

Q4 2014 Earnings Call

Company Participants

- Antonio Sergio Alfano, Chief Financial & Investor Relations Officer
- Fábio Schvartsman, Chief Executive Officer

Other Participants

- Alan Glezer, Analyst
- Caio Ribeiro, Equity Research Analyst
- Carlos F. De Alba, Analyst
- Jonathan L. Brandt, Analyst
- Juan G. Tavaréz, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to Klabin's Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session, when further instruction for you to participate will be given. I would like to remind you that this call is being recorded and it is being broadcast simultaneously on the webcast and it may be accessed at webcall.riweb.com.br/klabin/english, where the presentation is also available.

Before we proceed, I would like to clarify that forward-looking statements that might be made during this call related to business perspectives of the company, projections, operating and financial targets, and potential growth should be understood as forward-looking statements based on the company's management expectations in relation to the future of Klabin. And these expectations are highly dependent on market conditions on the overall economic performance of Brazil, on the industry and international markets. Therefore, they are subject to change.

Today in Sao Paulo, we have Mr. Fabio Schvartsman, CEO, and Mr. Antonio Sergio Alfano, CFO and IRO. Mr. Fabio Schvartsman and Mr. Sergio Alfano will be talking about the performance of the company during the fourth quarter, and afterwards they will be answering questions.

Now, I would like to give the floor to Mr. Fabio Schvartsman.

Fábio Schvartsman

Good morning, everyone, and thank you for following our call. Referring to the fourth quarter of 2014, I would like to start by mentioning our satisfaction for having closed 2014 with earnings growth, a very expected one, in spite of all the difficulties related to the year of 2014.

I would like to mention that Q4 2014, as you were able to notice in the release that was published, was especially challenging for Klabin because Klabin besides having to face a difficult economic environment, it had to face also a limitation in its production capacity caused by the interventions that were carried out in the new machine over the year and in Angatuba to increase capacity of both were for ramp-up in fact.

And as naturally happens, when you have an interference or an overhaul in a machine that is already in production, for a certain point in time, you have a reduction in the production capacity. And because of that, the volume available for Klabin in Q4 was lower, and because of that, we had a 7% drop in the volume of sales, not because there was no market for our products, but because we didn't have the production capacity in order to cater to this market. You will notice that in Q4, we chose to reduce exports in such a way as to have a figure according to our capacity and giving priority as we believe is the right thing to fully cater to the Brazilian domestic market.

And by doing this, we were able not only to supply adequately to our clients, but also Klabin once again resulted to its flexibility in markets and products and was able to deliver a very significant result in Q4 with over BRL500 million EBITDA and including a small sale of land in Guarapuava, a region that is rather distant from our operations.

I think it's important also to mention the fact that now we are facing 2015. And this current year is full of challenges of a different nature. The challenges are more on the macroeconomic level than operating challenges for Klabin right now. And I think this is very good news. Klabin has the production capacity fully restored, and in fact, expanded and the new machine in Goiana, machine 24, has already started operation two weeks ago and with an excellent ramp-up so far, both in quality and in volume terms. And this shows that we will have very good surprises coming from this machine. As of the moment, we are able to achieve the nominal production capacity of this machine, which should occur in the next few months regarding 2015 again.

When in other occasions we talk to you about the expectations of the company for the current year, we said that we expect an evolution in our results that may be proportional to the production capacity increase that we have been delivering. Or in other words, we are increasing our production capacity by 200,000 tons, and more or less in this proportion is what we expect our earnings to evolve.

As you all know, this increase in capacity with machine 24, machine 9, Angatuba and Piracicaba in a few months allow us to have a very good margin and deriving from these

expansions that we are carrying out regarding the challenges that we are facing.

On one hand, of course, everybody is aware of the cost pressures that we have, especially power, electricity, which is causing an increase in cost not only for Klabin but also for all the companies that buy any amount of energy in the market. On the other hand, we have the benefit of the exchange rate, which is going beyond what we expected, the exchange rate. And of course, this could be translated into a plus for the evolution of our earning.

