<b>374,905</b>	<b>1,691,998</b>	2,523,399	546,585	(3,995,338)	(925,354)
<i>Profit (loss) margin for the year (%)</i>	<i>11.7%</i>	<i>16.0%</i>	-	<i>17.1%</i>	<i>38.2%</i>	<i>15.1%</i>	-	<i>-9.1%</i>
<b>Total assets (a)</b>	<b>17,765,172</b>	<b>6,830,676</b>	<b>4,803,466</b>	<b>29,399,313</b>	17,862,968	7,066,887	3,330,129	28,259,985
<b>Total liabilities (a)</b>	<b>815,332</b>	<b>704,409</b>	<b>17,736,078</b>	<b>19,255,819</b>	460,653	855,498	17,751,754	19,067,904
<b>Total shareholders' equity (a)</b>	-	-	<b>10,143,494</b>	<b>10,143,494</b>	-	-	9,192,081	9,192,081
<b>Products sold (in tons)</b>	<b>3,530,116</b>	<b>1,195,601</b>	-	<b>4,725,717</b>	3,291,288	1,230,103	-	4,521,391
Domestic market	3,117,486	361,996	-	3,479,482	2,835,244	403,016	-	3,238,261
Foreign market	412,630	833,605	-	1,246,235	456,044	827,087	-	1,283,131

- (a) For fiscal years 2016 and 2015, Company evaluation based on operating segments is only made for assets and liabilities comprising the measurement of Return on Invested Capital (“ROIC”), since this is used in the decision-making process.

**Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated***27 Expenses by Nature**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Cost of Product Sold</b>				
Personnel expenses	(507.311)	(477.416)	(507.311)	(477.416)
Variable cost	(2.877.801)	(2.972.288)	(2.907.344)	(2.892.196)
Logistics cost	(242.172)	(213.081)	(944.119)	(866.682)
Depreciation, depletion and amortization	(1.358.974)	(1.378.087)	(1.373.355)	(1.393.367)
Other costs	(718.294)	(492.814)	(839.493)	(554.585)
	<u>(5.704.552)</u>	<u>(5.533.686)</u>	<u>(6.571.622)</u>	<u>(6.184.246)</u>
<b>Selling expenses</b>				
Personnel expenses	(68.915)	(61.212)	(111.022)	(96.698)
Services	(59.603)	(61.418)	(39.854)	(51.725)
Logistics cost	(685.554)	(702.507)	(198.973)	(209.823)
Depreciation and amortization	(2.841)	(2.926)	(3.439)	(3.528)
Other expenses <sup>(a)</sup>	(51.816)	(55.075)	(55.522)	(48.212)
	<u>(868.729)</u>	<u>(883.138)</u>	<u>(408.810)</u>	<u>(409.986)</u>
<b>Administrative expenses</b>				
Personnel expenses	(221.921)	(261.570)	(235.153)	(275.242)
Services	(71.060)	(75.042)	(85.911)	(91.756)
Depreciation and amortization	(25.294)	(21.150)	(26.724)	(22.582)
Other expenses <sup>(b)</sup>	(62.056)	(52.143)	(79.312)	(66.049)
	<u>(380.331)</u>	<u>(409.905)</u>	<u>(427.100)</u>	<u>(455.629)</u>
<b>Other operating (expenses) income</b>				
Result from disposal of other products	5.648	(11.708)	13.952	5.608
Result from disposal of property, plant and equipment and biological assets	9.771	600	9.767	641
Result from adjustment to fair value of biological assets <sup>(f)</sup>	(780.666)	23.145	(780.666)	23.145
Provision for loss and write-off of property, plant and equipment and biological assets <sup>(c)</sup>	(39.725)	(53.164)	(39.725)	(53.164)
Provision for land loss ("impairment") <sup>(d)</sup>	(36.080)	-	(192.538)	-
Accidental damage to forests with fires and water deficit	(84.383)	(4.523)	(84.383)	(19.815)
Land lease with subsidiaries	(10.307)	(9.953)	-	-
Partial write-off of intangible assets <sup>(e)</sup>	-	-	(78.799)	-
Realization of goodwill due to asset disposal	-	(20.731)	-	(20.731)
Loss from tax credits	-	(40.943)	-	(40.943)
Other operating income (expenses), net	14.528	4.905	1.831	743
	<u>(921.214)</u>	<u>(112.372)</u>	<u>(1.150.561)</u>	<u>(104.516)</u>
	<u>(7.874.826)</u>	<u>(6.939.101)</u>	<u>(8.558.093)</u>	<u>(7.154.377)</u>

(a) Includes provision for doubtful accounts, insurance, materials (use and consumption), expenses with travel, accommodation, participation in trade fairs and events.

