

## Q4 2017 Earnings Call

### Company Participants

- Cristiano Cardoso Teixeira, Chief Executive Officer
- Eduardo de Toledo, Chief Financial Officer & Investor Relations Officer
- Francisco César Razzolini, Executive Officer & Planning, Project & Industrial Technology Officer
- Unidentified Participant

### Other Participants

- Carlos F. de Alba, Analyst
- Daniel Sasson, Analyst
- Gabriela Cortez, Analyst
- Ivano Westin, Analyst
- Jonathan Brandt, Analyst
- Lucas Ferreira, Analyst
- Milton Sullyvan, Analyst
- Renato Maruichi, Analyst
- Thiago Lofiego, 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 hold a question-and-answer session when further instructions for you to participate will be given. As a reminder, the conference is being recorded and broadcast live via webcast and it may be accessed at <http://cast.comunique-se.com.br/Klabin/4Q17>, where the presentation is also available.

Before proceeding, we would like to clarify that forward-looking statement that might be made during this call in connection to Klabin's business outlook, projections, operating and financial targets, and potential growth should be understood merely as assumptions based on the expectations of the company's management in relation to the future of Klabin. Such expectations are highly dependent on market conditions, on Brazil's overall economic performance, and the industry's and international market's behavior. Therefore they are subject to change.

With us today in São Paulo we have Mr. Cristiano Teixeira, Mr. Eduardo de Toledo, and other officers of the company. Mr. Teixeira and Mr. Razzolini will comment on the

company's performance during the fourth quarter of 2017. And afterwards, they will be answering questions that you might wish to ask.

Now, we would like to turn the floor over to Mr. Teixeira. Mr. Teixeira, you may begin.

### **Cristiano Cardoso Teixeira** {BIO 17567319 <GO>}

Good morning, everyone, and welcome to the fourth quarter of 2017 call of Klabin. It is with great pleasure that I bring to you the 26th quarter of growth of our EBITDA in Klabin and this quarter, especially the last quarter of last year with a growth of 31% vis-à-vis the first quarter of 2016. So as far as we are concerned this is a quarter that shows how vigorous is our business platform.

I would like to highlight as well two important points in these opening remarks. The first was the profitability improvement, we had 33% in the fourth quarter of 2016 and 37% of EBITDA margin in the fourth quarter of 2017. And this is due to the fact of our improvement in operating efficiency mainly in the second quarter but very much increased in the fourth quarter in our paper areas, and also due to the growth curve reaching production in the pulp plant and also due to the fact that international markets and the domestic market are structurally gaining vigorous price increases, and as we have been saying this would lead to better profitability. And by the way, we continue to believe that this will go on in the next few quarters in the same way.

I would like to talk about the vigorous drop in our indebtedness. Of our onetime, the net debt/EBITDA ratio and we expect to maintain this space, and we are very pleased because with this space we will very soon be ready to talk to you about our new growth cycle. And taking the last point of Klabin's growth, we bring the good news. And this is what I have to bring to you about our growth because we have been able to have the approval of our board of directors, the continuation of our studies, mainly basic engineering studies for the machines that we intend to invest in.

So, very well. Ladies and gentlemen, so these are my opening remarks. And now I would like to mention that this is a very special call for all of us because the whole board of directors is here, practically the whole board of directors is with us today. And due to your request, we will be able to hear from our business officers, our commercial officers about the market. So, I believe you will have more content in order to be able to ask your questions.

So, now I would like to give the floor to Eduardo Toledo who will be talking about our financial highlights.

### **Eduardo de Toledo** {BIO 2067933 <GO>}

Thank you, Cristiano. Good morning, everyone. Could you please follow the slide of the presentation? So, the first one is the highlights of the quarter. And as Cristiano said, our EBITDA was BRL 855 million, 31% growth on a year-on-year basis, a very vigorous growth.

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Pulp production reached 394,000 tonnes and this figure is already higher than the nominal capacity of the plant. So, it is very important progress, 10% increase over 3Q 2017.

So, a very good performance improvement. Net revenue of sales BRL 2.298 billion, a 17% increase over the fourth quarter of 2016. Conversion, which has been having a good year, a 4% increase over the fourth quarter of 2016 and net debt/EBITDA 4.1 time.

