

Q3 2014 Earnings Call

Company Participants

- Antonio Sergio Alfano, Chief Financial & Investor Relations Officer
- Arthur Canhisares, Chief Industrial Officer-Monte Alegre
- Cristiano Cardoso Teixeira, Supply Chain Officer
- Edgard Avezum Junior, Commercial Director-Coated Boards
- Francisco César Razzolini, Planning, Project & Technology officer
- Fábio Schvartsman, Chief Executive Officer
- José Gertrudes Soares, Commercial Director-Kraftliner
- Ricardo Tadeu Martins, President
- Unverified Participant

Other Participants

- Carlos F. De Alba, Analyst
- Chelsea Konsko, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpção, Analyst
- Milton Sullyvan, Analyst
- Thiago Lofiego, Analyst
- Victor Penna, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to Klabin's audio conference being broadcasted live from the meeting with investors and analysts in São Paulo, Brazil, for Apimec. At this time, all participants are on listen-only mode. And later, we will conduct a Q&A session when further instructions will be provided. As a reminder, this conference is being recorded. It is also being broadcasted live via webcast and may be accessed through website at webcall.riweb.com.br/klabin/English, where the presentation is also available.

Before we proceed, I would like to clarify that any statements eventually made during this audio conference in connection with Klabin's business outlook, projections, operating and financial targets and potential growth should be understood as merely forecast based on the expectations of the company's management in relation to the future of Klabin. These expectations are highly dependent on market conditions, on Brazil's overall economic performance and on the industry and international market behavior, and therefore, they are subject to change.

Initially, we will have a presentation by Mr. Ricardo Tadeu Martins from Apimec in São Paulo, followed by the presentation from the directors of the company and comments on the company's operating performance in the third quarter. Finally, we will open for Q&A.

Now, I would like to give the floor to Mr. Ricardo Tadeu Martins.

Ricardo Tadeu Martins {BIO 18747825 <GO>}

Well, Klabin is Level 2 of corporate governance. We also adhere to the Good Practices Code for Listed Companies. And today, we are in our 13th year. And in fact, through all of the communication channels with the market, this is just a simple figure because we know how the company deals with the market through its different communication channels.

I would like to thank all investors and analysts that are following us on the Web. So welcome to this event, and today, at this event, we have all of the officers of the company, who are highly qualified. Therefore, we have the opportunity to talk to the CEO and many other officers of Klabin. Therefore, I encourage you to take advantage of this moment.

We are pleased to have here our General Director, Fábio Schvartsman; also Arthur Canhisares; the Commercial Director of Card, Edgard Avezum; and also IT Director, Francisco Razzolini; Director for Supply Chain, Cristiano Teixeira; and also the Officer for Kraft Papers, Mr. José Soares. Therefore, I would like to ask you to please leave your phones on vibrate or mute mode.

And I would like to remind you that you also received an evaluation questionnaire that should be returned at the end of this event because this is very important to us to improve in the future. And this will generate also a dispute for our best quality award. Therefore, I would like to ask you to return that form.

Thank you all very much and, with no further ado, I would like to give the floor to Mr. Schvartsman.

Fábio Schvartsman

Good morning, everyone, and thank you very much for being here today. We are here in a different meeting when compared to the previous ones. The meeting today fulfills several objectives, and I think the first one is to allow you to have more – a closer contact with several officers from Klabin. I would like to mention some of the names of the executives that are here today.

First, Edgard Avezum is our Board Commercial Officer. Arthur Canhisares is our Paper Industrial Officer. Sergio, I think you are all familiar with him, he is the CFO. Francisco Razzolini, he is in charge of the Puma Project. Cristiano Teixeira is the Supply Chain Officer of Klabin, and last but not least, José Soares is our Kraftliner Commercial Officer, who is indeed playing a very important role in planning the commercial operation of the new pulp plant.

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The presentation will be divided into three parts. It will not be a regular Apimec presentation because we will also focus on the board side of Klabin, because board in the current landscape is the most important business of Klabin. It's the core business of Klabin. And also, we see a very good growth future for this area. And Klabin will invest more in the board plant because of the additional pulp that will be produced by the Puma Project.

And as a consequence, it accounts for a very important part of our revenues, and so much so that we decided to dedicate part of our presentation today for Edgard and Arthur to - will talk about our position with this segment. But we will also talk about the Puma Project today. The Puma Project is moving along at full force. We had a meeting to make some alignments with our vendors. And yesterday, we noticed that we are approaching the end of October, but the project is about 25% completed.

The project is moving on quickly and this is a very important phase of that project. And as a consequence, I think it's time for us to show you the status of the project and everything that we are doing to execute the project appropriately and how we want to sell the product once the plant is operational in early 2016. And Soares will also talk about this subject.

And finally, after that presentation, we will have our regular results presentation by Sergio Alfano, and he will talk about the third quarter results, which was published yesterday. Therefore, this will be a very encompassing presentation, very informative, and I hope you enjoy it.

I mean, this is Klabin. Klabin is a company, as we've been telling you, that was 1.7 million tonnes in 2013. From then on, the company has been growing. We grew 100,000 tonnes in this past year in terms of capacity, an additional 200,000 tonnes in 2015 when we started up several new plants. And finally, in 2016, with the beginning of the Puma operation, we will reach 3.5 million tonnes, meaning that Klabin will double in size when compared to 2013. And this has been demonstrated during our last meetings with you. So, for now, this is what I had to say.

