LD Celulose S.A.

Financial statements as of December 31, 2020

Contents

Management Report

LD Celulose S.A. is a joint venture between Austrian Lenzing Aktiengesellschaft and Brazilian Duratex S.A, with a 51% and 49% interest, respectively.

The Lenzing Group, headquartered in Austria, is the world's leading producer of pulp fibers. It maintains operations in 17 locations and employs more than 6,800 people worldwide. It has two soluble pulp units and a total production capacity of 600,000 tons/year. With 7 plants for the production of fibers, with several applications, it has a total production capacity of 1 million tons.

Duratex S.A. is a Brazilian publicly-held company subsidiary of Itaúsa - Investimentos Itaú S.A - and Companhia Ligna de Investimentos. With the brands Deca, Hydra, Duratex, Durafloor, Ceusa, and Portinari, it is considered one of the 10 largest companies in the world in the sectors it operates and the largest producer of industrialized wood panels and flooring, sanitary ware, and metal accessories in the Southern Hemisphere, besides being one of the largest producers of ceramic tiles in Brazil.

The Company was organized to build one of the largest soluble pulp plants in the world. With an investment of USD 1.3 billion, the plant is being built in the Triângulo Mineiro, in the cities of Indianópolis and Araguari. When it starts operating, in 2022, the production capacity will be 500 thousand tons of soluble pulp per year. All the soluble pulp will be destined for the foreign market, where it will be transformed for use in yarns and fabrics for clothing, in addition to other applications, such as wet wipes, facial masks, and hygiene products. In addition to the soluble pulp plant, LD Celulose will have an electric power cogeneration plant with a capacity of 144 megawatts. The cogeneration plant will be among the most productive and energy-efficient in the world, directing 40 percent of the excess bioelectricity generated on site to supply the public network with green energy.

As part of the project, LD Celulose also has a forestry operation, in which it plants and manages eucalyptus forests that will be used to supply the pulp production plant.

Scenario

The year 2020 was marked by the COVID-19 pandemic and its effects on the local and world economy. Since the beginning of the pandemic, LD Celulose has taken actions to protect its employees and the continuity of operations, creating the Crisis Committee. The Committee, led by the Company's Executive Board, implemented the necessary actions to ensure the safety of employees and service providers so that the construction of the plant and its forestry operation would not suffer relevant impacts in relation to the planned schedule.

As the main actions of the Committee, the practice of home office (remote work) was established for the administrative areas, reinforcement in hygiene and asepsis in the construction site and administrative offices, temperature measurement at the entrances, and daily follow-up of confirmed cases in order to monitor the levels of infection and take actions to contain the spread, as well as to support the affected workers.

With regard to the communities, in March 2020, the Company launched a partnership with SENAI Araguari, offering openings for training courses in pulp operations, electricity, instrumentation and automation, and industrial mechanics, aimed at residents living around the plant. In May 2020, PPE donations were delivered to the cities of Indianópolis, Romaria, Estrela do Sul, Nova Ponte, and Uberlândia, to help in the fight against Covid-19. In addition, hospital equipment fundamental to the operation of the hospital beds was donated to Santa Casa de Araguari. The amount donated was approximately BRL 0.5 million. Additionally, in October 2020, LD Celulose donated 57,000 disposable masks to municipalities in the Triângulo Mineiro.

Amadeus Project

LD Celulose has named the construction project of its pulp plant Amadeus Project. The project was formally approved by the Management in December 2019.

Brazil is one of the most competitive pulp producing countries in the world due, above all, to the availability of high quality land, favorable soil and climate conditions, and high forest productivity.

The investment in question will help strengthen the competitiveness of the pulp industry in Brazil and support job creation.

In addition, LD Celulose's cogeneration plant will contribute to increasing the participation of sustainable biofuels and renewable energy in the Brazilian energy matrix, improving its diversification and contributing to the local effort to mitigate climate change.

By December 2020 the physical progress of the project was 48% being in line with the established schedule. From a financial perspective, the cost estimate for the completion of the plant is in line with the original budget of USD 1.3 billion. By December 2020 the project reached a mobilization of over 4,500 workers, about 6.0 million hours worked, and only 3 accidents reported. The forecast is that, at the peak of construction, more than 6,000 direct jobs will be generated, boosting the social and economic development of the entire region.

Despite the challenges brought on by the COVID 19 pandemic, the start-up of the pulp plant is scheduled for March 2022.

Project financing

The resources for the execution of the project are divided into 37% shareholder capital, of which 80% has already been paid in 2020, and 63% third-party financing (to be disbursed according to project needs).

In June 2020, LD Celulose raised USD 1.1 billion in financing from the IFC (International Finance Corporation) and IDB (Inter-American Investment Corporation) and the credit agency Finnvera. This package consists of three parts: (i) a USD 500 million financing package led by the IFC; (ii) a USD 500 million financing led by IDB Invest; and (iii) a "door to door" loan of USD 147 million, from financial institutions supported by the Finnish export credit agency Finnvera.

In 2020, this financing earned two nominations in LatinFinance's "Project & Infrastructure Finance Awards", which annually selects the best infrastructure investments in Latin America and the Caribbean. These awards guarantee LD Celulose international recognition and that its project is characterized by excellence and commitment to social, environmental, and sustainability issues.

Personnel Management

LD Celulose ended 2020 with 448 employees, well above the number of 33 employees presented in 2019. This evolution is adherent to its hiring and training plan for start-up in March 2022.

Independent Auditors

In compliance with CVM Instruction No. 381/03, LD Celulose S.A. informs that for the fiscal year ended December 31, 2020, it did not hire additional services besides the audit of its financial statements.

Acknowledgments

We are grateful for the support received from our shareholders, the dedication and commitment of our employees, and the partnership with all our suppliers.

KPMG Auditores Independentes
Av. dos Municípios, 146, Sl-03
1º andar - Tabajaras
38400-254 - Uberlândia/MG - Brasil
Caixa Postal 1024 - CEP 38400-970 - Uberlândia/MG - Brasil
Telefone +55 (34) 3303-5400
kpmg.com.br

Independent auditor's report in the financial statements

To the Shareholders and Management of the

LD Celulose S.A.

Uberlândia- MG

Opinion

We have audited the financial statements of LD Celulose S.A. ("the Company"), which comprise the statement of financial position as at December 31, 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Basis for Opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

Unaudited Previous fiscal year

We draw attention to the fact that we have not audited the accompanying statement of financial position as at December 31, 2019, the statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, or any related notes and accordingly, we do not express an opinion on them.

Other Information

Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance 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 financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- *Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*

- *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.*

- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*

- *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.*

- *Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*

We communicate with management among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Uberlândia, May 28, 2021

KPMG Auditores Independentes
CRC MG-008266/F-9

Fábio Elias

Fábio Roberto Elias Tymburibá
Accountant CRC 1SP214859/O-2

LD Celulose S.A.

Statement of Financial Position

Fiscal years ended December 31, 2020 and 2019

(In thousands of Dollar)

Assets	**Note**	**2020**	**2019 (Unaudited)**
Cash and cash equivalents	8	133,015	702
Trade receivables		576	-
Inventories		506	-
Recoverable taxes	9	364	958
Derivative financial instruments - Assets		926	-
Other credits	10	4,697	621
Total current assets		**140,084**	**2,281**
Recoverable taxes	9	12,485	-
Other credits	10	262	-
Derivative financial instruments - Assets		571	-
Biological assets	13	103,472	-
Fixed assets	11	478,383	23,984
Intangible assets		1,137	1,030
Right-of-use assets	12	47,563	184
Total non-current assets		**643,873**	**25,198**
Total assets		**783,957**	**27,479**

Liabilities	**Note**	**2020**	**2019 (Unaudited)**
Suppliers	14	18,053	984
Salaries, vacations and welfare charges		1,297	375
Derivative financial instruments	24	49,760	-
Other trade payables	15	4,621	795
Loans and borrowings	16	388	-
Lease liabilities	12	1,478	172
Taxes and contributions payable		844	156
Total current liabilities		**76,441**	**2,482**
Loans and borrowings	16	291,679	-
Loans with related parties	16	26,181	28,225
Derivative financial instruments	24	7,294	-
Deferred tax liability	17	6,737	-
Lease liabilities	12	41,573	13
Total non-current liabilities		**373,464**	**28,238**
Equity	19		
Share capital		433,890	1,788
Equity valuation adjustments		(70,244)	-
Retained earnings		(29,594) -	5,029
Total equity		**334,052**	**(3,241)**
Total liabilities and equity		**783,957**	**27,479**

LD Celulose S.A.

Statement of profit or loss

Fiscal years ended December 31, 2020 and 2019

(In thousands of Dollar)

	Note	2020	2019 (Unaudited)
Net operating income	20	6,978	-
Costs of products sold and services provided	21	(6,739)	-
Gross profit		**239**	**-**
General and administrative expenses	21	(12,342)	(4,397)
Other operating revenue/expenses	22	5,638	-
Income before net financial results and taxes		**(6,465)**	**(4,397)**
Financial revenues	23	14,808	181
Financial expenses	23	(26,171)	(142)
Net financial results		**(11,363)**	**39**
Loss before taxes		**(17,828)**	**(4,358)**
Income tax and social security contribution	17	(6,737)	-
Net loss for the fiscal year		**(24,565)**	**(4,358)**

LD Celulose S.A.

Statement of comprehensive income

Fiscal years ended December 31, 2020 and 2019

(In thousands of Dollar)

	2020	2019 (Unaudited)
Loss for the fiscal year	(24,565)	(4,358)
Unrealized profit or loss on cash flow hedge transactions	70,244	-
Total comprehensive income	**45,679**	**(4,358)**

The notes are an integral part of the financial statements.

LD Celulose S.A.

Statement of changes in equity

Fiscal years ended December 31, 2020 and 2019

(In thousands of Dollar)

	Note	Share Capital	Equity valuation adjustments	Retained earnings	Total equity
Balance on January 1, 2019 (Unaudited)		**1,788**	**-**	**(671)**	**1,116**
Loss for the fiscal year		-	-	(4,358)	(4,358)
Balance on December 31, 2019 (Unaudited)		**1,788**	**-**	**(5,029)**	**(3,242)**
Paid-in Capital	19 a.	432,102	-	-	432,102
Unrealized profit or loss on cash flow hedge transactions	24 n.	-	(70,244)	-	(70,244)
Loss for the fiscal year		-	-	(24,565)	(24,565)
Balance as of December 31, 2020		**433,890**	**(70,244)**	**(29,594)**	**334,051**

The notes are an integral part of the financial statements.