On the next slide, you see the evolution of our net debt/EBITDA ratio. You can see that from 4.4 times in September it came to 4.1 times in December. In the next few quarters, we expect to have the same kind of behavior in order to bring net debt/EBITDA level of the company to comfortable level, so that we may announce a new cycle of investments. And on the next page, we have dividends approved – dividend payout related to the fourth quarter in our shareholders' meeting, 20% EBITDA approved at each quarter and our dividend yield reached 3.3% in 2017.

And the last slide of this very brief introduction is about our free cash flow. And I think it is always best to look at a longer period, so we show this on a quarterly basis of course, but for the quarter you also have fluctuations. Sometimes it is a vessel that delays shipment and the shipment is done only in the next month. So it raises the level of inventory to a higher level. So there is some kind of fluctuation, but I would like to emphasize that in 2017, we had a free – adjusted free cash flow of BRL 1.918 billion. This is a very important level. And this was reached due to a divestment in working capital of BRL 395 million. And the most important part of this has to do with taxes. Once we have tax credits that are accumulated, especially from some lawsuits that we won and the construction of Puma itself, and of course this leads to a divestment in working capital over time. So I would like to give this emphasis regarding our free cash flow.

So this was our introduction. And now we would like to open for questions from you. Thank you.

## Q&A

### Operator

Ladies and gentlemen, we would like to start our Q&A session. Our first question comes from Thiago Lofiego from Bradesco BBI.

#### Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning and thank you. I have two questions. Cristiano, could you please give us some color about the approval of the projects just for us to understand in which areas you or when you expect to have a final approval by the board and to have to know about the pipeline and kraft is still a preference. Are you going to do this first before the others and could you talk about CapEx as well, at least a range for, a figure for your CapEx. And about the Puma cash cost, the second question. We have been seeing the costs improving, but we still see the Puma cash cost BRL 680 per tonne and you believe there is more room for improvement, your target if I'm – it was about BRL 670 per tonne. Please

correct me if I'm wrong, not very far from the level of today, but what do you expect from now on? Thank you.

### **A - Cristiano Cardoso Teixeira** {BIO 17567319 <GO>}

Thiago, thank you for the questions. I'm going to answer together with Francisco in order to give you information directly from the source. So, I will start by talking about the projects and then Francisco will be talking about the cash cost of Puma. Well, we see things as follows. We have already overcome one important step in terms of the approximation with our controlling shareholder regarding the study of the projects and the basic project is a very important step, a mandatory step for us to continue seeking the exact CapEx level that we will have for the project and also the internal rate of return which is the outcome of this variable. So, we continue with the study. And the most important thing for us to tell you is that our controlling shareholders and the board of directors they believe and they encourage us to continue with our studies. And now with the approval of the basic engineering project, as I said before, we have already overcome this step. And we believe that around the middle of this year, around let's say June or July, our talk with the controlling shareholders will be more aimed at with numbers being presented on the table. And as I have been repeating, if we announce the investment this year and this is the wish on the part of this board of executives, this should happen in the third quarter, but of course, it has to be aligned with the shareholders' interest which is what we are seeking during these talks. And now Francisco will answer about cash cost.

### **A - Francisco César Razzolini** {BIO 16565930 <GO>}

Good morning. Ms. Thiago, Francisco Razzolini here. Thank you for the question about Puma and the cash cost of Puma. What we can say is that the unit is performing very well and our benchmarks for cost have been evolving quite satisfactorily, very competitive vis-à-vis our peers in this sector, and more specifically, in the fourth quarter, we expected a little bit less as we announced in the third quarter, but we were impacted by some external factors, especially our chemicals cost that impacted more intensively, and the price also going up over 77%, so forecasted 30% increase.

And they had an impact on our chemicals cost.

Also in terms of energy generation, it was practically equal to the third quarter affected by some factors that were just like one-shot factors that happened in the unit, the rainfall in this quarter and we have to integrate the project (13:20). And of course, this impacted energy generation and other issues regarding the better price of - the spot price vis-à-vis the previous quarter. So with the internal factors should continue to have a favorable evolution in terms of cost reduction, and we expect an improvement and probably we will be seeing this in the second quarter of 2018, and the first quarter of 2018 not yet because we will be impacted by the general stoppage between the 10th and the 21st of the month. And we expect the evolution to be favorable in terms of the Puma costs.

### **Q - Thiago Lofiego** {BIO 16359318 <GO>}

Very clear. Thank you, Cristiano. Thank you, Razzolini.