Thank you very much, and now I'll give the floor to Arthur, who will start speaking about the industrial part of it and board.

Arthur Canhisares {BIO 16986800 <GO>}

Good morning, everyone. My name is Arthur Canhisares and my current position is Paper Industrial Officer, and I manage six plants, six paper plants, scattered throughout the country, in Santa Catarina, Paraná, two plants in São Paulo, one plant in Pernambuco. And my presentation today will focus on the plant of Monte Alegre in Paraná. And why? Because I intend to talk about the productivity of our card business, and that's where we produce the boards.

Well, after - we have 493,000 hectares of forest, 242,000 hectares of planted forest, 211,000 hectares of preserved areas. So this leads us to produce 1.7 million tonnes of

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pulp. The Monte Alegre plant in the State of Paraná accounts for 1 million tonnes, and from this 1 million tonnes of pulp produced in the Monte Alegre site - well, packaging paper or boards, 1 million tonnes in kraftline and board. Then the purpose here is to talk about boards. There are 750,000 tonnes a year that are produced in this Monte Alegre site. 750,000 tonnes in terms of Klabin CR (11:18) production means 37% of the total amount produced of cards alone in Monte Alegre. That means 75% of the total production of that mill.

Monte Alegre is the name of the farm. The municipality is called the Telêmaco Borba in the State of Paraná. So 750,000 tonnes, and then I will focus on the forestry capacity. So I'll focus on the forestry capacity of that municipality. We have very high forestry capacity in terms of productivity. We are talking about Klabin in Telêmaco Borba where productivity is 38 cubic meters per year and 54 cubic meters/hectares a year of eucalyptus. 38 cubic meters is pine. That's where our competitive capacity begins.

Our Brazilian average in terms of pine is 38 cubic meters, so we are equivalent to the Brazilian capacity in terms of eucalyptus. We are 10 cubic meters above the average, which is 44 cubic meters, and ours is 54 cubic meters. I drew a comparison not only between Klabin and Brazil, but between Klabin and the Nordic countries.

Why Nordic countries? Because every time we talk about boards, especially boards for liquids, our major competitors come from Nordic countries. Therefore, when we compare ourselves to our major competitors worldwide, we are talking about pine and softwood. They produce 4 cubic meters/hectare a year. And when we talk about eucalyptus and hardwood, and comparing ourselves to Nordics, we are talking about 6 cubic meters per hectare per year.

Therefore, our card production already starts with high productivity coming from forestry. In addition to that, we have another competitive advantage in card production, which is the mix of fibers. The fact that we have pine and eucalyptus with good productivities, as I said to you, in the same site, allows the mill to change the composition and, therefore, offering the board according to the specs demanded by the client.

Pine is a softwood which helps us in the production of board, and eucalyptus is very good when it comes to printability. So, with this composition, our board has high physical resistance and good printability. And in the next slide, I will show that more clearly.

The third competitive advantage is the average distance of forest. Only 48 kilometers is the average distance between the forest and the industry. This is better than any place else in the world, especially when you take into account that 40% of the wood for the industry is water, so this is another advantage. And, in addition, our sites work with sustainable management.

I talk about mosaic plantation. When I refer to a mosaic plantation, some people are not very sure about what I mean. So I have a picture here for you. What is this picture? This picture shows the plantation of pine and eucalyptus side by side with preserved forest.

And then we have the ecological corridors, and this is very sustainable to our farm in Telêmaco Borba, Paraná.

Now, what are the advantages of the Klabin board? As I said before, our plant is totally integrated, so we have chips, wood, and until the production of the card and the mix of fibers, both softwood and hardwood. And we are very flexible because we have both fibers, softwood and hardwood, and going into the industry in our plant at Telêmaco Borba, we have four lines of pulp production.

We produce bleached and non-bleached pulp, and then we have pine production, eucalyptus production of bleached and unbleached. But don't worry about all that because that's very technical. But what matters is this flexibility and these four pulp mills in that site gives us a lot of flexibility, allowing us to have a very stiff board. What do I mean by highly stiff board? It means that our cost is low. Our square meter of board has lower particles, lower weight. So we have - we meet the specs of the market.

The other point that is also very important is printability. All of the competitive advantages that comes from the forest has to be accompanied by good technologies. Klabin has two machines to produce boards, that it is the state-of-the-art. It's the best of the best in the world, so technically, all of the board machines are state-of-the-art and up-to-date. And because of that, our product has good printability and it's also very sustainable. The product is 100% recyclable and it also uses renewable raw materials.

Now, I'll refer to productivity and cost reduction. In 2007, Klabin had a machine that we call Paper Machine 7. It is one of the machines that produced board in our production capacity, with 300,000 tonnes. And then in 2006, we introduced a new board machine, and that was a project that back then we thought that the Machine number 9 should reach production of 350,000 tonnes. And indeed, that machine reached that amount, 350,000 tonnes in 2008 and 2009. We were able to grow as high as (17:49) 650,000 tonnes. So from 300,000, there was the big jump to 650,000 tonnes.

But then what happened? From 2008 to 2011, we were able to have productivity gains in these machines accounting for an additional 50,000 tonnes with some plant adjustments alone. So the project anticipated at first 650,000 tonnes, and it went up to 750,000 tonnes. But as we were not happy with that yet, we then grew - we expanded Machine 9, meaning that now we have an additional 50,000 tonnes.