LD Celulose S.A.

Statements of cash flows

Fiscal years ended December 31, 2020 and 2019

(In thousands of Dollar)

		2020	**2019 (Unaudited)**
Net loss for the fiscal year	**Note**	**(24,565)**	**(4,358)**
Adjustments for:			
Depreciation and amortization		694	(89)
Accrued interest on leasing		-	-
Accrued interest on borrowings and loans	16	1,913	-
Unrealized exchange variation		(3,098)	-
Biological assets fair value	13	14,066	-
Variations in:			
Trade receivables		(576)	-
Inventories		(506)	-
Recoverable taxes		(11,890)	(958)
Other trade receivables		(4,337)	(621)
Suppliers		17,070	984
Taxes and contributions payable		687	156
Deferred income tax and social security contribution		6,737	-
Salaries and benefits		922	376
Contingency payments		-	-
Other trade payables		3,826	796
Cash originated (used) in operating activities		**943**	**(3,715)**
Payment of interest on borrowings and leases		(6,730)	-
Cash generated by operating activities		**- 5,787**	**(3,715)**
Cash flows from investment activities			
Acquisition of fixed assets	11	(455,363)	(23,894)
Sale of fixed assets		409	-
Acquisition of intangible assets		(245)	(1,030)
Additions to biological assets	13	(4,127)	-
Sale of biological assets	13	7,679	-
Cash flows used in investment activities		**(451,647)**	**(24,924)**
Cash flows from financing activities			
Payment of financing and borrowings		29,463	-
Lease payments		(698)	-
Borrowings raising		291,679	-
Loan raising		(28,314)	28,225
Profit sharing		-	- 671
Capital contributions		318,147	1,788
Cash flows from financing activities		**610,277**	**29,341**
Net increase (decrease) in cash and cash equivalents		152,843	702
Effects of foreign exchange variations on cash and cash equivalents		(20,529)	-
Net increase (decrease) in cash and cash equivalents		**132,314**	**702**
Cash and cash equivalents on January 1st		702	-
Cash and cash equivalents as of December 31		133,015	702

Notes to the financial statements

(In thousands of Dollar, except when otherwise indicated)

1 Operations context

LD Celulose S.A. ("Company") has its headquarters, jurisdiction and domicile in the municipality of Indianópolis/MG, at BR 365, KM 574, CEP (Zip Code) 38.490-000. The Company is the result of the partnership between Lenzing Aktiengesellschaft ("Lenzing") and Duratex S.A. ("Duratex") and its corporate purpose is to hold interest in the capital of other domestic or foreign companies, as a partner, shareholder or quotaholder; the manufacture of pulp and other pulp for manufacture of paper; the extraction of wood and the cultivation of eucalyptus and pine; and energy generation activity in an independent/self-production regime.

The Company is currently in the pre-operational phase and is building a manufacturing plant in Indianópolis, Minas Gerais, which is scheduled for completion in the 1st semester of 2022. The plant will be responsible for producing soluble pulp for export. During 2020, the Company received capital contributions from its shareholders in the amount of USD 433,890, of which USD 221,155 from Lenzing and USD 212,736 from Duratex. Part of the amount contributed by Duratex was through biological assets, machinery and equipment, and vehicles, in the amount of USD 116,369.

The Company has raised funds through long-term financing with the international banks IFC - International Finance Corporation, IDB - Inter-American Investment Corporation and Finnvera in the total amount of up to USD 1,147,000, approved on May 29, 2020. The funds obtained will be used to finance the construction of the soluble pulp plant.

The outbreak of the COVID-19 pandemic and the measures taken by governments in countries around the world to mitigate the spread of the pandemic did not significantly impact the Company. The construction of the pulp plant followed the expected schedule, despite the restrictive measures. Additionally, the Company raised long-term borrowings in 2020 for the maintenance of the works and no renegotiation with its creditors was necessary. So far no relevant impacts to the Company have been identified and are not expected as a result of the pandemic.

The Company is in the pre-operational phase and has financial support from its partners Lenzing and Duratex in case of any additional financial contribution until the Company starts operating.

2 Basis for preparation

a. Statement of compliance

The consolidated financial statements were prepared in accordance with accounting policies adopted in Brazil (BR GAAP).

The issuance of the financial statements was authorized by the responsible Executive Board on May 31, 2021.

Details on the significant accounting policies of the Company are presented in note 6.

All information relevant to the financial statements, and only such information, is evidenced herein and corresponds to the information used by the Management in its activities.

3 Functional and presentation currency

These financial statements are being presented in US dollar, the Company's functional currency is the US dollar, in accordance with the rules described in Technical Pronouncement CPC No. 2 (R2) - Effects of Changes in Exchange Rates and Conversion of Financial Statements.

After reviewing the operations and business of the Company, mainly related to the elements to determine its functional currency, the Management concluded that US dollar (“USD” or “dollar”) is its functional currency. This conclusion is based on the review of the following indicators:

- Currency that most influences product selling prices;
- Its exports will be made in US Dollar;
- Currency that influences factors in the costs of sea freight, raw materials and other costs for the supply of goods;
- Currency through which the resources from the financing activities originate; and
- Currency in which the resources generated by operating activities will usually be accumulated.

4 Use of estimates and judgments

Preparation of the financial statements according to the CPC standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts for assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are continuously reviewed. Estimate reviews are recognized on a prospective basis.

a. Judgments

Information about critical assumptions referring to accounting policies adopted that affect the values recognized in financial statements are included in the following explanatory notes:

Note No. 12 - lease term: whether the Company has reasonable assurance it is exercising extension options.

b. Uncertainties regarding assumptions and estimates

Information on the uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the next fiscal year is included in the following notes:

Note No. 17 - recognition of deferred tax assets and availability of future taxable income against which tax losses can be used;

Note No. 24 - Financial instruments (fair value).

5 Measurement basis

The financial statements were prepared on historical cost basis, except for the following material items that are measured at each reporting date and recognized in statements of financial position:

– derivative financial instruments measured at fair value;

– Non-derivate financial instruments designated at fair value through profit or loss are measured by the fair value;

– biological assets are measured at fair value less cost to sell;

6 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies are applied consistently to all fiscal years presented in these financial statements, unless otherwise stated in the same note.

a. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currency, that is, all transactions not carried out in the functional currency, are converted using the exchange rate ruling on the date of each transaction.

Monetary assets and liabilities denominated and calculated in foreign currencies on the reporting date are reconverted to the functional currency at the exchange rate determined on that date. Non-monetary assets and liabilities measured at fair value in foreign currency are reconverted into the functional currency at the exchange rate on the date on which the fair value was calculated. Non-monetary items measured on historical cost basis in a foreign currency are converted using the exchange rate on transaction date. Differences in foreign currencies resulting from the conversion are generally recognized in the statement of profit or loss.

However, exchange differences resulting from the reconversion of a qualified effective cash flow hedge are recognized in other comprehensive income.

b. Financial instruments

(i) Initial recognition and measurement

Trade receivables and debt securities issued are initially recognized on the date on which they originated. All other financial assets and liabilities are initially recognized when the Company becomes one of the parties to the contractual provisions of the instrument.

A financial asset (unless in the case of trade receivables without a significant financing component) or financial liability is initially measured at fair value, plus, for an item not measured at FVTPL, the transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component are initially measured at transaction price.

(ii) Subsequent classification and measurement

Upon initial recognition, a financial asset is classified as measured at amortized cost or FVTPL.

Financial assets are not reclassified subsequent to initial recognition, unless the Company changes the business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period subsequent to the change in business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at FVTPL:

it is maintained within a business model the objective of which is to maintain financial assets to receive contractual cash flows; and

its contractual terms generate, on specific dates, cash flows related only to payment of principal and interest on the outstanding principal amount.

Financial assets - Evaluation of business model:
The Company evaluates the objective of the business model in which a financial asset is held in the portfolio because this better reflects the way in which the business is managed and the information is provided to Management. Information considered includes:

the policies and objectives stipulated for the portfolio and the practical operation of such policies.

knowing whether Management's strategy focuses on obtaining contractual interest revenue, maintaining a certain interest rate profile, matching the duration of financial assets with the duration of related liabilities or expected cash outflows, or the realization of cash flows through the sale of assets;

how portfolio performance is evaluated and reported to the Company's Management;

the risks that affect the performance of the business model (and the financial asset held in that business model) and the way those risks are managed;

how business managers are compensated, for example, whether the compensation is based on fair value of the assets managed or on the contractual cash flows obtained; and

the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations for future sales.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales, in a manner consistent with the ongoing recognition of the Company's assets.

Financial assets held for trading or managed with performance measured at fair value are measured at Fair Value through Profit or Loss (FVTPL).

Financial assets - Assessment of whether contractual cash flows are only principal and interest payments:
For the purposes of this evaluation, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as a compensation for the value of money over time and for the credit risk associated with the outstanding principal amount over a given period of time

and for the other basic risks and costs of borrowings (e.g. liquidity risk and administrative costs), as well as a profit margin.

The Company considers the contractual terms of the instrument when assessing whether contractual cash flows are only principal and interest payments. This includes assessing whether the financial asset contains a contractual term that could change the timing or value of the contractual cash flows so that it would no longer meet that condition. In making this evaluation, the Company considers:

contingent events that modify the value or timing of cash flows;

terms that may adjust the contractual rate, including variable rates;

prepayment or extension of the term; and

terms limiting the Company's access to cash flows for specific assets (for example, based on the performance of an asset).

Prepayment is consistent with the payment criteria of principal and interest if prepayment amount represents, in their most part, unpaid amounts of principal and interest on the amount of outstanding principal - which may include reasonable additional compensation for early termination of the agreement. Furthermore, in relation to a financial asset acquired at a value less or greater than the par value of the agreement, the authorization or requirement of prepayment at a value representing the par value of the agreement plus contractual accrued (but unpaid) interest (which also may include reasonable additional compensation for early termination of the agreement) are treated as consistent with this criterion if the fair value of the prepayment is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains or losses:

Financial assets measured at FVTPL: These assets are subsequently measured at fair value. Net income, including interest or dividend income, is recognized in profit or loss.

Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest revenue, exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Debt instruments at FVOCI: These assets are subsequently measured at fair value. Interest revenue calculated using the effective interest method, exchange gains and losses and impairment are recognized in profit or loss. Other net income is recognized in OCI. In derecognition, the accumulated income in OCI is reclassified to profit or loss.

Equity instruments at FVOCI: These assets are subsequently measured at fair value. Dividends are recognized as gains in profit or loss, unless dividend represents a clear recovery of part of the investment cost. Other net income is recognized in OCI and is never reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses:
Financial liabilities were classified as measured at amortized cost or at FVTPL. A financial liability is classified as measured at fair value through profit or loss if it is classified as held for trading, is a derivative or is designated as such at initial recognition. Financial liabilities measured at FVTPL are measured at fair value and net income, including interest, is recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses, exchange gains and losses are recognized in profit or loss. Any gain or loss upon derecognition is also recognized in profit or loss.

(iii) Derecognition

Financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company transfers the rights of receiving the contractual cash flows of a financial asset in a transaction in which essentially all of the risks and benefits of ownership of the financial asset are transferred, or in which the Company neither transfers, nor maintains substantially all risks and benefits of ownership of the financial asset, and also does not have control over the financial asset.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are withdrawn, canceled or expire. The Company also derecognizes a financial liability when the terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Upon derecognition of a financial liability, the difference between the extinct carrying amount and the consideration paid (including transferred assets that do not pass through the cash or assumed liabilities) is recognized in the profit or loss.

(iv) Offset
The financial assets or liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has the legal right to offset the amounts and intends to settle them on a net basis, or realize the assets and settle the liability simultaneously.

(v) Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its exposure to foreign currency exchange risks.

Derivatives are initially measured at fair value. After initial recognition, derivatives are measured at fair value, and the variations in fair value are normally recorded in profit or loss.

The Company designates certain derivatives as hedge instruments to protect the variability of cash flows associated with highly probable estimated transactions, resulting from changes in exchange and interest rates, in addition to certain derivative financial liabilities.

The Company classifies non-derivative financial assets in the following categories: financial assets recorded at fair value through profit or loss, financial assets held to maturity and loans and receivables.

The Company classifies the non-derivative financial liabilities in the following categories: financial liabilities measured at fair value through profit or loss and liabilities at amortized cost.

At the beginning of designated hedge relationships, the Company documents the risk management objective and the strategy for acquiring the hedge instrument. The Company also documents the economic relationship between the hedge instrument and the hedged item, including whether changes in cash flows of the hedged item and the hedge instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedge instrument, the effective portion of the variations in the fair value of the derivative is recognized in other comprehensive income and presented in the hedge reserve account. The effective portion of the variations in the fair value of the derivative recognized in OCI is limited to the cumulative change in the fair value of the hedged item, determined on the basis of the present value, from the beginning of the hedge. Any non-effective portion of the variations in the fair value of the derivative is immediately recognized in profit or loss.

The Company only designates variations in the fair value of the spot element of forward exchange contracts as a hedge instrument in the cash flow hedge relations. The change in fair value of the future element of forward exchange agreements (forward points) is accounted for separately a hedge cost and recognized in hedge cost reserve in equity.

When the expected hedged transaction results in the subsequent recognition of a non-financial item, such as inventories, the cumulative amount in the hedge reserve and the cost of the hedge reserve are included directly in the initial cost of the non-financial item when it is recognized.

In relation to the other hedged transactions, the accumulated value in the hedge reserve and the cost of the hedge reserve are reclassified to profit or loss in the same period or periods when the expected future cash flows that are subject to hedge affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting, or the hedge instrument expires or is sold, closed or exercised, hedge accounting is discontinued prospectively. When accounting of cash flow hedges is discontinued, the value that has been accumulated in the hedge reserve remains in equity until, for a hedge instrument of a transaction that results in the recognition of a non-financial item, it is included in the cost of the non-financial item at the time of initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the expected future cash flows that are subject to hedge affect profit or loss.

If the future cash flows that are subject to hedge are no longer expected, the amounts that were accumulated in the hedge reserve and the cost of the hedge reserve are immediately reclassified to profit or loss.

c. Biological assets:

The Company's biological assets are comprised of forest reserves and are measured at fair value, less costs to sell, with any changes recognized in profit or loss.

d. Fixed assets

(i) Recognition and measurement

Fixed asset items are measured at the historical cost of acquisition or construction, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

The cost includes expenses that are directly attributable to the acquisition of an asset. The cost of assets constructed by the Company itself includes: (i) the cost of materials and direct labor; (ii) any other costs incurred to put the asset in place and condition needed to operate as intended by the Management; (iii) costs of disassembly and restoration from the location where these assets were located; and (iv) borrowing costs on qualified assets.

Purchased software that is an integral part of the functionality of a piece of equipment is capitalized as part of that equipment.

When parts of a fixed asset item have different useful lives, they are recorded as individual items (main components) of fixed assets.

Gains and losses from disposals are determined by comparison of the profit or loss with their carrying amount and are recognized net within other revenues / expenses in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditures are capitalized only when it is probable that the future economic benefits associated with the expenditures will flow to the Company.

(iii) Depreciation

Items of fixed assets are depreciated by the straight-line method in profit or loss for the fiscal year based on estimated economic useful life of each component. Leased assets are depreciated by the estimated useful life of the asset and the term of the agreement, whichever is shorter, unless it is certain that the Company will acquire ownership of the asset at the end of lease term. Land is not depreciated.

The estimated useful lives for the current and comparative fiscal year are the following:

Buildings	20 years
Machinery and equipment	10 years
Furniture and fixtures	10 years
Data processing equipment	5 years
Environmental Control	5 years
Improvements in third-party properties	2.25 years
Vehicles	5 years

Methods of depreciation, useful lives, and residual values are reviewed at each reporting date, and adjusted, if necessary.

Depreciation occurs on a straight-line basis, considering the shortest period between the useful life of the asset and the
concession period.

e. Intangible Assets

Intangible assets acquired by the Company with defined useful lives are measured at cost, less accumulated amortization and any accumulated impairment losses.

f. Impairment

(i) Non-derivative financial assets

At each reporting date, the Company assesses whether the financial assets accounted for at amortized cost and debt securities measured at FVOCI are subject to credit-impaired. A financial asset is "credit-impaired" when one or more events with a detrimental impact on the estimated future cash flows of the financial asset occurred.

Objective evidence that financial assets had recovery problems includes the following observable data:

- significant financial difficulties of the debtor;
- breach of contractual sections, such as default or delay of more than 90 days;
- restructuring of an amount owed to the Group, in conditions that would not be accepted under normal conditions;
- the likelihood that the debtor will go bankrupt or undergo another type of financial reorganization; or
- disappearance of active market for the security due to financial difficulties.

(ii) Non-financial assets

The carrying amounts of non-financial assets of the Company, which are not biological assets, inventories and deferred tax assets, are revised on each reporting date to assess if there are signs of impairment loss. If there is such indication, then the recoverable amount of the asset is estimated. In case of goodwill, the recoverable amount is tested annually.

For impairment tests, assets are grouped into Cash Generating Units (CGUs), that is, the smallest possible group of assets that generates cash inflows due to their continuous use, which are largely independent of cash entries of other assets or CGUs. Goodwill of business combinations is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable value of an asset or CGU is the greater of its value in use and its fair value less sales costs. The value in use is based on estimated future cash flows, discounted to present value, using a pre-tax discount rate that reflects current market valuations and the value of money over time, and the specific risks of the asset or the CGU.

An impairment loss, when applicable, is recognized if the carrying amount of the asset or CGU exceeds its recoverable value.

Impairment losses are recognized in statement of profit or loss.

A goodwill impairment loss is not reversed. As to other assets, impairment losses are reversed only when the new carrying amount of assets does not exceed the carrying amount that would have been earned, net of depreciation or amortization, if the loss had not been recognized.

g. Other current and non-current assets

These are stated at cost or realizable values, including, when applicable, the income earned up to the reporting date.

They are presented at known or payable amounts, plus, when applicable, the corresponding charges, monetary and exchange variations incurred up to the reporting date.

h. Provisions

Provisions are ascertained through discount of estimated future cash flows at a rate before taxes that reflects current market evaluations as to the value of money over a period and risks to the related liability. The effects of derecognition of discount over the periods are recognized in profit or loss as financial expenses.

i. Operating revenue

(i) Sale of products

The sales revenue is recognized in profit or loss due to its realization.

Revenues are not recorded if there is significant uncertainty as to their realization.

The completion of the performance obligation varies depending on the individual terms of the sales agreement. The transfer normally occurs upon delivery of the goods to the buyer.

j. Financial revenues and expenses

Financial revenues comprise interest income on financial investments, gains on hedge instruments, when applicable, positive exchange variation, and late payment charges on services provided, which are recognized in profit or loss.

Financial expenses include expenses such as interest, negative exchange variation and losses with derivative financial operations, which are recognized in profit or loss.

k. Income tax and social security contribution

The income tax and social security contribution for the current and deferred fiscal years are calculated based on the 15% tax rate, plus an additional 10% on taxable income exceeding two hundred and forty thousand Brazilian reais (BRL 240), annual basis, for income tax, and 9% on taxable income for the social security contribution on net income, and they consider the offsetting of tax losses and negative basis of social security contribution, limited to 30% of taxable income.

Expenses with income tax and social security contribution comprise current and deferred income taxes. The current and deferred taxes are recognized in statement of profit or loss, unless they are related to items directly recognized in equity or in other comprehensive income.

Interest and fines related to income tax and social security contribution, including uncertain tax treatment, are accounted for in accordance with CPC 25 - Provisions, Contingent Liabilities and Contingents Assets.

(i) Current income tax and social security contribution expense

Current tax expense is the payable tax that is expected on taxable income for the fiscal year, as well as any adjustment in payable taxes referring to previous fiscal years. The amount of current taxes payable or receivable is recognized on the statement of financial position as tax asset or liability by the best estimate of expected amount of taxes to be paid or received, which reflects the uncertainties related to its assessment, if any. It is measured based on the tax rates decreed on reporting date.