## Operator

Daniel Sasson, Itaú BBA.

### Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, everyone. Thank you for the question. My first question is about the fluff business. Could you please give us some color about the evolution of the business and the prices that you are achieving in the business or the price delta vis-à-vis hardwood and softwood fiber? And could you give us an idea of the volume that you expect to produce in 2018 of fluff, 200,000 tonnes maybe or more of fluff or a little bit less than 200,000 tonnes in hardwood fiber? So this is my first question. Afterwards, I will ask a second one.

### A - Francisco César Razzolini {BIO 16565930 <GO>}

This is Francisco. Daniel, thank you for participating and for the question about fluff. We were able to penetrate the market as we have already reported in previous talks and in terms of quality acceptance the product is performing very well in terms of prices in 2017. We still had many primary contracts in 2016 and the contracts were annual contracts and we had relatively low prices in this contract and we could expect an improvement in prices now in 2018. We have already implemented practically all the prices according to the RISI Table 5 which is the basis for the fluff prices all over the world. And we have already implemented the price improvement and the price reference is - or the benchmark to the international market, related to the other fibers fluff is going up more slowly because of the long-term contract that I have described but we already see a pickup in the market, the market was very much impacted by the growth that happened in terms of production in 2015, 2016, so increase in production.

So from now on we expect fluff to have a good performance. Our unit is reaching its full capacity, so we expect to produce around 400,000 tonnes between softwood and fluff, probably around two-thirds, 70% for fluff and the remainder for the softwood market.

I would like to mention also that in the last two quarters of 2017 and with our view of the first quarter of 2018 is that the behavior of the hardwood fiber in the market is better than fluff. So the volumes that we had at spot, we are earmarking for the fluff market, the softwood market. Some oscillations might happen depending on the rationale for prices over the year, but we are going very strongly towards fluff already.

### Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you very much. Very clear. And my second question has to do with the paper market. In domestic market, do you see an improvement of the ABPO, that is to say the Brazilian Association of Corrugated Boxes and improvement in the economic situation of the country, and what do you expect in terms of volume for 2018 in corrugated boxes? And still about paper, how bullish are you in terms of implementing the price increases for the paper lines at the beginning of the year? Thank you.

### A - Operator

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Daniel, I would like to take the opportunity to introduce to you Flavio (18:11) who is the Commercial Officer of the Paper area.

Good morning, everyone. This is Flavio Deganutti (18:17). It's a pleasure to be here. The Brazil (18:21) structural condition that is very good in most markets I would say, not only in Brazil, but especially in the U.S., and in Europe. But of course, this points to a direction in which supply and demand will reach another level. So we see the market with a very good behavior. And we will be able to achieve our goals and we have a balance between the supply in the domestic market and in the foreign markets, and because of that it allows us to structurally position ourselves ahead. Especially Mexico, we have some businesses and we seek new businesses there, and they seek Klabin today for paper besides the United States. So we see many opportunities being opened because of the recent dynamics.

**Q - Daniel Sasson** {BIO 19234542 <GO>}

Thank you very much.

## Operator

The next question is from Carlos de Alba, in English, Morgan Stanley.

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

Good morning. I would like to ask you about potential increases in domestic paper prices. We have seen some news recently in the industry that the bank commissions start to accelerate (19:56) and also with some competitors having announced price increases. And then the second question is if you could elaborate about the level of net debt to EBITDA or leverage (20:13) that you will find comfortable before starting to spend money and approve the next upgrade (20:19) cycle for Klabin. And then just ask one if I may, there's a lot of, I know that you are retire - or like moving on to other opportunity, so all the better in that new phase, but if you could maybe just then elaborate a little bit more on the plans for the CFO succession, we really appreciate it. Thank you very much.

## A - Operator

Carlos, it was very difficult to hear you. Not because of the way you asked your question, but we had a lot of noise in the audio received here. So I would like to break the protocol and ask you to please repeat the question, you know, one and then the other one and the other one, okay. So, please do that. Thank you.

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

Sure. Hopefully, it is better now, but I still hear some echo. Anyway, so the first question was on paper prices in the domestic market, if you could comment what you are seeing. We have heard some news of competitors becoming more conservative and announcing some price increases. So if Klabin is planning on doing anything similar to what we have heard that would be useful to know. Second is, could you elaborate a little bit more about the leverage of the company and the level of net debt to EBITDA that makes you comfortable before announcing the next growth phase of the company? And then, finally, Eduardo, I understand is moving to new opportunities. All the best for you, Eduardo, in

the next step of your career. But, Cristiano, maybe you could elaborate about what are the plans or the stage of the CFO succession plan to replace Eduardo? Thank you.