I would also like to mention that as we are already in the middle of February, what we can see is that the market where we operate, the domestic markets, they continue to be resilient and we see no drop in these markets and which allows Klabin to have a consistent performance in the period. And besides, as we now have more capacity, I think you should see an increase also in exports by the company during this period. Tapping into this moment of a favorable exchange rate from the operating viewpoint, I think we have all the reasons to expect another year for a positive evolution for Klabin, such as has been the case in the last years in which we have been talking with you.

I know that you must be curious about the development of the Puma project. I would like to mention in this regard that Puma reached 45% of physical progress in January, which means that this is a very major event in one single month. We are getting into a very accelerated phase of the project. Today we have over 9,000 people on-site, and we are reaching the peak of this project and this should be attained probably in March and the project continues to go very well, on schedule and also on budget. And the whole of Klabin is very dedicated to make things happen with this degree of quality so that we may have the benefit of this unit already in operation at the end of the fourth - first quarter of 2016, and this is still our expectation regarding the startup of the Puma project.

Now, I would like to give the floor to Sergio, and he will make additional remarks about these points and we'll be giving you more detailed information.

Antonio Sergio Alfano {BIO 4337533 <GO>}

Thank you, Fábio. Good morning, everyone. It's a great pleasure, once again, to be with you in Klabin's conference call. I would like to start by talking about the volumes of Q4. In Q4 2014, Klabin sold 443,000 tons, 7% lower vis-à-vis the first quarter - the last quarter of 2013 due to the lower availability of paper and coated board with the stoppage for the overhaul of the Angatuba plant and the ramp-up of the capacity increase of machine number nine in Monte Alegre.

In 2014, the volume sold was 1.771 thousand (sic) [1,771,000] (10:27) tonnes, finishing at the same level as the volumes sold in 2013. With the lower paper availability in the quarter, the volume for the domestic market was 318,000 tonnes, the same level as Q4 2013, whereas the exported volume reached 125,000 tonnes, 20% lower than Q4 2013.

In the quarter, the export share in the total volume of the company was 28%, whereas for the year, it was 31%. Net revenue in Q4 2014, including wood, was BRL1.3 billion, a growth

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of 2% on a year-on-year basis. For the year, the net revenue was BRL4.89 million (sic) [BRL4.89 billion] (11:26), growing by 6% on a year-on-year basis.

In relation to the unit cash cost net of non-recurring effect, the cash cost in Q4 was BRL1.778 (sic) [BRL1,778] (11:42) per tonne, a nominal increase of 5% on a year-on-year basis. Besides the change in the production and sales mix, the exchange rate variation and the inflation had some pressure on the cost component prices such as chemicals, energy and fuel oil. On the other hand, the lower purchase of kraft, sack with the startup of the new machine in Correia Pinto and the lower level of G&A helped maintain our costs in line with inflation. In 2014, the unit cash cost was BRL1,830 per tonne, 7% higher than the unit cash cost of 2013.

As was mentioned, the EBITDA in Q4 was BRL508 million, the adjusted EBITDA, and we reached the 14th consecutive quarter of a positive evolution always vis-à-vis the previous year. And in 2014, the EBITDA amounted to BRL1.718 billion, 10% higher than 2013, and the EBITDA margin was 35%.

The consolidated net debt of Klabin at the end of December was BRL5.2 billion, a BRL1.2 billion increase on a quarter-on-quarter basis. And this increase is due mainly to the major investments made in the quarter and also the accounting impact of the exchange variation on the dollar denominator debt.

And this is partly offset by the strong generation - cash generation by the company, and the high devaluation of the real in the last quarter affected the net debt EBITDA ratio by 0.2 times. I think I should mention that the effect of the exchange rate valuation is purely on the accounting side and impacts mostly the export prepayment financing not linked to the Puma project and they are backed by future exports by Klabin.

Net debt/adjusted EBITDA ratio closed Q4 2014 at 3 times vis-à-vis 2.6 times, which is what we had at the end of 2013. In terms of investments, Klabin invested BRL917 million in Q4 2014, the BRL763 million spent in the Puma project.

Over the year, investments amounted to BRL2.9 billion, of which BRL2.2 billion were related to the new plant - the Puma plant. The development of the PUMA plant advanced in the last quarter on schedule, both for the physical part of the project and the financial part, and still in the fourth quarter of 2014, we carried out the overhaul of the Angatuba paper machine to increase capacity and which added an additional 35,000 tonnes per annum to Klabin's capacity for packaging paper at the beginning of February. The new recycled machine in Goiana with a capacity of 110,000 tonnes produced the first paper real. It was on January - February 2. And now, we are working to reach the learning curve very quickly and to reach the 110,000 tonnes per annum capacity during the year.