Therefore, Klabin's production capacity today is between 700,000 tonnes and 750,000 tonnes. So today, 37% of Klabin's production comes from board; 750,000 tonnes produced by Machines number 7 and 9. But we were not yet that happy, so as - in 2011, we started to promote a cost reduction process.

I think you've heard of Professor Falconi, so we called Professor Falconi to Telêmaco Borba, and so he was pleased to visit our - the City of Telêmaco Borba. And when we initiated three programs in 2011, we initiated a program called expense managerial grid. And we started focusing - in all of the accounts from the large ones to the smaller ones,

starting with utility bills and also plastics and everything. We looked at all of the costs with magnifying lenses.

After that, we introduced managing by guidelines. These are programs that have been in full force today. So, with these two programs, the variable compensation of employees had to be tagged to aggressive targets. And with that, we were able to promote a significant cost reduction in that Monte Alegre mill. And we didn't stop there, and the challenge now is to go beyond 750,000 tonnes with the same equipment. And we brought Falconi on board once again and he is helping us to introduce the management of daily routine, GRP (20:15). That's a very technical name, but if you are a little bit familiar with Professor Falconi, it is the story of the master brewery. Therefore, we are already introducing that program. The program is in operation, and on Machine 7, we are already able to see some productivity gains.

Now, let's look at the Monte Alegre site Machines 7 and 9 as it compares to the other competitors. Each column here represents a machine, but I only try to focus on LPB, which is the board for liquid. So each machine has a production capacity. The width of the column is the production capacity, so Machine 7 has a very good production capacity. And in the height of the column, we have the cost of production. So what it means - for these two machines, when you compare to other sites in the world in terms of cost, as well as productivity.

Now, I would like to call my colleague, Edgard Avezum, who is in charge of the sales of these boards.

Edgard Avezum Junior

Good morning, everyone. I am Edgard Avezum, Jr. I'm the Board Commercial Officer, and as such, I hold commercial responsibility over the sales of coated boards domestically and in the international market. About the international market, when we talk about the need for readjustment in the domestic economy and the expected exchange rate looking forward, our commercial presence in more than 30 countries obviously represents an advantage, an interesting opportunity for us to help us face our domestic challenges.

I will quickly tell you what we are doing with all of this production mentioned by Arthur and how we manage, commercially speaking, the competitive advantage that he mentioned. To start with, it is important - you probably saw in the foyer the main products that we have. I show you on this slide these products because then it's easier for you to understand.

On this side, on the left, we have LPB, liquid packaging board, which are the traditional milk and orange juice cartons. They are - this packaging is aseptic. It doesn't need refrigeration. After production, it can be distributed without the need for refrigeration. And this works really well in continental countries like Brazil, where products need to be distributed over a very large territory.

Brazil does not have a very adequate distribution network. Brazil, just like China, India and others, is developing in the aseptic market, has an interesting opportunity of growth, which I will show you momentarily.

In the LPB market, we have the fresh packaging for the U.S., Europe and Nordic countries. You see that more frequently. Folding box board are the traditional Kellogg's, Nestlé cereal boxes or the boxes for powdered soap (24:15).

Here we have an illustrated box. This could be a frozen pizza or frozen burger box also using Klabin board. And on the right, we have the carrier board. Most of this market is in beverages, and here, we show you long-neck beer or canned soft drinks. And this is what accounts for the biggest volume of this market. 93% of Klabin coated boards are in food and beverages.

This is another important competitive edge of Klabin, commercially speaking, because obviously this segment presents a much higher resilience to crises. This is a characteristic not only in Brazil, but worldwide. 3% goes for personal care; 4% for other markets.

The share of coated boards in Klabin's sales and net revenue, just to give you an idea of the total share, is 35% of sales. With 750,000 tonnes, we are probably going to reach 37%, 37.5% of the production capacity, but this will start with the recent revamp of Paper Machine 9. So the 35% is the current snapshot. This number tends to increase as we will have this additional production capacity.

Let me tell you a little bit about boards world demand. Actually, before that, let me mention the size of the demand, and then I will talk about how this is evolving. The world demand for boards last year was 45 million tonnes. Here we can see on the left side of the slide recycled boards, which Klabin does not produce. It's made from recycled fibers from our own boards or recycled - other recycled fibers. This accounts for 24 million tonnes.

Our area of action is in the 44% of the market, which you see in the green box; 17 million tonnes other virgin fiber boards; carrier board and the folding box board, which I mentioned before, and LPB, which means 4 million tonnes, among which we have 2.6 million tonnes going to aseptic packaging.

The demand volume is lower compared to the market, but this is a highly demanding market, with very active world producers. Klabin is among the top three suppliers in this segment. And we will show the evolution of this market in the next slide, or in the coming slides.

Talking about the total virgin fiber board production, I'm not talking just about LPB. I'm talking about the total virgin fiber board, including folding box board and LPB. The main world producer is International Paper, IP, and we can see the other players in the chart.

Here we have the production capacity of each one of the producers, and Klabin is here, is ranked in this position with 750,000 tonnes. All of the companies that are ahead of us, or just close to us, are international companies. With this level of capacity, we do not have other domestic producers.

If we look at the aseptic market, the one that accounts for 2.6 million tonnes which I mentioned, these are the main players of this segment. These two are the Scandinavian ones; BillerudKorsnäs and Stora, with these capacities allocated to the production of liquid packaging board. And I showed you the total capacity of virgin fiber production they allocate for LPB, these respective volumes.