(b) Includes corporate expenses, insurance, materials (use and consumption), social projects and donations, expenses with travel and accommodation.

(c) On December 31, 2016, the amount referred to R\$29,958 in write-offs related to losses and claims with biological assets and R\$9,766 with property, plant and equipment (On December 31, 2015, the amount referred to R\$46,657 in write-offs related to losses and claims with biological assets and R\$6,507 with property, plant and equipment).

(d) Note 15.

(e) Note 16.2.

(f) Note 13.

## **Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

### **28 Insurance Coverage**

Suzano's insurance coverage is considered sufficient to cover possible liability risks, material losses and loss of profits. The maximum limit of damages for material assets is R\$5,320,000; for Directors and Officers Civil Liability (D&O) the insured amount is R\$200,000, and for civil and general liability the insured amount is R\$20,000.

Eucalyptus forests are not covered by insurance policies given the unique features of this asset. The Company is constantly monitoring them through strategically located watchtowers and fire alarm systems and fire brigades are maintained and trained to avoid and fight these risks in forest areas.

(A FREE TRANSLATION OF THE ORIGINAL IN PORTUGUESE)

## **Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

### **FISCAL COUNCIL REPORT**

The Shareholders, members of the FISCAL COUNCIL of Suzano Papel e Celulose S.A. in a meeting held on this date, and in the use of their legal and statutory attributions reviewed the Management Report, the Financial Statements, the Consolidated Financial Statements and corresponding notes, the Proposal for Allocation of Net Income for the Year, referring to the fiscal year ended December 31, 2016, accompanied by the report of the independent auditors, "KPMG Auditores Independentes", as well as the Projection of the Company's Results, for purposes of compliance with CVM Rule 371 of June 27, 2002, which comply with the legal precepts and they favorably approve the aforementioned documents.

São Paulo, February 8, 2017.

Rubens Barletta

Luiz Augusto Marques Paes

Alessandro Golombiewski Teixeira

## **Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

### **Reports and Declarations / Management Statement on the Financial Statements**

FOR THE PURPOSE OF ARTICLE 25 OF CVM RULE 480/09

I declare, in the capacity of Executive Officer of Suzano Papel e Celulose S.A., a corporation headquartered in the city of Salvador, state of Bahia, located at Avenida Professor Magalhães Neto, 1752 - 10º andar, salas 1009, 1010 e 1011, CEP 41810-011, corporate taxpayer ID (CNPJ/MF) 16.404.287/0001-55 ("Company"), pursuant to items V and VI of Paragraph 1 of Article 25 of CVM Rule 480 of December 7, 2009, that jointly with other members of the Company's board of executive officers, I reviewed, discussed and agreed with the Company's financial statements related to the fiscal year ended December 31, 2016.

São Paulo, February 8, 2017.

Walter Schalka  
Chief Executive Officer

Alexandre Chueri Neto  
Executive Officer of the Forest Business Unit

Carlos Alberto Griner  
Chief Human Resources, Institutional Relations and Sustainability Officer

Carlos Anibal Fernandes de Almeida Júnior  
Executive Officer responsible for the Paper and Pulp Business Units

Marcelo Feriozzi Bacci  
Chief Financial and Investor Relations Officer

Renato Tyszler  
Executive Officer of Innovation and Business Development

## **Suzano Papel e Celulose S.A.**

Notes to the Financial Statements

December 31, 2016 and 2015

*All amounts are in thousands of Brazilian real, unless otherwise stated*

### **Reports and Declarations / Management Statement on the Independent Auditor's Report**

FOR THE PURPOSE OF ARTICLE 25 OF CVM RULE 480/09

I declare in the capacity of Executive Officer of Suzano Papel e Celulose S.A., a corporation headquartered in the city of Salvador, state of Bahia, located at Avenida Professor Magalhães Neto, 1752 - 10º andar, salas 1009, 1010 e 1011, CEP 41810-011, corporate taxpayer ID (CNPJ/MF) 16.404.287/0001-55 ("Company"), pursuant to items V and VI of Paragraph 1 of Article 25 of CVM Rule 480 of December 7, 2009, that jointly with other members of the Company's board of executive officers, I reviewed, discussed and agreed with the independent auditors' report related to the fiscal year ended December 31, 2016.

São Paulo, February 8, 2017.

Walter Schalka  
Chief Executive Officer

Alexandre Chueri Neto  
Executive Officer of the Forest Business Unit

Carlos Alberto Griner  
Chief Human Resources, Institutional Relations and Sustainability Officer

Carlos Anibal Fernandes de Almeida Júnior  
Executive Officer responsible for the Paper and Pulp Business Units

Marcelo Feriozzi Bacci  
Chief Financial and Investor Relations Officer

Renato Tyszler  
Executive Officer of Innovation and Business Development