### **A - Cristiano Cardoso Teixeira** {BIO 17567319 <GO>}

Thank you very much. So you have asked three questions and I will have to organize it in order to bring a little bit of governance here. I'm going to ask Flavio (22:43) to talk about the domestic market, which was the object of your first question. And then Eduardo will talk about indebtedness and then I will come back in order to talk about Eduardo and succession CFO, okay.

### **A - Operator**

So, again, good morning. As we said before, we have not only in Brazil, we have this 1 point (23:10) of growth in all the markets that we operate in and we see a behavior that brings to packaging paper manufacturers such as Klabin additional volumes. On top of that, we still see a very important move regarding the regulation in some countries then that earmark volumes for virgin fiber which is exactly our condition.

So all these places in the world vis-à-vis packaging paper, they're in very interesting position and differently from before in a very long cycle which allows us to fit into these movements, be it regard investments or positioning. So it is also valid for our domestic market. And even in the Brazilian market, we see very important growth in the market and our corrugated boxes made by Klabin show this very clearly. And therefore this is the way I describe the market and this is why we are able to put all these moves in place. Carlos, I will take the liberty to take advantage of your question in order to answer a question that was not answered by Daniel from ABPO, the Brazilian Corrugated Box Association. So before giving the floor to Eduardo, to Gabriella (24:40), who is our Packaging Officer will talk about the ABPO because we didn't answer Daniel's question and then I will go back to your question. So I ask your leave to do that.

Good morning. Thank you very much for inviting me. This is Gabriella Michelucci (24:57). I will talk about the market in 2017 and the beginning of the year had projected a growth that was lower than say, 1% (25:07) for the delivery of packaging in Brazil and they closed the year growing very satisfactorily with 4.9% growth vis-à-vis 2016. And the first six months of the year we're concentrated in the improvement of our agricultural part which is supplied by corrugated boxes and the food industry as well. And as of August, we started to see also growth, important growth (25:40) in the other categories, they gave the necessary momentum for us to close the year with this kind of growth. We are very bullish for 2018. We still don't have the result of January, but we already project at least 3.5% growth year-on-year. And of course month-by-month, especially after the first quarter, we will be able to make a new projection for the whole year. For the first month, we expect to see at least 4% growth in the market.

So as soon as we have this information, this will be published. Very well. Now, Eduardo will talk about deleveraging.

### **A - Eduardo de Toledo** {BIO 2067933 <GO>}

About what Gabriella said, Gabriella (26:41) is talking about the market as a whole. So it is the ABPO's view for the market as a whole, so not about Klabin's participation. Carlos, talking about deleveraging, the pace that we have shown in this quarter regarding deleveraging is enough for us to be able to announce around the middle of this year a new investment plan. We do not have a target, that is to say when we get to this figure, then we will be announcing, no. This is not the way we work, because we look at investment in the light of the company's indebtedness and any investment that we might announce around the middle of the year, the greater disbursement will be after one year or one year and a half.

So it's not very important, our indebtedness at that point, but it is from then on, so the way we have been progressing in the last few quarters makes us very comfortable saying that we will be able to announce a new cycle of investments around the middle of the year.

### **A - Cristiano Cardoso Teixeira {BIO 17567319 <GO>}**

Now talking about Eduardo's situation, if you allow me I will go back to this subject when during my closing remarks when I will be talking about Eduardo and then Eduardo will be addressing you as well. But I know that I'm taking advantage of your question, but we have our people in management officer and we have also brought Sergio (28:30) and he will be talking about the succession process at Klabin.

### **A - Operator**

Good morning, everyone. I would like to say that we have already concluded the process of selection and contracting or hiring Eduardo Toledo's position that will become the IRO and the Investor Relations Officer. I cannot reveal the name yet, because his current company still has to process the information, which should happen in the next weeks. What I can tell you is that we are bringing onboard a very talented executive, and he has all the necessary skills and conditions to come onboard already, giving a contribution to the processes that are underway. So he start to play the game immediately as soon as he comes to the company and he's very much aligned with meritocracy, which is the culture that we have been building in Klabin. So he is fully aligned with our continuous quest for improvement of our corporate governance and we are very pleased with the agility that we were able to get in the conduction of the process.