And Klabin is ranked third, with an approximated allocation of 55,000 tonnes for this segment, followed by IP and MWV. Like I said, Klabin is the third-largest producer of LPB, not only in capacity, but particularly in technology. So we are very close to the Scandinavian producers, which are the market reference in terms of boards production worldwide.

I talked about the evolution of the demand. I said I was going to give you a slide on this, so here in the aseptic market and, again, I referred to that part where Klabin participates in the market. From 2013 to 2020, according to international estimates, international companies that analyze the market, they expect a 4.6% CAGR.

You will remember that I mentioned in the beginning that the aseptic market, milk cartons, orange juice cartons play an important role in countries like Brazil, China, India, Asia and Latin America in general. So we expect a 4.6% growth per annum, which will give us close to 1 million tonnes from 2013 to 2020.

If we look at the Brazilian demand from 2008 to 2016, from 2008 to 2013, we had 5.7%, almost 6% CAGR. And looking forward till 2016, this number grows slightly to 6%. So both abroad and in Brazil, we have a very interesting growth potential. I am showing here just the growth for LPB. Growth of sales for virgin fiber, other virgin fiber boards, is also very important.

We are talking about 1 million tonnes, 900,000 tonnes in the segment. And another segment out of China has more than 1.5 million tonnes to evolve. This brings along an opportunity of growth. This increasing demand looking forward brings us an opportunity for growth, and this is being considered at Klabin. When we complete the Puma Project, which Francisco will speak about, we will be able to have additional capacity for PM10.

Arthur compared the production costs in dollars per tonne of PM9 and PM10 compared with the main players of the world. And I think that it became very clear in his slide that PM7 and PM9 are the best in terms of cost competitiveness.

Our project that we are designing for PM10 will be even better than PM7 and PM9. Thus, this would place Klabin in an even more pronounced leading position in terms of technology in this sector.

This is what I had to present to you. I will turn the floor now to Razzolini who will present the Puma Project. Thank you.

Francisco César Razzolini {BIO 16565930 <GO>}

Good morning, everyone. My name is Francisco Razzolini. I'm the Project and Technology Officer - Industrial Technology Officer that talks about industrial research and development. Edgard and Arthur presented the results of our latest big investment, PM9, our growth in boards and the recent additions to capacity in the sack kraft machines and the recycled paper machine in the Northeast.

So I'm going to talk about Klabin's future opportunities, our growth potential in fibers and our possibility of sustaining our new investments with the additional fiber capacity that we will have. Puma Project is born in Klabin with a strong increase in our forestry productivity and an opportunity that came along to acquire some forest planted areas in the State of Paraná.

This is the site of the Puma Project. It is located in the region of Ortigueira in the State of Paraná. It is a very big project. It is the biggest plant in the world of this kind. In the site, we have 2 million square meters of earthmoving work, 200 hectares or 200 soccer fields.

We have here in the top part the region where we are implementing our process areas of the plant for the preparation of wood, fiber lines and drying activity area. Here in the middle, we have our support area. We will build a restaurant for 10,000 meals a day. We receive about 300 boxes (34:47) with workers, so we need to support them. And we have to have a first aid ICU unit, and we have to be able to manage our people on a day-by-day basis. On the left, we have an area where we are going to have water and sewage treatment area.

The project has a total capacity of 1.5 million tonnes of pulp. We will be building this project using two production lines. We are somewhat different than the other projects being executed in Brazil, which focus only in the eucalyptus hardwood line. We are going to have a 1.1 million tonnes of short fiber, and we're also going to have a novelty. We are going to have a 400,000-tonne line of long fiber pine line. This line can be converted into fluff pulp, which is used in diapers and sanitary pads.

Brazil imports 100% of this kind of fluff, so we have a great opportunity to increase our market share in Brazil in that area. This project was conceived to be self-sufficient and to be able to generate power. We have the biggest thermal power plant in pulp plant using biomass generated in the site.

And using the leaching material, our total power production is expected to be 278 megawatts, close to a midsized hydroelectric power plant. We are going to produce and use 120 megawatts for the Klabin plant, and we'll have an additional 150 megawatts available for sale in the market.

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The Puma Project was or is located in the region of Telêmaco Borba, close to the Monte Alegre farm, where we have an operation of 1 million tonnes. The Monte Alegre site, physically, it is located in the Ortigueira municipality, but it involves all three municipalities: Imbaú, Telêmaco Borba and Ortigueira, with about 120,000 people living in these three municipalities.

Our project took into account environmental aspects, proximity to the markets and also the physical location in terms of a place to absorb the emissions of a peak (37:32) site and a location which would allow for expansion in the future. Economically speaking, the main aspect was the average distance of our forest, the logistics to receive this material in the plant and the ability to transport most of this production using railroad.

On the social side, the Ortigueira municipality, where the project is located, has one of the lowest human development indices in Paraná State, and we are bringing a huge development to this region. It is going to benefit everyone in that area.

The project, as it is today, Fábio mentioned, we were yesterday in Curitiba. We had our meeting to align goals with our suppliers. We hold this meeting every two months. We gather about 250 people, suppliers, and they each present to everyone how they are developing in the project.