Klabin kept the strategy to strengthen the cash position in order to support the major investments in the Puma project. In January, Klabin did a capital increase by means of debentures issuance, convertible debentures, BRL1.7 billion as part of the funding for the Puma project. And still in January, Klabin was listed at level two of corporate governance

of BM&FBovespa and implemented the program of DR issuance for units, and each unit is made up of one common share and four preferred shares.

Over the year of 2014, we opened five conversion windows to convert the shares into units, and in December, over 95% of Klabin's shares' liquidity was concentrated in the units. And in July, Klabin concluded the issue of bonds with 10-year maturity amounting to \$500 million at the cost of 5.25 years, and this operation allowed the company to access a new source of funding besides stretching the ever-debt maturity of the company.

Now, Fabio and I will be available to you to answer questions that you might have.

Q&A

Operator

Ladies and gentlemen, now we would like to start our Q&A session. Our first question comes from Mr. Thiago Lofiego from Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, everyone. Congratulations for the results. The first question has to do with the margins. Maybe you could talk about the sustainability of your margins at the levels of Q4, which are record margins I think for you, and I would like to know the dynamics for 2015. You mentioned the cost inflation as a major factor for 2014, but do you think it would be possible to keep the margins at the levels of Q4 2014 because of the new project that will be started up and that probably will deliver very good margins and good prices? And my second question has to do with rationing of water. What would be the potential impact on Klabin of a possible water rationing and what kind of situation do you foresee?

A - Fábio Schvartsman

Thiago, thank you for your questions. Thiago, over these years, we received this kind of question about what is our target for a better margin and whether we think the margin will be sustainable. And I can tell you that this is not the way we work. That is to say, we do not look at the EBITDA margin to make decisions.

We take our decisions based on the EBITDA increase. So I'm more concerned in having the overall earnings of Klabin growing than in a higher or lower margin, and I have been having a pleasant surprise due to the fact that our margins have been consistently increasing over time. So I wouldn't be able to answer because this is not the way we work, but what I can tell you is that we are working to expand the total EBITDA of the company. And I believe that this is the most relevant factor for this case.

Regarding the water shortage or water control, we are in a very privileged position because most of our operations are located in the south of the country where there is no water shortage whatsoever. So we have some small operations in the region that is impacted by this dry season, mainly in the Brazilian Southeast. Nevertheless, these small

operations are not very intensive users of water. So I do not see any impact on the company because of a possible water rationing. So there is no effect to be considered on this side. Thank you.

Operator

Mr. Renato Antunes from Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Good morning, everyone. Thank you for your question. The first one has to do with costs, and it has to do with what was said about margins. Could you talk about the cost lines? What is the trend for the cost lines like energy, labor and OCC? It would be very helpful if you could talk about that. And my second question has to do with the ramp-up of the learning capacity - or the learning curve of the new capacities that are coming on-stream. When do you believe these machines will be running in an optimized fashion?

A - Fábio Schvartsman

Well, thank you for your questions, Renato. On the cost side, the cost line is more under pressure is the electric power line. And as I mentioned, maybe this is the only isolated factor that is really relevant for you to talk about. The other ones are business as usual. There is nothing extraordinary regarding the other cost lines, at least so far, at least to our current knowledge.

I would like to draw your attention that the makers or the manufacturers of recycled papers are electricity-intensive, the ones that really use this project, which means that the effect of an increase in the cost of power on these companies, on these plants is very big, and they will be under a very big cost pressure. And there is only one way to solve this problem, which is by having a price increase that might offset the increasing cost of electricity.

And on the other hand, OCC that for some months last year had downward pressure; right now, this has already been stabilized, and OCC has started to recovery price-wise. And this is what I can tell you about the cost side for the manufacturers of recycled paper. So my answer to your question is the following. Yes, we do see this cost pressure on the side of electricity; but on the other hand, we expect this to be offset by a rebalancing of prices in the market.