We have a very well-structured succession plan and although in the financial department we have many managers that are very talented and with a very good potential still we didn't have an internal or an in-house replacement with all the necessary conditions. So we had already mapped this position of Investor Relations Officer and CFO as being critical for the company. We already had a short list of pre-candidates, so to say, that was very closely monitored. And because of that, we were able to have a very agile process in January and we have recently concluded it. So we have already hired this very talented executive that we will be announcing very soon. And he should start in March, I would say at the beginning of March. So regarding the CFO succession, this is all I can tell you so far for the time being.

### **Q - Carlos F. de Alba {BIO 15072819 <GO>}**



Thank you very much.

## Operator

Lucas Ferreira, JPMorgan.

### Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. I would like to express my best wishes to Eduardo and his new challenge. I have a question about the packaging market, and please correct me if I'm wrong. But apparently, I saw the conversion volumes of Klabin growing if I'm not mistaken 4%, a little bit less than the figure published by ABPO. So are you going to analyze market share and the capacity on the part of Klabin to continue improving conversion and how much could you still increase conversion. Along the same line what about the market regarding high utilization of capacity, do you see an increase in supply, I would like to know the consequence that this will have on the price of corrugated box in the next few months. And secondly, a question about Puma to Razzolini. If I'm not mistaken, Razzolini, looking at the level of output of Klabin, it was already higher than the nominal capacity around 110%. Is this what you expect for 2018? Could you maintain this along or over 2018?

### A - Operator

Okay. Gabriella (32:43), you have the floor.

As I said before, the market closed with a growth of 4.9% and we continue to be aligned in terms of this growth, but I would like to remind you that Klabin made two acquisitions in the previous year 2016 and we integrated these two new units over 2017 and of course, this means a gain of market share in the market, for this year going back to the market now. We were able to reach in shipments of corrugated boxes in Brazil, and I'm talking about the market as a whole, the same level as 2014 which was the last year before the crisis. So I understand that we are operating very close to the full occupation of the level around, let's say with 85% for the sector as a whole. And of course, company started to make small adaptations over these years, and we are ready to cater to the market.

And as far as Klabin is concerned, this is the same situation and a big concern for this year, and we are paying keen attention to fibers because of the international movement that we see and that were mentioned by Flavio So this sector in Klabin's end of the (34:20) market will be ready to supply the market, the packaging market.

I would like to add something to what Gabriella (33:16) said along the same lines of your question about the importance of market share. Where we want to get? I would like to mention that it is very important for everybody to understand this. Klabin would like to get 20%, 25% market share at least, and we would love to have an additional one or two companies with the same level of market share. Klabin has a firm belief in corrugated boxes, this is part of our DNA, this supplements our business, this integrates (35:11) our business and this makes our attitudes more flexible and improvement in our results, and it guarantees stability during all these years. You can see that our history has stability as one of the most important points so we desire to see consolidation and increase in market

share, this is part of our DNA and we continue to turn our eyes to that. We don't have any studies on the table right now, because there was no opportunity for that, but we will always be looking at market share and consolidation in the corrugated box market.'

So now I give the floor to Francisco.

**A - Francisco César Razzolini** {BIO 16565930 <GO>}

Lucas, thank you very much for the question. The performance of Puma in the fourth quarter was very good with an output level slightly higher than our nominal capacity, our rated capacity, and for the consolidated figure for the year, we expect to be working higher than the rated capacity, but maybe between 2% and 3% higher and not 5%.

And for 2019, we will be getting close to this 5%. Remember that we have not made investments now for that and this is the capacity that we estimated for Puma.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Thank you very much.

**Operator**

Renato Maruichi, Santander.

**Q - Renato Maruichi** {BIO 17847481 <GO>}

Good morning. I have two questions. I would like you to give us some color about corporate governance. Could we expect any news this year or do you see the unit structure as adequate for the time being? And secondly, could you talk about the prices for OCC, vis-à-vis the recovery of the Brazilian economy and the price of OCC over this year. And about our costs during the Klabin Day last year, you said that you're going to submit to the board your growth project at the beginning of this year and that you should be announcing new projects around the half year, the coated board and fluff. Have you changed anything regarding what you said during the Klabin Day? Thank you.