In October, we are finalizing with – or we are ending October with 25.5% of the project completed, according to budget and according to our timeframe. All areas are delivered to EPC. 98% of the earthmoving work, which was huge, is completed. We moved about 18 million cubic meters, which means 1 million loads or truckloads. It is impressive really. It is what we would be doing in a big airport.

We started the earthmoving work one year before, which was a good decision by Klabin, because although we are living in a drought in the State of São Paulo, in Paraná, we had to face intense rainfall. Had we not anticipated the earthmoving work, the project would be delayed or we would have to double or triple the investments for the project. So, one right decision about this project was to bring forward the infrastructure and to prepare the site beforehand.

Again, we contracted an EPC approach. This technology, people also do engineering, purchasing and construction of the equipment. And the EPCs are responsible for installing the equipment. And for the civil construction, they basically give us a turnkey project.

We chose the best EPC options for each of the process lines. We didn't choose one single supplier for the whole project, but we chose the best options that we had available at that moment.

This requires a huge integration presence. Klabin has a strong, dedicated team to coordinate the areas, to integrate the areas and to ensure that the project would unfold properly. We have dedicated teams with strong feedback and strong control.

As for the cost of the project, we are still moving according to budget. 93% of the equipment supplies, materials and services have been purchased. In our development line, we have a lower dependency on imported equipment, only about 14% of the total, or €360 million worth of dependency on imported equipment. Because when you have to import a lot of things, the project can be delayed because it depends on cost and then on a number of things, and we are mitigating this effect.

Total CapEx of this project is about BRL 7.2 billion. In this 7.2 billion, we include infrastructure and tax load, tax burden. Industrial CapEx is about BRL 5.8 billion. Of this, 14% go to imported equipment, 27% civil construction and assembly, 46% national equipment and materials, 14% engineering and management of the project.

As we are today, we have in the project - we're ending October with about 6,000 people on site. We are quickly mobilizing workers, which makes it compulsory for us to have in place an infrastructure to manage everyone.

We were able to develop our work with training. About 80% of the workers come from Paraná State. 55% of our workforce comes from the three closest municipalities: Imbaú, Telêmaco Borba and Ortigueira. This brings benefits for the region and brings a lot less impact in terms of managing the infrastructure for us, and it shows our commitment to the development of the region.

The project at Klabin is a priority. It receives maximum focus. Our structure has been approved by a steering committee. Fábio Schvartsman is there. He is the General Officer. There are also corporate officers that are part of that steering committee in addition to two other external members. And they meet almost every two weeks to do the follow-up and to make quick decisions which are required during this phase of the project.

The project management counts on about 150 people totally dedicated to that job, operating in two areas, one technical area in charge of the implementation and all the technical aspects of the project. And in this area, we have eight managers and a large number of coordinators and technicians involved. And in the financial and admin area, they are in charge of control, procurement and contract management.

And the development of the project is doing quite well. We do not have all the experts for the third phase of the project, so we had to bring in other companies which are very familiar with projects of this magnitude. In the administration area, we have a company called Meta. They do all of the verification. They check all of the contracts. And in addition to that, they manage the barracks where we have been accommodating everyone in the project, and they take care of the number of mills in operations, et cetera.

We also count on the support from Arcadis. They are in charge of planning and project follow-up. There are about 40 people doing the daily monitoring of the project. They conduct daily meetings. And they also have weekly meetings with the entire managerial staff. For safety and health, we have specialized people to take care of that part. There are almost 200 safety managers. And we are putting a lot of effort on that safety area. That involves verifying each piece of equipment that is put into the site today.

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Our safety records are very good when compared to benchmarks in the market. SENAI gives us support in the health area. We have resident physicians and we have a semi-intensive healthcare. This is an electronic mock-up of the site. Down below, we have the wood preparation area and then process and then operations. And now, the second picture is how the plant is today. In our wood preparation line, we already have four lines. We also do something in the plant which is the debarking to generate biomass. And this biomass allow us to also generate power. This process line is done by ANDRITZ. It's quite advanced. And this is probably the most advanced area in the project today.

This is a picture from above showing a picture of the four debarkers. And then we have one of the concrete areas. It took 12 hours of concrete pouring just to concrete this area. When it comes to the fiber line, it's also by ANDRITZ. We have two lines. In light blue is the pine area, 1,600 metric tonnes a day. And then in darker blue the eucalyptus area. In this area, we also see a lot of civil construction around it. In the bottom part, we have the different washer filters. They are imported from Finland. And we also see the eucalyptus digester, the pine digester and the storage tanks for brown mass, (47:23) the electric area. And now, we are putting together the washing structure for the pine line.

In terms of the lime ovens, we have two lime ovens of 650 tonnes and our causticization area also provided by ANDRITZ. In this area, we are evolving well. We already have all of the bases of all of the pipes. And in that picture, we have the bottom of the milestone, which is going to receive the lime. We do all of the processing and then that process will start normal operation.

The walls of the millstone is already in place, meaning that the project is moving quite fast. We are - we have about 1.5 - I mean, we have 1.5 million man hours of work in the execution of this process. Our drying line, we have Valmet machinery. We have two pulp dryers, one for 35,000 tonnes a day for the production of eucalyptus and in the pine line 1,300 tonnes with two options. We can remove pulp in bales for a regular pulp market or we can use reels, and that's how we provide to the fluff pulp market.