Now, regarding your other question about the ramp-up of the machines, I think we could say that the ramp-up of machine 23 has already been fully achieved, so the machine is already operating at full capacity. Machine 9 already completed. It is already operating at the full expanded capacity. The ramp-up of Angatuba is almost complete. We are almost getting to the maximum capacity defined in the expansion project.

And machine 24, we turned it on 15 days ago. So it will take a few months for it to get there, but started very well. The startup was very good. But the fact that the startup was very good, it doesn't mean that it's going to be either very fast or very slow. The machine

has already shown that it will reach full capacity with no problem whatsoever and with the necessary quality, which will bring even better results than we expected.

And I would like to remind you that the northeast market is the fastest growing market in Brazil. So, in any equation that you draft, the best market for you to have capacity available is the northeast, and this will be the first manufacturer of top-quality paper in Brazil in the northeast. And Klabin will be offering - will be supplying this product into northeast and this will bring us a lot of joy over the year. I cannot tell you exactly when, but we're more working towards that and we already see a very positive impact there in the region because of that.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you.

Operator

Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning. You talked about the water rationing, and last year, you talked about the energy rationing that is again making the headlines. Do you have contingency - well, of course, you must have contingency plans, but I would like to know about Puma. Could you talk about Puma vis-à-vis energy, any delays, any contingency plans that you have? This is my first question.

A - Fábio Schvartsman

Puma does not suffer any impact whatsoever of energy shortage. Of course, you need electricity to operate the plant, but we are talking about negligible amounts of electricity. So we do not expect any problem whatsoever at the Puma project coming from any energy shortage of rationing. Even before the plant is started up, we will be selling power due to the need that we have to put the boilers and all the machines to work. So, Puma vis-à-vis electricity is just good news.

Q - Lucas Ferreira {BIO 16552031 <GO>}

You said that this year, you will be exporting more. So, how do you see demand for your product? And a depreciation of the euros, does it play against you? So how do you see the situation for this additional export volume this year?

A - Fábio Schvartsman

That's a very good question. We are preparing ourselves to export significantly more products this year, and of course, when you increase your sales progressively, you go to more competitive markets and the prices are, as a consequence, lower than the ones that we have today. So, maybe this is a main isolated factor that will be impacting our prices for exports. But kraftliner is a commodity. The market is there. There are no limitations in this market, no restrictions whatsoever. And the coated board market is going very well.

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Of course, you have the dollar becoming stronger vis-à-vis all the other currencies. So if you wish to translate the prices in dollars, they will be suffering a downward pressure because many of the manufacturers of these products, they sell in euro, they manufacture in euros, and of course, this means a dollar price a little bit lower. But what we are interested in is the following. As our currency is also devaluating and faster than the remainder, net-net, this is very positive for Klabin. There is no doubt whatsoever that these exports will continue to bring excellent margins to Klabin.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you.

Operator

Mr. Marcos Assumpção from Itaú BBA.

Q - Marcos Assumpção

Good morning, everyone. Congratulations for your results. First question about the competitive environment in the coated board part. In Brazil, if you look at other smaller producers that are not integrated vis-à-vis some raw materials, some inputs, do you see cost pressures in the segment as well? Do you think the non-integrated producers could benefit from that?

A - Fábio Schvartsman

Well, this is a case-by-case situation because each manufacturer knows about their specific situation. In our view, these effects of cost increases, of course, impact many of our competitors and, of course, they will be under a cost pressure and they will need to increase their prices. So I think the market tends to adapt also in coated board.

Q - Marcos Assumpção

The dilution of fixed costs, Fabio, last year, you had some problems regarding production. And if we look at the total volume sales of paper, it was practically flat, and this year, you have machine number 9 already running at full steam. And even with a relevant impact of cost inflation in Brazil, don't you think you will be able to reduce the cost per ton because of the dilution of your fixed cost?

A - Fábio Schvartsman

Well, of course, dilution of fixed cost, whether this is going to offset or not, the cost increases on the variable side, these are still being gestated, so to say, as you know better than we know, the government has been changing the way they collect the charges on electricity, and this is something that is still underway. I wouldn't be able to make an effective evaluation of the situation as it is today because there is a big question mark on the part of industrial consumers about this new way to collect. They are questioning it. So we need to know where it will end so that we have a more clear picture. But conservatively speaking, we must believe that variable cost that will have to go up because of the issues that have already been mentioned.