**A - Operator**

Thank you, Renato. I will change the order of the answers. So we will be answering first your last question about our project and then governance, and then I will be giving the floor back to Gabriella (38:13) to talk about the OCC prices, about the order of the project. Nothing has changed what we have been saying during the Klabin Day and also in the last call, I said that the studies and our talks with the controlling shareholders would be happening during the first quarter and our expectation is for the third quarter, if aligned with the shareholders, namely with the controlling shareholders, then we would be talking about the approval of these investments.

What we approved now was the basic engineering. And this is why I say that this is a step-by-step process. We have all the necessary information about markets and capacities and the specifics of older products and the mix and the market. So we feel very comfortable

with these structural gains of the sector and we have already reported all that to our board.

And now what we need is to look for return by means of CapEx that will come from this basic engineering, so we're following step by step. So this is a very exact process and it is exactly what we mentioned before.

Now about governance, governance is a real gain of Klabin and that you all recognize and the controlling shareholders recognize as well. Since the last administration and it will continue doing this current administration, this is one of the points of improvement, governance, and this value is recognized by the market and the controlling shareholders and because of that we are always expecting further improvement, so you can also - you can only see improvement in government. There is no other way, this is the only way to go.

Now, Gabriella (40:30) will talk about OCC prices.

Regarding the OCC market, we continue with seasonality and what I mean by that is that normally the extremes of the year, the beginning and the end of the year see a slight price reduction and then price picks up as of March. Normally, we see an increase in OCC prices as of March. What we see is inventories are low and that inventories in the recycled paper manufacturers inventory is going down. So we understand that we will get into seasonality with an upward trend, which means that the average price of the year should be higher than the average price of 2017. The domestic market wants to buy OCC because of the dynamics that Flavio (41:33) mentioned and because of that, the prices of paper in the domestic market is already going up. In other words, Klabin is also buying paper in the domestic market because of the opportunity cost for exports, so we are buyers of paper in the market today.

**Q - Renato Maruichi** {BIO 17847481 <GO>}

Thank you.

**Operator**

Ivano Westin, Credit Suisse.

**Q - Ivano Westin** {BIO 17552393 <GO>}

Good morning, everyone. Thank you for the questions. The first one is about kraftliner. Could you please talk about the global and the domestic demand, the expectation for prices in the Brazilian market and the exports market? And the second question for Razzolini. Razzolini, could you please talk about the price outlook for pulp in China, and could you also talk about demand on the part of the end user and how do you see inventories in the chain. as a whole? If you allow me a follow-up on the previous question, you said that you would be running Puma higher than the rated capacity, so what is your plan for Puma stoppage in 2018?

## A - Operator

Thank you for the questions. Flavio (42:55) will answer your question about paper.

Good morning. (42:59-43:07) is a major exporter of kraftliners worldwide. This has an impact in the market and the supply helps us abroad, help us to position ourselves. China is a market that had a different behavior than what is typical or what was typical maybe because of what happened regarding the regulation, so they stopped importing significant volumes of OCC from the U.S. especially but also from Europe and because of that the prices in these markets had a growing trend in these markets and of course taking this market towards emerging fibers (43:59) or the fibers that we produce, the papers that we produce. The same is valid for Europe, where you'll have capacity increasing for container boards based on recycled fiber, but with the growth of this market or while the growth of this market is very - we expect it to be very much over this year and looking at the behavior of the Brazilian market as well, what we can see is a very long cycle for this market and based on that we positioned ourselves in kraftliner.

## A - Francisco César Razzolini {BIO 16565930 <GO>}

Good morning. This is Francisco Razzolini. About outlook for the market, we see a very positive market. The demand for volumes continue to be very big and as you can see the first quarter and we see this growth in demand over the year as well. Regarding the specific fibers, fluff and softwood, are looking at a very good moment and we continue to follow the increases for hardwood that are coming and we see the market under a very positive light for this year as a whole. Specifically about Puma, the general stoppage will be in the first quarter between March 10 and 21st.

## Q - Ivano Westin {BIO 17552393 <GO>}

Very clear. Thank you very much.

## Operator

Gabriela Cortez, Banco do Brasil.

## Q - Gabriela Cortez {BIO 18801371 <GO>}

Good morning, everyone. Thank you for the question. Congratulations for the result. We saw that your sales volume went up to 50% in the domestic market and I would like to know your expectation for the current year. Volume sold in the domestic market, what you expect and regarding Puma, Francisco mentioned that by 2019, you will be operating at 5% higher than nominal capacity - rated capacity and are you going to increase your investment to further increase production beyond 105%? So these are my questions.