In this area, we can already see the columns in the storage area. This is a good advantage strategy because it can cover this area. We can already use it to store the equipment that comes from producers or from the site. One of the largest piece of equipment here is our recovery boiler. It has a capacity of 7,000 tonnes of solid burning. This is what we use in one of our processes. This boiler is being manufactured in Brazil by CBC. CBC is a company located in Jundiaí, São Paulo. And it's an arm of Mitsubishi.

We are already receiving some material in the site and we are putting that area together, which will be as high as a 30-storey building. Just to give you an idea, one of the pieces of equipment which is on the way to that site is the aerator (50:07) for the recovery boiler. It's about 140 tonnes and 100 and some meters in length. And I think it's already in the kilometer 200 of Castelo Branco on its way to the site. And I think it will arrive at the mill by November 15.

Now, our energy line, we will have two turbo generators from Siemens, and these are large turbines. We couldn't have these made in Brazil so they are coming from Germany.

They will come early next year. These two turbo generators have a capacity of 165 megawatts, each one with installed capacity of 130 megawatts with an average distribution of 270 megawatts. And this is an illustration of one of our turbines and the axis that is being milled in Germany. And we have been monitoring the equipment that is being made in Brazil as well as abroad.

Now, I would like to give the floor to Cristiano Teixeira who will talk a little bit about the logistics of the project. Thank you very much.

Cristiano Cardoso Teixeira {BIO 17567319 <GO>}

Good morning, everyone. My name is Cristiano Teixeira. I am the Supply Chain Officer of Klabin, in charge of logistics, procurement and production planning. I will have the opportunity today to talk to you about the logistics of the new site, which is called the Puma Project. This logistics - first of all, I'll give you an overall view of how the mill will operate starting from the inbound part of it, which refers to wood supply and truck loading.

This part of the project consists of large volumes. And then we will elaborate more on this part of the presentation. And I'll also talk about the outbound of pulp, when the pulp leaves the mill and goes to the market.

So, first of all, let me refer to forestation to support supply, which is important to say, and it's important to say that Klabin generates about 100% -- 100% of the vehicles are monitored by satellite. Productivity of third-party vendors is also managed by us. So we ensure the speed and the pace of supply from the mills. And so we get very close to the actual cost. We already have this expertise, and this expertise will also be replicated in this new site to supply the new plant. These are the main numbers. The number of vehicles and drivers.

Now, this shows when pulp leaves the mill and goes to the market. Here we purchase the wagons. We purchase 306 cars. These wagons or cars are state-of-the-art when it comes to transporting pulp by railroad. These wagons are being produced by Randon. Randon is a metallurgical company in Brazil. And we've been monitoring that very closely. I received some pictures of the center sill. As you can see, they're already in a late state of production.

Locomotive, we decided to purchase seven locomotives. This is a new locomotive produced by GE. And this locomotive will have a large composition, as you will see in the next picture. This locomotive will make - will perform the transportation in the mountains and highlands, which will make this the first locomotive in the South and which will be managed by ALL. This will give us more agility in our transportation cycle.

Now, this is a contract of management, so we own the locomotives and the walls - the cars and we hire ALL to transport the cargo. As you can see down below, this composition is very long and that's why this type of cargo imports. Sometimes it's very complicated. But Klabin then decides to acquire areas in the Port of Paranaguá.

So, in the previous slide, when I talked about a typical train of 1.3 kilometers, we acquire an area adjacent to that which is illustrated in the picture. I will refer to it in the next slide. But we just acquired an area adjacent to the ALL area. In any Brazilian port, that may be a problem. In the case of the Puma Project, the parking of the train is also important. And in this case, the train will stop exactly nearby the port area. And this is only 4 kilometers away from the main gate of the port, which will ensure the supply of the product or the delivery of the product to the port.

There is another area which is closer to the ship area. This area is in the process of licensing. The first area that I showed ensures the initiation of the Puma Project with a good degree of safety. And then we will deliver the goods to the Klabin area that is closer to the port and, therefore, easier to deliver to the port.

Now, José Soares will talk about the commercial part of the project.

José Gertrudes Soares

Good morning, everyone. I am the Commercial Officer for Kraftliner and I am in charge of the commercialization part of the Puma Project. My idea is - I mean, a lot of people have talked about the financial area, but I would just give you an overview of the pulp market in general. And at the end, I will refer to our main objective which is to grow in the domestic market with fluff pulp and with some other particular (57:28) areas that I will elaborate on momentarily.

Here I give you an idea of the size of the world pulp market. We have the fiber market which is around 164 million tonnes. 112 million tonnes are integrated with the paper production.

The pulp market per se is a business of 52 million tonnes. It's important to highlight that short fiber is already outnumbered. I mean, it outnumbers long fiber. It's about 55% of the total market, meaning that the hardwood is gaining momentum in the market as being very competitive because of cost issues which have been mentioned earlier on during this presentation.

And also paper producers are learning how to mix these two fibers, and hardwood or short fiber is more competitive, is gaining momentum. In this chart, you'd see that when it comes to hardwood, eucalyptus accounts for 33% of that short fiber and the remainder are other woods of short fiber.

Again, talking about Puma, it already begins as the sixth largest pulp paper when compared to all of the short fiber plants in the world. There is a technical tie here, but all plants are of about 1.5 million tonnes. But as we have the benefit to do this presentation, we placed Klabin on the sixth position of the ranking.

It's important also to mention that, from this total volume of short fiber of 17 million tonnes, that's where we come in with 1.1 million tonnes of eucalyptus capacity. The entire

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Puma site is 1.5 million, 1.1 is eucalyptus and 400,000 tonnes accounts - comes from hardwood.