Current tax assets and liabilities are only offset if certain criteria are met.

(ii) Expenses with deferred income tax and social security contribution

Deferred tax assets and liabilities are recognized in relation to temporary differences between carrying amounts of assets and liabilities for financial statements purposes and corresponding values used for taxation purposes. The changes in deferred tax assets and liabilities in the fiscal year are recognized as expense with deferred income tax and social security contribution.

A deferred tax asset is recognized in relation to tax losses and temporary differences deductible not used, when it is probable that future taxable income will be available and against which they will be used.

Deferred tax assets are revised at each reporting date and will be deducted to the extent that their realization is no longer probable.

Deferred tax assets and liabilities are measured based on rates which are expected to be applied to the temporary differences when reversed, based on rates that were decreed up to the reporting date.

Measurement of deferred tax assets and liabilities reflects the tax consequences from the manner in which the Company expects to recover or settle its assets and liabilities.

Deferred tax assets and liabilities are only offset if certain criteria are met.

l. Capitalization of borrowing costs

Borrowing costs attributable to the construction of the pulp plant are capitalized during the construction phase in accordance with Technical Pronouncement CPC 20 (R1) -Borrowing costs issued by the Accounting Pronouncements Committee.

m. Fair value measurement

Fair value is the price that would be received on the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date in the main market or, in its absence, the most advantageous market to which the Company has access on that date. The fair value of a liability reflects its non-performance risk. Non-performance risk includes, among others, the Company's own credit risk.

A series of accounting policies and disclosures from the Company require the measurement of fair values for both financial and non-financial assets and liabilities.

When available, the Company measures the fair value of an instrument using the price quoted in an active market for that instrument. A market is considered "active" if the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, the Company uses valuation techniques that maximize the use of relevant observable data and minimize the use of unobservable data. The assessment technique chosen incorporates all the factors that market participants would take into account when pricing a transaction.

If an asset or a liability measured at fair value has a purchase price and a sale price, the Company measures assets based on purchase prices and liabilities based on selling prices.

The best evidence of the fair value of a financial instrument on initial recognition is usually the transaction price - that is, the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is not evidenced by either a quoted price in an active market for an identical asset or liability or based on an assessment technique for which any unobservable data are considered insignificant in relation to measurement, then the financial instrument is initially measured at fair value, adjusted to include the difference between the fair value at the initial recognition and the transaction price. Then this difference is subsequently recognized through profit or loss on a proper basis over the life of the instrument or until the valuation is fully supported by observable market data or the transaction is closed, whichever occurs first.

n. Inventories

Inventories are measured at cost or net realizable value, whichever is lower. The cost of inventories is based on the average acquisition or production cost method and includes expenses incurred on the acquisition of inventories, other costs incurred to bring them to their current location and condition.

The net realizable value is the estimated sale price in the normal course of business, less estimated completion costs and selling expenses.

o. CPC 06 (R2) - Leases

At the beginning of an agreement, the Company assesses whether it is or contains a lease.
An agreement is or contains a lease, if it transfers the right to control the use of an identified asset for a period for consideration.

(i) Leases in which the Company is the lessee

At the beginning or in amendment of an agreement that contains a lease component, the Company allocates the consideration in it to each lease component based on their individual prices. However, for property leases, the Company chose not to separate the non-lease components and records lease and non-lease components as a single component.

The Company recognizes the right-of-use assets and a lease liability on the lease start date. Right-of-use assets are initially measured at cost, which comprises the initial measurement value of the lease liability, adjusted for any lease payments made up to start date, plus any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in disassembling and removing the underlying asset, restoring the site in which it is located or restoring the underlying asset to the condition required by the lease terms and conditions, less any lease incentives received.

Right-of-use assets are subsequently depreciated using the straight-line method from the start date to the end of lease term, unless the lease transfers ownership of the underlying asset to the lessee at the end of the lease term, or if the cost of right-of-use asset reflects that the lessee will exercise call option. In this case, right-of-use assets will be depreciated over the useful life of the underlying asset, which is determined on the same basis as that of fixed assets. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

The lease liability is initially measured at the present value of lease payments that are not made on start date, discounted at the interest rate implicit in the lease or, if such rate cannot be determined immediately, at the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as a discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external sources of financing and making some adjustments to reflect the terms of the agreement and the type of leased asset.

Lease payments included in measurement of the lease liability include the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on index or rate, initially measured using the index or rate at start date;
- amounts expected to be paid by the lessee, in accordance with residual value guarantees; and
- the exercise price of call option if the lessee is reasonably certain to exercise such option, and payment of fines for terminating the lease, if the lease term reflects the lessee exercising the option to terminate the lease

The lease liability is measured at amortized cost, using the effective interest method. It is remeasured when there is a change in future lease payments resulting from change in index or rate, if there is a change in the amounts expected to be paid in accordance with the residual value guarantee, if the Company changes its valuation on whether a call option, extension or termination is exercised, or if there is an essentially fixed revised lease payment.

When the lease liability is remeasured in this way, an adjustment corresponding to the carrying amount of the right-of-use assets is made or is recorded in statement of profit or loss if carrying amount of right-of-use assets has been reduced to zero.

_(ii)_ _Leases in which the Company is the lessor_
As of December 31, 2020, the Company does not have any agreements in which it is a lessor.

7 New standards and interpretations not adopted

A series of new standards will be effective for fiscal years beginning as of January 1, 2020.

The following new and amended standards are not expected to have a significant impact on the Company's financial statements:

- Reform of the reference interest rate- Phase 2 (amendment to CPC 48, CPC 38, CPC 40, CPC 11, CPC 06:

  As of December 31, 2020, the Company has USD 292,066,761 thousand in LIBOR bank borrowings that will be subject to IBOR reform. The Company expects that the benchmark interest rate for these borrowings will change to SONIA in 2021 and that no significant gain or loss on the modification will arise as a result of applying the changes.

  Additionally, as of December 31, 2020, the Company has cash flow hedges of LIBOR risk. The Company expects that the indexing of hedged items and hedging instruments to LIBOR will be replaced by SONIA in 2021. Whenever the replacement occurs, the Company expects to apply the amendments to the standard related to hedge accounting. However, there is uncertainty about when and how replacement may occur. When the change occurs in the hedged item or the hedging instrument, the Company will remeasure the cumulative change in the fair value of the hedged item or the fair value of the interest rate swap, respectively, based on SONIA. Hedging relationships can suffer hedge ineffectiveness if there is a timing difference or other mismatch between the transition of the hedged item and the hedging instrument to SONIA. The Company does not expect the amounts accumulated in the cash flow hedge reserve to be reclassified immediately to profit or loss due to the IBOR transition.

- COVID-19 related rental concessions (amendments to CPC 06);
- Fixed assets: Revenues before the intended use (amendments to CPC 27/IAS 16).
- Reference to Conceptual Framework (Amendments to CPC 15/IFRS 3).
- Classification of Liabilities as Current or Non-Current (amendments to CPC 26).
- IFRS 17 Insurance Agreements.

8 Cash and cash equivalents

Cash and cash equivalents are classified according to their realization term, and are stated at cost, plus income earned through the closing dates of the periods, less, when applicable, a provision for adjustment to their net realizable value.

	2020	**2019 (Unaudited)**
Cash and banks	577	702
Financial investments	132,438	-
	133,015	**702**

Cash balances and bank deposits basically comprise cash in hand and available bank deposits, respectively.

The short-term financial investments, of high liquidity, are promptly convertible into a known amount of cash, and are subject to an insignificant risk of changes in value, remunerated at average rates of 90% to 99% of the CDI (Interbank Deposit Certificate) in 2020 and 2019.

9 Recoverable taxes

	2020	2019 (Unaudited)
Current		
COFINS (Social Contribution on Billings) to be offset	42	763
PIS (Social Integration Program) to be offset	9	166
ICMS	66	-
INSS (National Institute of Social Security)	71	-
CSLL (Social Contribution on Net Income) recoverable from previous years	14	-
IRPJ (Corporate Income Tax) recoverable from previous years	3	7
IRRF (Withholding Income Tax) on financial operations	158	2
Other	1	21
	364	**958**
Non-current		
COFINS (Social Contribution on Billings) to be offset (i)	10,170	-
PIS (Social Integration Program) to be offset (i)	2,208	-
ICMS	107	-
	12,845	-
Total	**12,849**	**958**

(i) Credits arising from the acquisition of fixed assets, which will be used in the future to offset federal taxes. The Company estimates that after the start of operations in 2022 these taxes will be recovered, since, according to the legislation, these credits can be offset against any federal tax.

10 Other credits

	2020	2019 (Unaudited)
Current		
Prepaid expenses (i)	3,678	597
Insurance receivable	966	
Advances to suppliers	34	24
Advances to employees	20	-
	4,697	**621**
Non-current		
Advances to suppliers	262	-
	262	-
Total	**4,959**	**621**

(i) These refer basically to expenses with forest, machinery and vehicle insurance, construction engineering, and loss of profits.