## A - Operator

Thank you, Gabriela. So this is the beauty of Klabin 50%, 50% was what we achieved and this can vary as you saw. This is a good figure, it's a very balanced figure. It's impossible to have more balanced than 50%, 50%. And this is the way that we see and we see it as good. We could go to 60%, 40% domestic and foreign market. And this is the beauty of

Klabin, there is flexibility that is something that we never tire to stress and this will always happen as an outcome of our analysis regarding improvement in our profitability. There is no other way to go. So this is where you will see this variation, it has to be in the range between 5% or maybe 10%, it points between one and the other but always seeking a better profitability and our relationship with the key accounts all over the world, that is to say respecting our clients, and Francisco will answer.

**A - Francisco César Razzolini** {BIO 16565930 <GO>}

Thank you very much. Gabriela, about Puma, we have studied that point to a possibility of capacity increase, but based on the engineering studies that we are carrying out about the implementation of new capacities in Puma, this will be done jointly whether we'll be investing the current line or whether it will be an additional capacity our utilities and recovery, so that we move (48:12) the project. So we still do not have a clear or a final view about that. But over the year, as engineering studies go on, then we will define this.

**Q - Gabriela Cortez** {BIO 18801371 <GO>}

Thank you very much. Very good.

**Operator**

Milton Sullyvan, XP.

**Q - Milton Sullyvan** {BIO 19085202 <GO>}

Good morning. Thank you for the question. I have one question. When we were talking about the corrugated box market some time ago, you said that you cited a very good demand, one of the main drivers for you to have more relevant price increases would be the capacity usage. So along the same lines of Gabriela's question, I would like to understand whether the capacity utilization which is getting to the pre-crisis levels of 2014. Can we or should we be more bullish regarding the price dynamics for corrugated boxes? Still with high OCC prices in, can we already be more comfortable regarding the prices for corrugated boxes for 2018?

**A - Operator**

Milton, thank you for the question. And I will answer, Gabriella (49:37) is sitting next to me and of course, she will add if she thinks it is necessary. I start by saying the following. Looking at what we saw in the last three years, now of course, in this window of three years we are reaching a moment of a higher optimism and based on everything that we read, the news reports regarding the political situation and the economic situation of the country, we see the domestic market being much more positive or at least in the last three quarters, we haven't seen any of this very strongly mainly in the packaging area of Klabin and due to the fact that it is linked to the key accounts in Brazil, very large companies in Brazil.

We have already said there's another opportunity that the crisis - Klabin benefits from crises because there is an exchange of tickets, so to say. We are present in these

companies. Even if there is a downgrade in the consumption ticket, Klabin continues to grow in crises, that was the case in the last few years.

And if you go back a little bit in history, Klabin, when we had that large boom and no judgment of value here, if we talk about the economy only, when we saw this boom in 2011 and 2012 with 40 million people joining the consumer market Klabin also benefited a lot even more than this sector as a whole due to the fact that it was the company with the best footprint in Brazil, with the best distribution or conversion in Brazil, be it in corrugated boxes or industrial bags. So we see the current moment, that is to say the beginning of 2018 and of course I don't want to be pathetic and call this a boom, but we do see an important recovery in our domestic economy with a certain degree of confidence. But this will continue over the year and our conversion areas are totally prepared to cater to the large key accounts in Brazil - all over Brazil in fact.

Talk about profitability gains in the area of corrugated boxes only, we have always said that this sector has two important points that must always be sought by all of you. One is the shortage of fiber, be it OCC or be it the recycled or virgin fiber paper and they have different grades of course and I'm not going to tire you with that. But Brazil has a major shortage of top level papers or corrugated boxes in order to be able to make the outer layer of corrugated boxes.

But what we see in this market is, a shortage of fiber which is positive for the sector and we also see the occupation level improving. So our conclusion is that you will see profitability gains in the corrugated boxes sector, and I would say that the time has come for this to start.

**Q - Milton Sullyvan** {BIO 19085202 <GO>}

Thank you.

**Operator**

Lucas Ferreira, JPMorgan.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Thank you for the opportunity, Cristiano. Could you make an analysis similar to what you have done now, but for coated board, demand expansion, LPE and folding and could we see a recovery in margin and what about prices and what about mix? So could you give us some color about all these points?