Looking to hardwood, which is - I mean, softwood, 23.7 million tonnes. We have 400,000 tonnes of capacity. I mean, it will be the fourth largest pulp and fluff mill in the world. Another important piece of information in this slide is the fact that the three largest manufacturers and the majority of others are plants that were converted from other applications into pulp and fluff.

They were not initially made to produce pulp and fluff, meaning that our technology and our capacity to produce something in the Puma Project of very high quality is enormous because the plant has been designed with state-of-the-art equipment to produce fluff, focusing on diapers and tissue and our personal care products.

The fluff market is 6.4 million tonnes. This number of 6.4 million tonnes, 93% of our production is located in the U.S. So the major competitors are U.S. companies which appear in the top of this list.

Another important aspect of Klabin's project is, as we do with other projects and boards and in our line of corrugated boxes, and we also focus in the food industry and consumption, the Puma Project will mean a boost in that direction focusing on the diapers market, disposable diaper.

We will focus the 400 tonnes of that project. With 1.1 million of eucalyptus, we will compete with other companies in the world when we have a very good cost for that because we will start being very competitive. And in terms of disposable diapers, we see great potential, first of all, because 100% of diapers are imported. Brazil last year imported 423 tonnes of softwood pulp. So we believe that the big leap for this year will be disposable diapers.

Well, the numbers are not very precise because Brazil doesn't have very good statistics for that. But, anyway, the message here is that here we have in Brazil and in disposable diapers segment we have great potential. The potential for Brazil appears in this slide. The penetration of disposable diapers in Brazil is still very low. It's only 50%. Our neighbor, Argentina, the penetration there is 72%. In the U.S., 96%.

It's not in this chart, but we know that China only has 30% penetration when it comes to disposable diapers. The penetration in emerging economies for disposable products is gigantic, especially in large economies such as Brazil, China and so on.

So I think this is the differential of our project, this 400,000 tonnes focusing in the domestic market, the consumer market with a good growth outlook. Brazil is the third largest market today for diapers in the world. We are second to the U.S. and China. From that 6.4 million tonnes, we come on third, we are the third market. And that is very relevant. And we are still growing.

Looking to the left side of the chart, you see the diapers for adults have grown significantly, especially when you compare it to diapers for babies, and that's because of the aging of the population. The Brazilian population is growing and life expectancy is also increasing and sales of diapers for babies in terms of billions of reais is also increasing. Therefore, if you look at these two charts, growth is significant, more particularly in the adult segment, even though the baby sector is still very relevant.

This other slide gives us a very quick idea of what fluff is. What is fluff? Fluff is that center part of the diaper. It's a pulp panel. It's very similar to cotton. It's that center piece of the diaper. And in the diaper, our pulp will account for 30% to 50% of the average weight of that material. The rest is plastic, adhesive, thread, sewing, there are many components. And the second most important component is an absorbent gel. The fluff pulp is the support of that absorbent gel which will keep the liquid inside the diaper.

This is a midsized equipment, but there are other pieces of equipment which are larger than this that is used to manufacture diapers. The first item in a plant is the reel or the coil, the coil of fluff. And then throughout the process, the diaper receives other materials until at the end of the line you have a readymade diaper.

Unlike eucalyptus, which is exported in bales, fluff pulp is sold in reels or coils, narrow ones between 25 centimeters and 50 centimeters. Then we get into a different segment when compared to eucalyptus that is sold in large bales. But in the case of fluff pulp, we have to be - we have to wrap it because it has to comply with certain conditions because it will be in contact with the skin of the baby or the adult.

Here we just have an idea that shows the different prices of different fibers. And in this timeline down below, you have long fiber versus short fiber, meaning softwood versus hardwood. There is a difference in price of - today is \$155. But when we look at fluff and eucalyptus fiber, the difference in price today is \$325. So in the fluff fiber, there is a margin differential which is very significant when you compare it to the eucalyptus short fiber.

So this is what I had for you today. I only had 10 minutes for my presentation. And then I'll be available to answer your questions if you need additional information, and I can give you more details then. Thank you.

Fábio Schvartsman

Very well. I hope you have enjoyed so far because what we have tried to do is to explain to you how careful and how attentive we are regarding this growth project for Klabin. The company is focusing on this as if it were the last thing we were going to do in our corporate life. We are 100% focused on executing this project according to budget and to the schedule. To date, we are according to budget and according to schedule, as we mentioned before. And we wanted to show you two other things.

First, that with less pulp, we have a whole new avenue for Klabin's development. It is even difficult to predict the kind of growth that we will derive from this. It could be as important to Klabin as the coated boards are. The good news is that with boards we haven't

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stopped working. We are, at this point, preparing for a new growth cycle. You heard about the forecasting of an increased consumption of boards. We expect 1 million tonnes, additional tonnes, of board which is equivalent to two new big machines that need to be built. And it is very likely that Klabin will be building one of these two big paper mills.

The take-home message is that we are fully focused on this, fully attentive. We are going through a gradual change from a results-oriented model that we had in recent years to a clear growth-oriented model, enjoying the opportunity and the competitive edge that Klabin enjoys. By the way, talking about the competitive edge, let me speak briefly about our results, our earnings.