11 Fixed assets

	12/31/2020 Cost	12/31/2020 Depreciation	12/31/2020 Net	12/31/2019 Net (Unaudited)
Land	599	-	599	-
Buildings	463	(33)	430	-
Machinery and equipment	1,533	(186)	1,347	-
Environmental Control	5	(2)	3	-
Data processing equipament	856	(198)	658	368
Improvements in third-party properties	-	-	-	44
Furniture and fixtures	174	(21)	153	129
Vehicles	1,717	(116)	1.601	77
Projects in progress	200,752	-	200,752	19,465
Advances for purchase of fixed assets	272,840	-	272,840	3,902
	478,939	**(556)**	**478,383**	**23,985**

a. The activity of the balances of the fixed assets is as follows:

	Net balance on 12/31/2019 Unaudited	Additions	Write-offs	Transfers	Depreciation	Net balance on 12/31/2020
Land	-	599	-	-	-	599
Buildings	-	463	-	-	(33)	430
Machinery and equipment	-	997	(35)	571	(186)	1,347
Environmental Control	-	5	-	-	(2)	3
Data processing equipament	368	488	-	-	(198)	658
Improvements in third-party properties	44	-	(44)	-	-	-
urniture and fixtures	129	106	(61)	-	(21)	153
Vehicles	77	2,246	(35)	(571)	(116)	1,601
Projects in progress	19,465	90,745	-	90,541	-	200,752
Advances for purchase of fixed assets	3,902	359,479	-	(90,541)	-	272,840
	23,985	**455,128**	**(174)**	**-**	**(556)**	**478,383**

	Net balance 12/31/2018 Unaudited	Additions	Write-offs	Transfers	Depreciation	Net balance 12/31/2019 Unaudited
Machinery and equipment	74	1	-	(75)	-	-
Data processing equipment	55	282	-	80	(49)	368
Furniture and fixtures	69	68	-	-	(9)	128
Security systems	1	3	-	(4)	-	-
Vehicles	-	84	-	-	(7)	77
Improvements in third-party properties	47	21	-	-	(24)	44
Advances for purchase of fixed assets		12.696	-	-	-	12.696
Projects in progress	2.269	8.403	-	(1)	-	10.671
	2.515	**21.558**	**-**	**-**	**(89)**	**23,985**

b. The activity in the depreciation balances is as follows:

Activity in depreciation	**Depreciation 12/31/2019 Unaudited**	**Addition**	**Write-off**	**Depreciation 12/31/2020**
Buildings	-	(33)	-	(33)
Machinery and equipment	-	(186)	-	(186)
Environmental Control	-	(2)	-	(2)
Equipment and data processing	(49)	(198)	-	(246)
Improvements in third-party properties	(24)	-	24	-
Furniture and fixtures	(9)	(21)	-	(30)
Vehicles	(7)	(116)	-	(123)
Projects in progress	-	-	-	-
AAdvances for purchase of fixed assets	-	-	-	-
	(89)	**(556)**	**24**	**(621)**

Activity in depreciation	**Depreciation 12/31/2018 Unaudited**	**Addition**	**Write-off**	**Depreciation 12/31/2019 (Unaudited)**
Equipment and data processing	-	(49)	-	(49)
Improvements in third-party properties	-	(24)	-	(24)
Furniture and fixtures	-	(9)	-	(9)
Vehicles	-	(7)	-	(7)
	-	**(89)**	-	**(89)**

The current economic useful life of each asset category for each fiscal year is presented in note No. 6(c).

c. Collaterals

On December 31, 2020, the Company had agricultural machinery and large vehicles, in the amount of BRL 13,331, given as collateral in borrowing operations with IDB Invest, IFC International Finance Corporation, and Finnvera.

d. Capitalized costs

The number of borrowing costs capitalized during the fiscal year ended December 31, 2020 was BRL 12,593. To determine the borrowing costs that can be capitalized, the percentage of disbursement for each year and the proportion between the time and amount of each loan line were weighted.

In addition to borrowing costs, an amount of BRL 7,617 was capitalized during the fiscal year ended December 31, 2020 referring to labor used in the construction of the manufacturing plant.

e. Impairment provision

In accordance with the technical pronouncement CPC 01 - Impairment of Assets, the items of fixed assets and intangible assets that present indicators that their recorded costs are higher than their recoverable values are reviewed to determine the need for a provision for the reduction of the book balance to their realization value.

Management has not identified indicators that the costs of its fixed assets are recorded at amounts higher than their recoverable amounts.

12 Leases

a. Right-of-use assets

	2020			2019
	Cost	**Depreciation**	**Net**	**Net (Unaudited)**
Land usufruct	48,943	(1,507)	47,436	-
Real estate properties	357	(231)	126	184
	49,301	**(1,738)**	**47,563**	**184**

The activity of the right-of-use assets is as follows:

Balance on January 1, 2019 (Unaudited)	**378**
Depreciation	(194)
Balance on December 31, 2019 (Unaudited)	**184**
New agreements (*i*)	40,611
Remeasurement	2,371
Depreciation	(1,445)
Write-off	(19)
Conversion effect	5,860

Balance as of December 31, 2020	**47,563**

(i) In February 2020 the Company entered into a land usufruct agreement with LD Florestal, for which it identified that there is a lease component, in accordance with the requirements of CPC 06 (R2) Leases. As a result of this usufruct agreement, the Company recognized in its statement of financial position a right of use and a lease liability in compliance with the requirements of the standard.

b. Lease liabilities

	2020			**2019 (Unaudited)**
Maturity of the agreements	**Average discount rate % p.a**	**Final maturity**	**Present value of the liability**	**Present value of the liability**
Land usufruct - LD Florestal	13.29%	January 2050	43,051	185
			43,051	**185**

The activity of lease liabilities is as follows:

Balance on January 1, 2019 (Unaudited)	-
New agreements	456
Payment of principal	(220)
Payment of interest	(51)
Balance on December 31, 2019 (Unaudited)	**185**
New agreements (i)	40,611
Remeasurement	2,371
Appropriation of interest (ii)	5,691
Write-off	(19)
Payment of principal	(698)
Payment of interest	(5,215)
Exchange Variation	126
Balance as of December 31, 2020	**43,051**

(ii) The amounts of BRL 29,572 referring to interest on land leases are reclassified to the line of biological assets, since the lease costs are part of the formation cost of biological assets.

13 Biological assets

	2020	**2019 (Unaudited)**
Forest reserves	103,472	-
	103,472	-

The activity in biological assets is as follows:

Balance as of January 1, 2020	-
Acquisition of forest reserves	113,956
Sales	(6,740)
Capitalized cost – Note 20	11,262
Fair value adjustment – Forest reserves	(15,945)
Write-off of fair value – wood sale	939
Conversion effect	-
Balance as of December 31, 2020	**103,472**

As of December 31, 2020 the tree plantation covered approximately 40,892 hectares of Eucalyptus and Pine plantations, which includes both recent plantations and plantations up to 12 years old. In the company's evaluation, trees less than one year old were considered immature and were valued at the historic formation cost totaling USD 2,921.

The forests were acquired through a capital contribution made by Duratex S.A. and the farms are located in the state of Minas Gerais.

14 Suppliers

	2020	2019 (Unaudited)
Suppliers - domestic	17,681	971
Foreign suppliers	274	-
Various suppliers	98	13
	18,053	**984**

15 Other trade payables

	Note	2020	2019 (Unaudited)
Services provided - related parties (i)	18	4,307	740
Other		315	55
		4,621	**795**

(i) Refers to reimbursement for engineering and IT services provided by Lenzing.

16 Loans and borrowings

	Note	Interest Rate	Maturity	2020	2019 (Unaudited)
IDB Invest (i)		2.48% to 2.78% p.a. + Libor	June/2031	130,414	-

IFC (ii)		2.48% to 2.78% p.a. + Libor	June/2031	127,264	-
Finnvera (iii)		3.24% p.a.	June/2033	34,389	-
LD Florestal S.A (loan) (iv)	17	100% of CDI	December/2023	26,181	28,225
				318,248	**28,225**

(i) Long-term financing agreement obtained with the international bank IDB - Inter-American Investment Corporation, in the amount of USD 500,000, segregated in *Loan A* (USD 250,000) and *Loan B* (USD 250,000). The amount will be released by the bank in tranches, with the 1st tranche of USD 46,000 being received on September 28, 2020. The total received in 2020 was USD 142,000,000. The agreement matures on June 15, 2031 for *Loan A* and June 15, 2029 *for Loan B*, and has a 3.5 year grace period, with payments of principal starting on December 15, 2023. Interest will be paid semi-annually starting December 15, 2020.

(ii) Long-term financing agreement obtained from the international bank IFC - International Finance Corporation, in the amount of USD 500,000, segregated in *Loan A* (USD 250,000) and *Loan B* (USD 250,000). The amount will be released by the bank in tranches, with the 1st tranche of USD 46,000 being received on September 28, 2020. The total received in 2020 was USD 142,000. The agreement matures on June 15, 2031 for *Loan A* and June 15, 2029 for *Loan B*, and has a 3.5 year grace period, with payments of principal starting on December 15, 2023. Interest will be paid semi-annually starting December 15, 2020.

(iii) Long-term financing agreement obtained from the export credit agency Finnvera and seven other banks, in the amount of USD 147,000. The amount will be released by the bank in tranches, with the 1st tranche of USD 40,661 was received on October 21, 2020. The total received in 2020 was USD 40,883. The agreement matures on June 15, 2033 and has a 3.5-year grace period, with payments of the principal starting on December 15, 2023. Interest will be paid semi-annually starting December 15, 2020.

(iv) On December 12, 2018, a loan agreement was entered into between LD Florestal S.A. and LD Celulose S.A. The loan was held in local currency, the interest is calculated based on the percentage of 100% of the CDI (Interbank Deposit Certificate), and is registered on the accrual basis. The IOF (Tax on Financial Operations) arising from the operation of this loan has been calculated and paid as determined by the legislation in force. On October 28, 2019, the 1st amendment to the loan agreement was executed, increasing the limit of the amount from BRL 58,468 to BRL 177,452.

The installments classified as non-current liability have the following maturity schedule:

Year of maturity	**2020**
2021	388
2022	21,658
2023	69,497
2024	43,316
Above 2025	183,388
	318,248

Year of maturity	**2019 (Unaudited)**
2021	-
2022	-
2023	28,225

	28,225

The Company maintains the usual market guarantees in its financing and borrowings. All restrictive sections relating to the borrowings are being fully complied with by the Company as of December 31, 2020.