Q - Marcos Assumpção

And one last question. Could you talk about the possibility of exports of coated board today with the exchange rate close to BRL2.9, and Q3, BRL2.54 on average, and you said the profitability between domestic market and exports was not very different in the last quarter?

A - Fábio Schvartsman

Well, the exchange rate has changed, of course, but not that much. It leans a little bit more favorably towards exports. Okay?

Q - Marcos Assumpção

Great. Thank you very much.

Operator

Jon Brandt, HSBC.

Q - Jonathan L. Brandt {BIO 17988091 <GO>}

Hi, good morning. Thank you for taking my questions. Firstly, I wanted to ask you, you've talked a lot about the cost pressures that you and the industry are facing. And we're starting to hear a little bit more about some of your competitors thinking about announcing price increases, and you're sort of mentioning on today's call that you're expecting EBITDA generation to grow in line with new capacity. Is that - are you sort of implying that the price increases across your products could be up maybe 7% to 8% this year? Does that sound like a reasonable expectation? And then when would you expect to announce those price increases?

And then secondly, if you could talk a little bit about the impacts on energy rationing, maybe firstly on the direct impact that it would have on you and your operations, but secondly, I acknowledge it might be a little bit harder, but what sort of impacts would it have on demand from your clients in the event of an interaction? Thank you.

A - Fábio Schvartsman

Jon, thank you very much for your questions. First, about prices. The company's policy is the following. We do not talk about prices because prices are defined by the market and we operate in the market, so we do not announce prices. So this is the way we operate.

And what I mentioned during this call, and I restate it now, is that with the cost pressures that many competitors of ours are suffering, this will mandatorily lead to a price increase in order to bring a balance to the market prices. Should this happen, we will follow accordingly. There is no reason for Klabin to be different from the other players in the market in this regard. I wouldn't be able to tell you a certain index or amount or rate.

As I said before, when somebody talked about the impact of electric energy, this is not fully understood yet because some measures are still being announced and very

frequently so. And some of these measures are under a public hearing process and they could be announced during the process. So it's very hard to quantify the impact and the effect on the cost, and as a consequence, what kind of price would be enough to offset this increase.

Now, talking about the electricity rationing, the effect on Klabin as a company is very negligible because we are integrated manufacturers of pulp and paper. And as you now, pulp releases electricity, and the equation of electricity in Klabin is very much based on biomass besides what comes from the production of pulp itself.

So, Klabin has a major percentage of its power produced by us. And we only buy part of the energy in the market, and should rationing come, we would have to reduce the amount of energy purchased from the market proportionally to the level of rationing. And the impact will still be very low because this impact will be translated into very small figures, some few dozens of million reais for the full year.

So, in any rationing scenario, because we will either carry out an adjustment via a reduction of our internal manufacture of components and buy them externally in order to save electricity or, let's say, this is needed, we could even reduce our production capacity and cutting the products that have a very small margin. And that comes from the older machines that we have, and the overall effect on the aggregate of the company will be negligible. So we're very happy due to the fact that we are very, very little impacted by the prices - the energy prices.

And with the startup of the Puma project in 2016, Klabin will have a surplus of electricity by a lot. And this means that we will be selling this additional capacity or the surplus in the market, and it's even more favorable in 2016. Let's say, there is a crisis. They will not be limited - this crisis will not be limited to 2015. It should be extended, and Klabin as of 2016 will be tapping into the situation because of the energy surplus that we will be producing.

Q - Jonathan L. Brandt {BIO 17988091 <GO>}

Okay. I mean, is there any concern about demand from your clients falling in the event of an energy rationing? And if that's the case, could you simply export more if domestic demand were to fall?

A - Fábio Schvartsman

Because of this issue, we made a survey with our 15 most important clients so that we could have a more direct view of the impact of energy rationing on them. Most of them are not power-intensive. They use electricity, but they only use in, let's say, modest amount. And they all have prepared themselves to cope with the situation by means of installing generators. What they have been telling us is that they will not suffer with a possible rationing of electric power. And the cement bag manufacturers - no - the cement manufacturers are the only ones that would be hit. We supply the bags for them and they package cement. So they are energy-intensive. And any rationing should lead to a

proportion of reduction in their capacity to produce and deliver cement, but this represents a very small percentage of Klabin's revenues.