**A - Cristiano Cardoso Teixeira** {BIO 17567319 <GO>}

Thank you, Lucas. Flavio (54:28) is sitting right beside me and I'm going to give him the opportunity to answer your question and I will add to what he says.

**A - Operator**

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Thank you, Lucas. The behavior of coated board market is very similar to kraftliner, of course, not with the same pace as we see in kraftliner, but the rationale is the same, because they look for modern packaging, they want to have different closing devices for the liquids packaging and a market that wants to have smaller packaging and better design and adapting to consumers' needs and this is a market that is focused on pulp packaging such as ours, so it is under a very quick transformation, this market, and this requires a different supply demand situation than kraftliner - containerboard and that gave very clear signs in the last quarter of 2017 and we also see in a more evident fashion now in 2018, the virgin fiber product that allow you to have direct contact with food. They are very well-positioned.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Thank you.

**Operator**

HSBC, Jon Brandt, in English.

**Q - Jonathan Brandt** {BIO 17988091 <GO>}

Hi. Good morning. Thanks for taking my question. I just had one question, just taking advantage of the fact that Gabriella (56:19) is there, if you could comment a little bit about demand coming from e-commerce, how much of your shipments it represents now, and maybe where you see that subsector going in the next 10 years to 15 years, how big of an opportunity it is for you and how well positioned you are to take advantage of potential growth there? Thank you.

**A - Operator**

Jon, thank you very much for your question. We are very bullish about e-commerce and the development of e-commerce in Brazil. Brazil has around 4% e-commerce in retail as a whole. So looking at the international indices, we see a major growth potential there. Klabin is already prepared. It has prepared itself for the last two years in order to cater to this sector, to this market. And because of that, we have been able to close very good deals, not only through B2B, but also we have many clients that already operate in e-commerce with Klabin's packaging. And also we are getting directly into the marketplaces. We have just signed a deal with a free market. And now we became a supplier to packaging solutions for the free market as well. So the companies are very happy with the growth potential and improvement in the packaging market in Brazil. So I would say that the next couple of years could be extremely important for us to really have a very strong presence in this sector.

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

**A - Cristiano Cardoso Teixeira** {BIO 17567319 <GO>}

Okay. As we usually do, I would like to talk a little bit about our outlook for the next few quarters and make it very clear that our expectations are very high for all the markets. We

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are very bullish for a couple of reasons, there are no adventures, this is because the markets are good and our relationship with our clients is very good, and our operating efficiency gains are constant and vigorous, our indebtedness has been dropping and our talks about growth with our controlling shareholders are picking up and so our expectations are very high.

More specifically about EBITDA, I would like to make it clear that the same pace or this magnitude I would say or even more than you saw in the fourth quarter, this is what we expect for the first quarter of 2018. And with that, we can conclude our remarks saying that we are very bullish about the markets and we trust the market. And I would like to take the opportunity to thank and to congratulate the wonderful administration of Eduardo Toledo during his time at Klabin. He is a really top-level professional. He is the same level as Klabin and it was a great pleasure for us to learn a lot with Eduardo. So I wish him all the luck in the world and I would like to leave some time for him to address you all.

### **A - Eduardo de Toledo** {BIO 2067933 <GO>}

Thank you, Cristiano, for the very kind words. I would like to thank everybody for this year in which we were together and the decision to leave Klabin was a very hard one, it was not an easy one. Klabin is an excellent company with top competitive advantages and with extremely sound, strategic positioning and with very interesting growth potential because of the markets where we operate, because of the footprint that it has in the markets, because of the technical competency of the company and because of all these reasons, it was very hard for me to decide to leave the company. I was only helped by the fact that the Klabin is living a great moment and that the financial situation of Klabin is very well structured and I think I helped in the process, but of course the process was already coming from many years of Klabin and all this care with the financial area.

So I am comfortable to make this move at this moment when the company has such a good outlook. So I only have to thank Klabin, but it was really a personal challenge for me and it has nothing to do with wanting to leave Klabin, because Klabin I really believe in this company, I believe in Klabin's capacity, I believe in Klabin's future. Thank you all very much.

### **A - Unidentified Participant**

Thank you all very much.

### **Operator**

Klabin's conference call is closed. We thank you for your participating and wish you all a very good day. Thank you

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