Reconciliation of equity activity with cash flows from financing activities

In thousands of Reais	**Borrowings**
Balance as of January 1, 2020	-
Funding of Borrowings	324,883
Initial transaction costs	(33,204)
Provision for Interest	1395
Payment of interest	(1,007)
Balance as of December 31, 2020	**292,067**

In thousands of Reais	**Loans**
Balance as of January 1, 2019	1,423
Payment of borrowings	-
Payment of interest	-
Provision for interest	462
Funding of loans	26,340
Exchange variation	-
Balance on December 31, 2019 (Unaudited)	**28,225**

In thousands of Reais	**Loans**
Balance as of January 1, 2020	28,225
Payment of Loan	(29,463)
Funding of Loan	28,314
Provision for Interest	518
Payment of interest	(507)
Exchange variation	(3.203)
Balance as of December 31, 2020	**26,181**

17 Income tax (IRPJ) and social security contribution (CSLL)

a. Income tax and social security contribution

The reconciliation of IRPJ and CSLL, calculated at the rates provided for in the tax legislation, to their corresponding amounts in the statement of profit or loss for the periods ended December 31, 2020 and 2019, is presented below:

	2020	**2019 (Unaudited)**
Profit or loss before income tax and social security contribution	(17,829)	(3,358)
Permanent additions:		

Write-off of fair value on the sale of biological assets	939	-
Non-deductible expenses	352	325
Paid bonuses	10	-
Other permanent additions	72	36
Temporary additions:		
Amortization of the Right of Use (land usufruct)	1,652	201
Provisions	-	389
Other temporary additions (Exchange variation, functional currency)	17,270	23
Permanent exclusions:		
Leases (land usufruct)	(88)	-
Temporary exclusions:		
Adjustment in fair value of biological assets	(4,695)	-
Other provisions	(4,307)	-
Other temporary exclusions	-	(110)
Tax basis of income tax and social security contribution	**(6,624)**	**(3,494)**
Current income tax and social security contribution at the combined tax rate of 34%	-	-
Current and deferred income tax and social security contribution	**(6,737)**	-
Effective tax rate	(37,7%)	-%

b. Make up of deferred tax assets and liabilities

Because the tax base of the assets and liabilities is kept in Brazilian Reais at its historical value and the accounting base in US dollars (functional currency), fluctuations in the exchange rate impact the tax base and the consequent deferred tax expenses/revenues are recorded in profit or loss.

The deferred income and social security contribution taxes are recognized to reflect future tax effects attributable to temporary differences between the tax base of the statement of profit or loss and their respective accrual accounting records.

Deferred income tax and social security contribution have the following origin:

	2020	**2019 (Unaudited)**
Deferred income tax and social security contribution assets on:		
Tax loss	2,887	-
Deferred income tax and social security contribution liabilities on:		
Effect of functional currency on fixed assets and biological assets	(8,090)	-
Leases (land usufruct) (temporary difference)	(1,534)	-
Deferred income tax and social security contribution - Profit or Loss	**(6,737)**	-

As the Company is in a pre-operational phase, it is not possible to project with certainty the generation of future taxable income that would support the recognition of 100% of the deferred income tax and social security contribution assets. it was decided not to recognize deferred tax assets arising from temporary differences and recognized only part of the tax credits on tax losses. The Company will review this estimate as soon as it has a reliable assessment that it is probable that future taxable profits will be generated so that it can recognize the deferred tax assets.

As of December 31, 2020 and 2019, the aggregate balance of accumulated tax losses and negative social security contribution base held by the Company is USD 9,522 and USD 2,898, respectively. The deferred income tax and social security contribution on tax losses and temporary differences, as of December 31, 2020, not recognized by the Company is BRL 32,009 (USD 31,659 on temporary differences and USD 350 on tax losses and negative basis).

18 Transactions with related parties

The Company's direct parent companies are Duratex S.A. and Lenzing Aktiengeselíschaft.

The principal assets and liabilities balances as of December 31, 2020 and 2019, as well as transactions that influenced the profit or loss for the fiscal years ended on those dates, relating to related party transactions, arise primarily from borrowing transactions of the Company, key management professionals and other related parties.

The compensation of key management personnel includes salaries, charges, benefits, and variable compensation. Total expenses for salaries and commissions paid to the Executive Board during fiscal year 2020 totaled an amount of USD 654 (USD 434 in 2019).

The main operations carried out during the fiscal year are shown in the following table:

		2020	**2019 (Unaudited)**
Current assets			
Trade receivables LD Florestal S.A		576	-
		576	-
Current liabilities			
Trade payables – Lenzing	(Note No. 15)	4,307	
Lease liabilities (land usufruct)) -LD Florestal S.A	(Note No. 12)	1,478	172
Non-current liabilities			
Lease liabilities (land usufruct) LD Florestal S.A	(Note No. 12)	41,573	13
Loan LD Florestal S.A	(Note No. 16)	26,181	28,225
Profit or loss			

		2020	2019 (Unaudited)
Sale of services – LD Florestal (i)		1,249	-
Sale of services - Duratex Florestal (i)		149	-
Sale of forest reserves - Duratex Florestal	(Note No. 20)	5,768	-
		7,165	-

(i) These refer to forestry service provision, such as: fertilizing, planting, ant control, irrigation, etc., carried out by LD Celulose in the forests owned by LD Florestal and Duratex FlorestalH

Indirect related parties

	2020	2019
Current assets		
Banco Itaú S.A (i)	36,624	643
NDF (Banco Itaú S.A)	12	-
	36,636	-

	2020	2019
Current liabilities		
NDF (Banco Itaú S.A)	19,978	-
	19,978	-

(i) Refers to the balance of cash and cash equivalents with Banco Itaú, which belongs to the same economic group as the associated company Duratex S.A.

19 Equity

a. Share Capital

As of December 31, 2020, the paid-in share capital was USD 433,890 (USD 1,788 as of December 31, 2019) which is represented by 2,077,920 shares, all common, registered and with no par value, distributed as follows:

		%
Lenzing Aktiengeselíschaft	221,155	51%
Duratex S.A.	212,736	49%
	433,890	100%

In 2020 Duratex S.A. made a capital contribution of USD 212,736, of which USD 96,367 in cash and USD 116,369 in assets, and Lenzing AG contributed the amount of USD 219,367 in cash.

b. Equity valuation adjustment

Effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow pending further recognition.

20 Net operating income

	Note	2020	2019 (Unaudited)
Gross revenue			
Sales of services - domestic market	18	1,397	-
Sale of forest reserves	18	5,768	-
		7,165	-
Gross income deductions			
Taxes on sales		(187)	-
		(187)	-
Total net operating revenue		**6,978**	-

21 Expenses by type

	2020	2019 (Unaudited)
Salaries, welfare charges and benefits	(4,214)	(1,433)
Sale of biological assets	(7,679)	-
Accounting and audit services	(1,435)	(1,150)
Depreciation	(694)	(93)
IT Services	(560)	-
Rentals	(341)	(331)
Third-party services	(76)	(591)
Fuel	(296)	-
Taxes and fees	(490)	(78)
Travel	(202)	(181)
Courses and training	(287)	(75)
Raw material	(639)	-
Maintenance and conservation	(359)	(3)
Several materials	(238)	(4)
PPEs	(161)	-
Bank expenses	(180)	(4)
Insurance	(190)	(10)
Donations	(146)	-
Meals	(188)	(31)
Leases	(264)	(144)
Other	(442)	(269)
	(19,081)	**(4,397)**
Costs of products sold and services provided	**(6,739)**	-
General and administrative expenses	**(12,342)**	**(4,397)**

22 Other operating revenues (expenses)

	2020	2019 (Unaudited)
Other operating revenues		
Incoming insurance (forests)	966	-
Adjustment of the fair value of biological assets	4,695	-
Others	16	-
	5,677	-

	2020	2019
Other operating expenses		
Sale of assets	(6)	-
Others	(32)	-
	(39)	**-**
	5,638	**-**

23 Financial revenues and expenses

	2020	2019 (Unaudited)
Financial revenues		
Exchange variation realized	7,587	164
Financial investments	863	3
Unrealized Exchange Variation	6,357	-
Other financial revenues	1	15
	14,808	**181**

	Note	2020	2019
Financial expenses			
Exchange variation realized		(3,624)	-
Unrealized exchange variation		(22,546)	-
Interest on borrowings and loans		-	(142)
Others		-	-
		(26,171)	**(142)**
		(11,363)	**(39)**

24 Risk management and financial instruments

The main risk factors to which the Company is exposed reflect economic and financial aspects, as well as strategic and operating ones. Strategic and operational risks (such as demand behavior, competition and material changes in the structure of the operating segment) are addressed by the Company's management model.

The administration of risks and the management of financial instruments are carried out through policies, definition of strategies, and implementation of control systems aiming at liquidity, profitability, and security. The control policy consists in the monitoring of the rates contracted against the rates current in the market. The Company has financial instruments to protect its exposure to the effects of exchange rate variations on its commitments indexed to foreign currency and interest rates.

The Company has a conservative policy for the management of financial resources, instruments, and risks monitored by the administration, and this practice has as its main objectives to preserve the value and liquidity of the financial assets and to guarantee financial resources for the good progress of the business, including its expansions. The major financial risks considered by Management are:

Operating risk;

Credit risk;

Liquidity risk;

Foreign exchange rate risk; and

Price risk of biological assets.

The Company does not make investments of a speculative nature in derivatives or any other risk assets.

This note gives information about the exposure of the Company to each of the aforementioned risks, its objectives, policies, and processes used to measure and manage risk, as well as its capital management. Additional quantitative information is included in these financial statements.

a. Operating risk

The Company's operations consist of the production and sale of pulp, and such operations are concentrated in related parties. Thus, Management assesses the operational market risk as low.

b. Derivative financial instruments

The Company has derivative financial instruments to hedge its exposure to the effects of exchange rate variations on its commitments indexed to foreign currency and interest rates. The management of these instruments is performed by means of operating strategies aiming at assuring liquidity, profitability and security. The control policy consists in the permanent monitoring of the rates contracted against the rates current in the market.