Q - Jonathan L. Brandt {BIO 17988091 <GO>}

Thank you very much.

Operator

Mr. Carlos De Alba, Morgan Stanley.

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

Yeah, thank you very much. The questions I have, first one, if you can comment on domestic pricing trends in other markets besides OCC, what are you seeing in terms of boxes, what are you seeing in terms of bags, and if there is any possibility that the cost pressure that you commented on would also influence prices in those markets to move up? And the second question, if you can give us a flavor of what you are seeing in terms of your different end markets, how they are behaving in Brazil and what are the expectations for 2015? Thank you.

A - Fábio Schvartsman

Your first question was about how the effect of electricity could play in the cost of recycled paper and whether this would lead to a price adjustment in corrugated boxes and conversion, Carlos, is just converted paper. Be it for Klabin, be it for any company that converts, there is a pass-through. There is an immediate pass-through of the price increase – paper price increase. If there is an increase in the price of paper, of course, the price of boxes, et cetera, will increase boxes and bags. So there is no difference in this regard.

Now, about your other question, about our markets, I think I said at the beginning of this call that we are in the middle of February, and as a consequence, we already have a very good flavor, so to say, of how things are going in this first quarter. In the main markets where we operate, we see a very high degree of resilience. That is to say there is no drop in these markets. We do not see a drop in sales in the domestic market either. They have been stable, not growing, which means that the growth in capacity is becoming an increase in exports on the part of Klabin.

Operator

Mr. Juan Tavaréz from Citi.

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

Hi, good morning, everyone. So you discussed a bit about potential cost pass-through to pricing. I'm curious how sensitive demand is to pricing because you mentioned the macro environment is quite difficult so far into the first quarter. You see more stable activity versus growing. So I'm trying to understand, if there is a cost pass-through to price, how

much worse you get in the local market? Do we start seeing a contraction in activity just to understand the sensibility of your customers to pricing? And in that scenario, how much more could you export? So, understanding how your export mix could change going forward?

A - Fábio Schvartsman

Good morning, Juan. Thank you for your question. You're asking about a reduction in demand and how this would impact prices in the domestic market. I think this is what you meant. My answer is the following.

First, Klabin sells corrugated boxes and bags for very well defined markets, and most of them, the great majority, they are the food markets and they are resilient. And there is an interesting phenomenon there. As sales of durables drop, of course, consumers will have more cash available, more income available, and they normally tend to keep the purchase of non-durable goods.

And this is what we see in Brazil right now. At least in Klabin's clients, we see a very good behavior of demand. Well, it would be better if it were growing more, but surprisingly stable in spite of all the bad scenario that we have, and this has to do with what I have just said. What is really dropping and being impacted are the durable goods here in Brazil.

Now taking about the price effect because of drops in demand, reduction in demand in the future, I would like to draw your attention to the fact that there would be an effect if companies that manufacturers corrugated boxes from recycled material had high prices, which means that they wouldn't be able to cope with the reduction in their margins.

And this would lead them immediately to the red, to losses. So the price adjustments would be necessary in order to keep a minimum economic balance in the operation because the question is the following. Why would anyone convert paper into boxes to sell at the lower price than the cost?

You are not going to see that or it will be very difficult to see this kind of situation. So, right now, we do have a balance in this situation. I do not have a crystal ball and I wouldn't be able to tell you everything that will happen during the year. But so far, I see no heavier effect on this direction.

Operator

Vicenzo Paternostro, Credit Suisse.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Good morning, everyone. Thank you for the question. Of course, the depreciation of the currency is very good as far as the cash generation of Klabin is concerned. And could you talk about the impact of this depreciation or devaluation on your indebtedness? The expectation that you had of closing 2015 before the beginning of the project debt 4 times net debt/EBITDA, is there any change in this because of the Brazilian currency

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devaluation, and could you say if this devaluation alters your CapEx for the project in reals?

And lastly, could you please talk about the change of the INPV (47:20) of the Puma project with this depreciation? I did some drills here, and this shows an improvement in the net present value. I know that it has already been answered, but maybe you could go more in-depth.