	12/31/2020	**12/31/2019**
	Fair Value	**Fair Value (Unaudited)**
Assets		
NDF – Goldman Sachs	1,474	-
NDF - BNP Paribas	11	-
NDF – Banco Itaú	12	-
	1,497	-
Liabilities		

NDF – Banco Santander	13,611	-
NDF – BNP Paribas	11,213	-
NDF – HSBC	5,482	-
NDF – Banco Itaú	19,978	-
NDF – Goldman Sachs	6,770	-
	57,054	-

All transactions with financial instruments and derivatives are recognized in the Company's financial statements and were classified according to the following tables:

	2020				
	Level	**Fair value through profit or loss**	**Assets at amortized cost**	**Liabilities at amortized cost**	**Total on December 31, 2020**
Assets					
Cash and cash equivalent (Note 8)		-	577	-	577
Financial Investments (Note 8)	2	132,438	-	-	132,438
Derivative Financial Instruments (Note 24)	2	1,497	-	-	1,497
Trade Receivables		-	576	-	576
Other Credits (Note 9)		-	4,959	-	4,959
		133,934	**6,113**	-	**140,047**
Liabilities					
Suppliers (Note 14)		-	-	18,053	18,053
Financing and borrowings (Note 16)	2	-	-	318,248	318,248
Other trade payables (Note 15)		-	-	4,621	4,621
Leases (land usufruct) (Note 12)		-	-	43,051	43,051
Derivative financial instruments (Note 24.b)	2	57,054	-	-	57,054
		57,054	-	**383,974**	**441,029**

	2019				
	Level	**Fair value through profit or loss**	**Assets at amortized cost**	**Liabilities at amortized cost**	**Total on December 31, 2019(Unaudited)**
Assets					
Cash and cash equivalent (Note 8)		-	702	-	702
Financial Investments (Note 8)	2	-	-	-	-
Other Credits (Note 9)		-	621	-	621
		-	**1,324**	-	**1,324**
Liabilities					
Suppliers (Note 14)		-	-	984	984
Financing and borrowings (Note 16)		-	-	28,225	28,225
Other trade payables (Note 15)		-	-	795	795
Leases (land usufruct) (Note 12)		-	-	185	185
		-	-	**30,189**	**30,189**

c. Credit risks

Arises out of the possibility of the Company incurring losses deriving from default from its counterparties or depositary financial institutions of funds or financial investments. To mitigate these risks, the Company adopts as a practice analysis of the financial and equity position of its counterparties, as well as setting credit limits and permanent monitoring of outstanding positions. Considering financial institutions, the Company only operates with financial institutions assessed by rating agencies.

The direction of the business is dealt with in meetings for decision making, monitoring of results, and adjustments to the established strategies, aiming to maintain the expected results.

The financial instruments that subject the Company to counterparty credit risks are represented primarily by cash and cash equivalents, hedging instruments, and trade receivables from third parties and related parties.

Cash and cash equivalents credit risks arise mainly from the failure of financial institutions to meet their financial obligations with the Company. Company regularly conducts credit analysis of the institutions in which it maintains relationships through various methodologies that assess liquidity, solvency, leverage, portfolio quality, among others. Cash, cash equivalents and protection instruments are held only in institutions with a solid credit history, favoring security and robustness.

Customer credit risks are managed through specific customer acceptance and credit analysis criteria. Trade receivables are substantially concentrated with related parties.

The management has established a credit policy in which each new customer is individually evaluated for its financial condition (sic) before the Company submits a proposed credit limit and payment methods. The review carried out includes the evaluation of external ratings, when available, financial statements, and, in some cases, bank references. Credit limits are set for each customer and are reviewed quarterly.

The volumes of carrying amounts of financial assets represent the maximum credit exposure. The maximum credit risk exposure for the fiscal years ended December 31, 2020 and 2019 was:

	2020	**2019 (Unaudited)**
Cash and cash equivalents	577	702
Financial Investments	132,438	-
Derivative financial instruments	1,497	-
Trade receivables	576	-
Other credits	4,959	621
	140,047	**1,324**

The Company operates with banks with high credit ratings, both for normal operations, banking and investments, and for operations with derivative financial instruments.

The credit risks are related to the risk classification performed by the Lenzing Group. The Company's treasury assesses the counterparties' credit ratings, mainly with regard to negative changes, for derivative transactions in particular and until the maturity date of the transactions, the risk is rated as minimal and does not bring significant change in value. Additionally, the Company reevaluates the conditions whenever significant adjustments occur in the contractual conditions. All counterparties are evaluated according to the investment class determined by the risk agency.

d. Liquidity risks

Liquidity risk is the risk of the Company facing difficulties to meet obligations associated with its financial liabilities that are settled with cash payments or with another financial asset. The Company's approach to liquidity management is to ensure, as far as possible, that it always has sufficient liquidity to meet its obligations as they mature, under normal and stressful conditions, without causing losses that are unacceptable or running the risk of being detrimental to the Company's reputation.

The Company works aligning availability and generation of resources in order to comply with its obligations in the agreed upon deadlines.

Liquidity risk arises from the possibility of the Company not being able to meet its contracted obligations on the scheduled dates and cash requirements due to market liquidity restrictions.

Additionally, the Company has financial support from its partners, Lenzing AG and Duratex S.A., which mitigates its liquidity risk.

The Company's main sources of liquidity derive from cash flow generated by capital increases from its shareholders, financing, and borrowings from related parties. The Company believes that these sources are adequate to meet its current uses of funds, which include, but are not limited to, working capital, investment capital, debt repayment and dividend payments.

The chart below shows the liquidity risks by range of maturity and reflects the Company's financial flow:

	2020					
	Carrying amount	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Liabilities						
Suppliers	18,053	18,053	18,053	-	-	-
Loans and borrowings	292,067	393,441	388	44,790	135,533	212,730
Loans with related parties	26,181	26,181	-	-	26,181	-
Derivative financial instruments	57,054	57,054	49,760	7,294	-	-
Other trade payables	4,621	4,621	4,621	-	-	-
Financial Lease	43,051	168,100	5,780	5,780	17,340	139,200
Total	**441,028**	**667,450**	**78,602**	**57,864**	**179,054**	**351,930**

	2019 (Unaudited)					
	Carrying amount	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Liabilities						
Suppliers	984	984	984	-	-	-
Borrowings and loans	28,225	28,225	28,225	-	-	-
Financial instruments	617	617	617	-	-	-
Other trade payables	795	795	795	-	-	-
Financial Lease	185	185	185			
Total	**30,806**	**30,806**	**30,806**	-	-	-

e. Exchange rate and interest risk

Exchange rate risks arise from the possibility of fluctuations in foreign currency exchange rates used by the Company for the acquisition of inputs, sale of its services and contracting of financial instruments. In addition to amounts payable and receivable in foreign currencies, the Company has operating flows in purchases and sales in other currencies. The Company continuously evaluates hedge transactions to mitigate these risks.

Interest rate risks arise from the possibility of the Company incurring gains or losses arising from fluctuations in interest rates on its financial assets and liabilities. In order to mitigate this type of risk, the Company seeks to diversify its fund raising in terms of prefixed or post-fixed rates. The Company is evaluating the possibility of contracting hedge operations to lock in the financial cost of operations, the risk identified as of December 31, 2020 is relatively low.

e.1 Exchange risk

The Company is exposed to exchange risk from foreign operations arising from differences between the currencies in which its financial investments, purchases, sales, borrowings to related parties and leases are denominated and the entity's respective functional currencies. The Company's functional currency is the US Dollar (USD) and the currency in which these transactions are primarily denominated is the Brazilian Real (BRL).

Net exposure in foreign currency is shown below, by principal amounts (notional in USD) as of December 31, 2020:

	2020 U$
Assets	
Cash and cash equivalents	133,015
Trade receivables	576
Suppliers	(18,053)
Loans	(26,181)
Salaries, vacation and welfare charges	(1,297)
Lease liabilities (land usufruct)	(43,051)
Net Exposure	131,111

As of December 31, 2019, the Company had no material net exposure that would generate exchange rate impact

Sensitivity analysis - Foreign exchange

For the sensitivity analysis of foreign exchange hedging instruments, management adopted for probable scenario the same rates used in the ending date of the statement of financial position. Scenarios II and III have been estimated with an additional valuation of 25% and 50% respectively since the scenarios IV and V estimate additional devaluation of 25% and 50%, respectively, in Reais in the probable scenario.

2020 - Scenarios

	Risk	I Probable	II 25%	III 50%	IV -25%	V -50%
Equity exposure						
1- Assets in Reais	Real Devaluation	133,591	33,398	66,796	(33,398)	(66,796)
2-Liabilities in Reais	Real Valuation	(88,582)	(22,146)	(44,291)	22,146	44,291
1+2	**Net Effect**	**45,009**	**11,252**	**22,505**	**(11,252)**	**(22,505)**

The quotations and updates used in the above sensitivity analysis was obtained from external market sources, such as BACEN (Central Bank).

e.2 Interest rate risk

The main amounts linked to interest rates, which are the financing operations, are mainly obtained from international banks and the loan entered into with the related party LD Florestal. Substantially the Company's exposure is based on pre-fixed interest rates. Thus, management believes that there is no significant risk regarding interest volatility to be presented or stressed. For the fiscal years ended December 31, 2020 and 2019, the profile of interest-bearing financial instruments was:

Variable rate instruments	**2020**	**2019 (Unaudited)**
Financial assets		
Financial Investments	132,438	-
Financial liabilities		
Borrowings and loans	(318,248)	(28,225)
	(185,810)	**(28,225)**

f. Sensitivity analysis - Interest rates

The Company conducted a sensitivity analysis of the principal risks to which its financial instruments are exposed. For sensitivity analysis of variations in interest rates, management adopted for the probable scenario the same rates used in the ending date of the statement of financial position. Scenarios II and III have been estimated with an additional valuation of 25% and 50% respectively since the scenarios IV and V estimate additional devaluation of 25% and 50%, respectively of rates of probable scenario.

The following table demonstrates eventual impacts in profit or loss, in the event of the following scenarios presented:

				Scenarios				
Equity Exposure	**Exposure**	**Risk**	**Effective interest rate as of 12/31/2020**	**I - Probable**	**II 25%**	**III 50%**	**IV - 25%**	**V - 50%**
1 - Financial assets	132,438	CDI variation	1.90%					
Financial investments				2,516	3,145	3,775	1,887	1,258
2 - Financial liabilities								

Loans - third parties	(318,248)	Libor Variation	0.342%	(999)	(1,249)	(1,498)	(749)	(499)
1 + 2				**1,518**	**1,897**	**2,276**	**1,138**	**759**

A fundamental reform of key interest rate benchmarks is being carried out globally, including the replacement of some interbank offered rates (IBORs) with alternative near-risk-free rates (referred to as 'IBOR reform'). The Company exposes itself to IBORs in its financial instruments that will be replaced or reformed as part of these market initiatives. There is uncertainty regarding the timing and methods of transition in some jurisdictions where the Company operates. The Company anticipates that the IBOR reform will impact its risk management and hedge accounting.