A - Antonio Sergio Alfano {BIO 4337533 <GO>}

This is Sergio. Regarding the exchange rate, of course, with this almost daily or hourly change in the exchange rate, we have export financing. We have a position in export financing, and normally it happens as such. We export, let's say, \$550 million per year and we have to prove financing via exports of \$250 million on average that we amortize per year, and this shows that we have a natural hedge there.

We do not do the financial hedge because it's too expensive. So, everything I receive in dollars of the \$550 million, part of what will be maturing in the part of financing, we do as described. So we have this cash flow in dollars every month. So the dollar in our cash flow is very welcome, I mean, in the case of an increase in the exchange rate.

Regarding the net debt/EBITDA ratio, on the one hand, you have to restate your financing based on the exchange rate at the end of the month, and for exports, you do that over the month. So the first impact is an initial increase in your net debt/EBITDA ratio. However, you start to export more in the following months. You start to have a bigger export revenue stream, and then once again, you start decreasing your leverage. So this is an ongoing process. And we have been following this policy for many, many years, and we believe this is a very winning policy and so we do not hedge - we do not do the financial hedging because it's too expensive.

Regarding the exchange rate for the project, as you said yourself, the higher the exchange rate, the higher the profitability of the project. As most of our cash cost for the products coming from the Puma project, they are in reals and some raw materials are in dollars, but almost 100% of our revenues and even the sales in the domestic market will be competing with import of the product. So this additional volume brought about by the Puma project is dollarized on the revenue side of it, and only a small part of the cash cost is in dollars. Because of that, the profitability of the Puma project will increase substantially, as you said yourself.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

And what about the impact on the CapEx?

A - Fábio Schvartsman

It's very small. Only 14% of our CapEx or the industrial CapEx is in foreign currency, and we have already paid over 50% of this amount of the imported part of the equipment used in the project. And most of that comes from producers in Europe, the turbo generator from Germany, for instance, and parts from Finland and from Sweden,

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everything in euro. So the euro is evaluated vis-à-vis the dollar. So you can see that the impact is very low.

We could answer in another way. For instance, the cost of the project measured in dollars has gone down, because if you take the reals versus (51:21) the new exchange rate, the Puma project measured in dollars as all the revenue will be in dollars, the project measured in dollars had a substantial reduction in its cost because of this increase in the dollar rate.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

I would like to ask a question about Reintegra. What was the value generation of Reintegra in Q4 or for the year of 2014 because there is a possibility of the government putting an end to this benefit and it would be interesting to understand how this could impact Klabin and the technical doubt?

A - Fábio Schvartsman

At the Reintegra, where is it posted? In Q4, in the case of Klabin, paper exports, you have this benefit of 3% of the COB (52:20) exported amount, and in Q4, the benefit represented BRL8 million. So we have the (52:31) credit that reduces the CPD of the company, but we continue with the 3% of cost.

Operator

Alan Glezer, Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning, everyone. I have two questions. The first has to do with the kraftliner market. 20% almost dropped in Q4 related to the Angatuba stoppage, and with the Angatuba plant operating successfully and the Angatuba already coming on stream again, will you have more availability of kraftliner for export because the market is very healthy with the devaluation of the real and the profitability in this area continues to be very good?

So the second question has to do with the debottlenecking of the Monte Alegre machine. Are you placing this volume produced in the domestic markets? Do you have any new clients? And what about the expansion of the coated board machine number 10, the project that you were discussing in the past, any news to impart about this? Thank you.

A - Fábio Schvartsman

In Q4 last year, we saw a drop in the volume of kraftliner because of lack of availability of the product, and this no longer exists. It's quite the opposite. We have all the machines operating at full steam now. And what we see now is a ramp-up of machine 24, which is not significant yet in volume terms, but in the second quarter, it will become significant. And it will be producing even more kraftliners. So, surely, during the quarters, you will see a consistent and important evolution in the sales of kraftliner in our external markets, and

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as you said yourself, it continues to be very healthy and it benefits from the favorable exchange rate.