The Company monitors and manages the transition to alternative rates. The Company assesses the extent to which agreements reference IBOR cash flows, whether such agreements will need to be amended as a result of the IBOR reform, and how to manage communication about the IBOR reform with counterparties. As of December 31, 2020, the Company has USD 292,067 thousand in LIBOR bank borrowings that will be subject to the IBOR reform. The Company expects that the benchmark interest rate for these borrowings will change to SONIA in 2021 and that no significant gain or loss on the modification will arise as a result of applying the changes.

g. Price risk of biological assets

On December 31, 2020, the Company had USD 103,472 in biological assets, which were evaluated at their fair values, and the variation between the contracted value and the fair value was recorded in the financial statements.

Sensitivity Analysis – *Biological Assets*

The following table demonstrates eventual impacts in profit or loss, in the event of the scenarios presented.

For the probable scenario the carrying amounts were used, for the other scenarios the impacts on the profit or loss arising from changes in market prices were considered, determined after the substitution of the market rates used for determining the fair value recorded in the accounting records by stressed rates, according to the scenarios presented.

Among the variables that affect the calculation of the fair value of biological assets are the variation in the wood price and the discount rate used in the cash flow. The average price on December 31, 2020 was USD 9,42 /m³. Increases in price lead to increases in the fair value of forests. For each 5% variation in price, the impact on the fair value of the forests would be around USD 4,881.

Regarding the discount rate, 6.93% p.a. on December 31, 2020 was used. Increases in the rate lead to a decrease in the fair value of the forest. Each 5% p.a. change in the rate would affect the fair value by about USD 322.

According to the hierarchy of CPC 46 - Fair Value Measurement, the calculation of biological assets falls into Level 3, due to its complexity and calculation structure.

	2020				
	Scenarios - Market price				
	I Probable	II 1%	III 5%	IV (1%)	V (5%)
Biological assets	103,472	976	4,881	(976)	(4,881)
	103,472	976	4,881	(976)	(4,881)

	2020				
	Scenarios - discount rate				
	I Probable	II 1%	III 5%	IV (1%)	V (5%)
Biological assets	103,472	(64)	(316)	64	322
	103,472	(64)	(316)	64	322

h. Fair value

h.1 Fair value versus carrying amount

For all the operations, except financing and borrowings, Management considers that the fair value is equivalent to the carrying amount, due to the fact that for these operations the carrying amount reflects the settlement value on the same date.

In relation to the loans and borrowings operations that the Company has with related parties (loans) and IFC and IDB, it can be observed that the average rates, whose respective operations are indexed, are substantially lower than the market rates. Therefore, if any fair value measurement criteria were applied, such as future cash flows discounted to present value, by a risk-free rate, the Management understands that this value would not reflect a better estimate of payment or that the difference is irrelevant, so that the accounting balance already reflects the best estimate. Thus, Management understands that the amounts recognized in the books reflected the effective indebtedness in case of eventual liquidation on that date.

The fair value, including the instruments for exchange and interest protection, was determined as follows:

- Cash and bank balances have their fair values identical to book balances.

- Financial investments in Bank Deposit Certificates (CDBs) and similar instruments have daily liquidity with repurchase at "paper curve" and therefore the Company understands that their fair value is the same as their carrying amount.

- Borrowings were calculated by projecting cash flows up to transactions' maturities using future rates obtained from public sources (ex: BM&FBovespa and Bloomberg) plus contractual spreads and brought to present value by the "*Cupom livre*" rate, because they are operations in US Dollar.

  The comparison between the carrying amount and fair value of borrowings is shown below:

	2020	
	Fair Value	**Carrying Amount**
Assets		
Cash and cash equivalents	577	577
Financial investments	132,438	132,438
Derivative financial instruments	1,497	1,497
Trade receivables	576	576
Other credits	4,959	4,959
	140,047	**140,047**
Liabilities		
Suppliers	18,053	18,053
Borrowings	292,067	292,067
Loans	26,181	26,181
Derivative financial instruments	57,054	57,054
Financial Lease	4,621	4,621
Other trade payables	43,051	43,051
	441,028	441,028

	2019 (Unaudited)	
	Fair Value	**Carrying Amount**
Assets		
Cash and cash equivalents	702	702
Financial Investments	-	-
Derivative financial instruments	-	-
Trade receivables	-	-
Other credits	621	621
	1,324	**1,324**
Liabilities		
Suppliers	984	984
Loans	28,225	28,225
Derivative financial instruments	617	617
Financial Lease	185	185
Other trade payables	795	795
	30,806	**30,806**

i. Fair value hierarchy

The financial instruments recognized at fair value in the statement of financial position are classified according to the following levels:

(Level 1) quoted prices (not adjusted) in active markets for identical assets and liabilities;

(Level 2) inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly (prices) or indirectly (price derivatives); and

(Level 3) - inputs for an asset or liability that are not based on observable market data (non-observable inputs).

j. Profit or loss related to financial instruments

The amounts of gains (losses) related to derivative financial instrument transactions recorded in the fiscal years ended December 31, 2020 and 2019 that affected the Company's statement of profit or loss are shown in the table below:

	2020	**2019 (Unaudited)**
Loss	(57,054)	-
Gain	1,497	-
	(55,557)	-

k. Hedge accounting

The Company's operation with derivative instruments aims to protect its Statement of Financial Position from exchange volatility and has no speculative purpose. Some operations with the Company's financial instruments are in accordance with the conditions required to qualify as "hedge Accounting" described in CPC 48.

As of December 31, 2020, the Company has recorded in its equity profits or losses arising from derivative transactions as cash flow hedges. This hedge relation aims to mitigate the fixed cost of the period from January to December 2020, the hedge instrument was contracted by the treasury departments of the shareholder partners, according to the hedge policy, and the counterparties in these operations do not constitute related parties.

The profit or loss recognized in equity related to hedge accounting was USD 70,244, of which USD 55,557 from NDFs and 14,687 from Cash and Cash Equivalents.

Hedge Strategies

For the protection of its operations, the Company uses the cash flow hedge strategy, since the Company's objective is to protect the operational costs incurred in the construction of the pulp plant in Brazil (CAPEX). Since the Company has a functional currency in US Dollars, risk is identified due to the purchases made in foreign currencies, of which the Real is predominant. The Company is exposed to exchange rate risk on these transactions and the hedging strategy has the main objective of reducing this exposure risk.

The entire hedging strategy is determined by the Lenzing Group to cover the risks, the Company uses derivative financial instruments (NDF) and also keeps cash amounts in Reais to purchase materials.

The Company designates hedge relations in which the hedged item is the payments and/or receivables in foreign currency (Real) of the purchase and sale agreements, and, as hedging instruments, the derivative financial instruments (NDF) and the maintenance of cash in foreign currency (Real).

The hedge objects are linked to their instruments from the start date to the closing date of each derivative financial instrument NDF. In cases where there is a mismatch between the date of disbursements and/or receipts, it is possible that there are subsequent extensions of the hedge instruments (NDF), which are also allocated to the hedge strategy.

Financial instruments designated as hedging instruments and their fair values at the financial statements date:

Derivatives		**Counterpart**	**2020**
	Gain	Goldman	1,474
NDFs (Hedge Accounting)		Itaú	12
		BNP Paríbas	11
NDFs (Hedge Accounting)	Loss	Goldman	(6,770)
		BNP Paríbas	(11,213)
		Itau	(19,978)
		HSBC	(5,472)
		Santander	(13,611)

Periods when cash flows are expected to occur and when they are expected to be capitalized into assets:

All statement of financial position items subject to changes in exchange rates and/or interest rates represent fair value exposures. All gains and losses from fair value exposures are immediately recognized in the Company's profit or loss.

All the projected cash flows (hedge accounting) are not recognized in the Company's profit or loss, they are recognized in equity until the time of their settlement, and when settled they will be capitalized in the operating costs, arising from the construction of the pulp plant. Therefore, the corresponding hedge instruments should not be recognized in profit or loss and should not be capitalized until the hedged item and, hence, the corresponding hedge relationship have been settled.

See below the projection of future cash flow and maturity schedule of the NDFs outstanding on December 31, 2020:

Hedge object					Hedge instrument		
Period	Budget - BRL	Budget-USD	%Hedge	Budget hedge USD	Beginning	Maturity	Instument – NDF
1st Qua/2021	565,079	108,738	68%	28,473			28,473
					Jan-20	Jan-21	
				45,155	Jan-20	Apr-21	45,155
2nd Qua/2021	702,240	135,132	75%	56,504			56,504
					Jan-20	Apr-21	
				27,713	Jan-20	Jul-21	27,713
3rd Qua/2021	606,173	116,646	76%	63,276			63,276
					Jan-20	Jul-21	
				34,678	Jan-20	Oct-21	34,678
4th Qua/2021	453,822	87,329	61%	18,605			18,605
					Jan-20	Oct-21	
1st Qua/2022	297,880	57,321	64%	36,651			36,651
					Jan-20	Jan-22	
				2,949	Jan-20	Apr-22	2,949
2nd Qua/2022	234,441	45,113	11%	1,797			1,797
					Jan-20	Jun-22	
Total	2,859,635	550,279	57.03%	313,801			313,801

Hedge object					Hedge instrument		
Period	Budget - BRL	Budget-EUR	%Hedge	Budget hedge EUR	Beginning	Maturity	Instument – NDF
1st Qua/2021	174,117	27,300	73%	7,500	Nov-20	Feb-21	7,500
				12,500	Nov-20	Mar-21	12,500
2nd Qua/2021	138,400	21,700	51%	11,000			11,000
					Jan-20	Apr-21	
1st Qua/2022	53,574	8,400	95%	8,000	Jan-20	Apr-22	8,000
Total	366,091	57,400		39,000			39,000

25 Subsequent events

On March 17, 2021, the Company received another disbursement related to the long-term financing agreements, in the amount of USD 144,797, of which USD 60,000 from the Inter-American Investment Corporation (IDB), USD 60,000 from the International Finance Corporation (IFC), and USD 24,797 from Finnvera. The conditions, rates, and terms are the same as disclosed in note 16.

On May 18, 2021, the Company received another disbursement related to the long-term financing agreements, in the amount of USD 115,000, of which USD 57,500 from the Inter-American Investment Corporation (IDB), USD 57,500 from the International Finance Corporation (IFC). The conditions, rates, and terms are the same as disclosed in note 16.