These 50,000 tonnes that you referred to that we acquired as additional capacity will be equally split between the domestic and the export market, in the domestic market. Just to mention one new client that we are supplying and that we were not supplying because of lack of capacity. We are talking about the (55:35) of beer, and as we had no capacity, this is a market that is growing steeply in Brazil and we wanted to be players in this market. And now, we are catering to this market in a very significant fashion. And the remainder is being exported; no problem there. These 50,000 tonnes are very well received by the companies that demand our product.

Machine number 10, we are starting our talks about that. But I would like to make things very clear. Klabin, right now, is 100% dedicated to the Puma project. This is our top priority. We want to see the project on-stream. Machine number 10 is a reality, but it is not linked to Puma project. And we will be talking about machine 10 close to the startup of the Puma project, but not right now, not yet.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you.

Operator

Caio Ribeiro, BTG Pactual

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good morning. Thank you for the question. I would like to ask a question about long fiber or softwood. There is a natural ramp-up for the fluff quality until you reach the adequate quality to start selling. And during this period, you will be selling a volume of long fiber or softwood. So, could you give us an idea or some color about this market and if the spread for short fiber are sustainable?

A - Fábio Schvartsman

Thank you for the question. I believe that over the next quarters, as we get closer and closer to the start-up of Puma, and for the first time in Brazil, we will be talking about the production of long fiber and fluff. Because of that, we will be talking about that very extensively for the first time ever in Brazil. And one thing you should keep in mind is the following. People ask about this gap between the long fiber and the short fibers. Sometimes it gets bigger and sometimes it gets smaller. Sometimes it's hard to understand. The producer who defines the price of short fiber or hardwood is Brazilian. So there is a reverse correlation between the value of the real enterprise of the hardwood pulp.

The benchmark producer for long fiber or softwood is European, and as a consequence, the benchmark or the reference currency is the euro, and there is the same reverse relation. So, what happened in the last couple of months, or two or three months? We saw

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weakening of the euro, an unprecedented one because the euro was being sustained at a very high level vis-à-vis the dollar, and all of a sudden, this changed in these last couple of months. And this is the reason why this gap between hardwood and softwood pulp is smaller. This is still a preliminary analysis because you have to take into account two relevant factors; the evolution of supplies and the evolution of demand, especially from China. If you factor in all these components, you get to more or less where prices should be in the future, both for hardwood and softwood fiber.

So this closing of the gap is caused because of the reason that I mentioned. And I myself have been telling everyone that asks me that I had never seen a gap the size that it is today between the hardwood and the softwood. And what we are seeing is an adjustment of a situation that was not adequate and that has never been factored in, in our figures and in our plans. We will be selling long fiber in the market while we wait for the approval of our fluff product by our clients. And the long fiber market lacks new capacity, because for many, many years, nobody has been slating new capacity. And new capacity means superior quality and the guarantee of supply, whether it's old capacity or very old capacity usually means problems regarding quality and problems regarding sustainable supply.

So, Klabin's initiative is to be seen very favorably by all consumers of softwood outside Brazil and also inside Brazil because Brazil also consumes a lot of long fiber mixed with short fiber in many applications. All this is important today, and of course, Klabin will start to be a player in this market.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Thank you.

Operator

As there are no more questions, I would like to give the floor back to Mr. Fabio Schvartsman for his closing remarks.

A - Fábio Schvartsman

I would like to thank everybody for participating in our call, for the excellent questions that were asked and they helped us convey a more in-depth message about the company's situation. And as you can see, it continues to be very similar to the previous situation, which means that Klabin is very strong in competitiveness because of the low cost and it also has the benefit of operating in very diversified markets. And this gives us many different alternatives of coping with many market situations, different market situations, and this continues to be true.

In a difficult year such as 2015, Klabin is very pleased to continue to be bullish about the possibility of delivering an important growth in our earnings for this current year. This is very satisfactory for us if you take into account the difficulties in the year and also the fact that the Puma project has been going very smoothly and everything points to the project being started up according to schedule and bringing a lot of joy to Klabin and to all shareholders with the adaptation of the Klabin product to the market needs.

So, thank you very much for your presence. And we expect to talk with you again in three months' time when we will be publishing the results of the next quarter. Thank you very much, and have a very good day.

Operator

Klabin SA conference call is closed. We thank you for participating, and wish you all a very good day. Thank you.

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