I will be very brief because you know about our results. But I have the satisfaction to once again announce a positive EBITDA in this quarter. It grew again despite the difficult domestic economy, despite the international economy and despite the production problems we had with Machine 9, issues which are only natural. But the machine is operating at full capacity. The problems we had are in the past. Still, despite of all this, we had a positive performance of our results, which I guess is everything that we could wish for in these circumstances.

I would also like to mention other investments that Klabin is making, particularly the investment in the recycled paper plant in Goiana. This mill is expected to have its start-up on January 31, 2015. This date was chosen because the alternative would be to have the start-up at year-end. According to our evaluation, this would not be very adequate to try to have the start-up of this machine in the Northeast exactly during the holiday season.

So we decided to have the start-up in the end of January so as to ensure that we can focus 100% of our attention in this machine that will have the capacity of 110,000 tonnes. It will be the most modern recycled paper machine in the world. And it will supply the Northeast market, a market which is lacking paper currently. And it will reinforce Klabin's competitive advantage in the Northeast, so all news all around.

This set of new capacities that Klabin is bringing, well, next year, we will count an approximately 150,000 additional tonnes that can be sold, additional to Klabin's current position, 8.5% growth in volume. Klabin will grow 8.5% no matter what because we are saying that not only will we be supplying the Northeast, but we will also be directing a good deal of this additional capacity to exports.

This is a very broad market. It can easily absorb this additional volume. So, regardless of what happens with the Brazilian economy, with the world economy, Klabin will grow its sales volume by 8.5% due to this recently installed additional capacity. So these are the relevant points.

And highlight in the last quarter was that we performed really well in packaging where we showed a significant growth in a difficult market, a market which is not growing in Brazil. But Klabin is performing quite well, stemming from the correct investments that the company is making, that we made in the Jundiá mill, Goiana mill, Caixa (1:14:45) mill that

made it possible for Klabin to gain more market share. Klabin had indeed a capital year in packaging.

I'll now turn the floor to Sergio who is going to comment on our earnings in more detail. Thank you very much.

Antonio Sergio Alfano {BIO 4337533 <GO>}

Good morning, everyone. It is a pleasure to welcome everyone to this part of the meeting, the earnings result. I will be brief so that we can have more time for the Q&A.

As for the sales volume, we could see a sales volume increase for the company. We are operating at 1.8 million tonnes in the first nine months of the year; the sales volume grew 1%. 68% of our sales volume goes to the domestic market and practically one-third of our sales go to exports.

Net revenue of the company, although we had a 1% sales volume, we had an 8% net revenue increase. Domestic market accounting for three-quarters of the company; one quarter of the net revenue, 25%, comes from exports. A very important thing is that Klabin, in recent years, has been very disciplined in terms of cost. So we spared no effort to reduce our costs. So here we see our unit cash cost.

Our unit cash cost, despite an improvement in our sales mix with more converted products in the third quarter 2014 compared to the third quarter 2013, our unit cash cost grew only 3.4%. And in the nine months of 2014 compared to the first nine months of 2013, we had a 6.8% increase in unit cash cost.

The company, as I said, is already going back to the level of 1.8 million tonnes, benefiting from the sack kraft machine in Correia Pinto in November of 2013. Now, with the revamp of the boards machine, with the additional tonnes, we will gradually increase our sales volumes.

Our EBITDA in the last 12 months is shown here, BRL 1.652 billion. As mentioned, it is the 13th month in a row that we are growing - actually, the 13th quarter in a row that we are growing our EBITDA. Our net debt over EBITDA ratio that started the year with 2.6 times was down to 2.4 times in the end of September of this year, basically due to the disbursement.

In the first nine months, Klabin invested more than BRL 2 billion. A good deal of this amount went to the Puma Project. The last quarter, we had the 11% - effect of the 11% appreciation of the dollar vis-à-vis the Brazilian real.

CapEx. In the third quarter, Klabin invested BRL 870 million, of which almost BRL 700 million to the Puma Project, in the first nine months of 2014, more than BRL 2 billion and BRL 1.4 billion to the Puma Project.

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And on the right side of the slide, we see the expansion projects. We see the sack kraft machine that started operating in November of 2013. In the general stoppage of June, we were able to add 50,000 tonnes to PM9. This added 130,000 tonnes for the packaging wood, and now, we have the recycled paper machine, the new recycled paper machine in the Northeast in Goiana that will start operating in January of next year adding 110,000 tonnes. And we are investing in two other machines in the countryside of São Paulo to increase our capacity by 50,000 tonnes. With this, Klabin's capacity will reach 2 million tonnes. In March of 2016, the Puma Project will be fully operational.

I show you the recent investments by Klabin. In 2011, we acquired Vale do Corisco. This was done in 2011. Klabin invested together with Arauco in the acquisition of 62,000 planted hectares of pine close to the region where Klabin operates in the State of Paraná.

In the outlay of cash for 51% of the forest was BRL 428 million. And then we had special projects to increase Klabin's capacity from 2012 to 2014. For 2015, Klabin is estimating to invest BRL 4.1 billion with a great focus on the pulp project, with a big investment in the pulp project.

So, I wanted to be really brief about our earnings because we wanted to leave more time for the question-and-answer session. Thank you very much.

Q&A

A - Operator

Well, as Sergio mentioned, we are now going to open the floor to questions. Both attendees can ask questions as well as those who are following us via webcast. And we will start with a question from the audience. Our receptionist will take the microphone.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning. I'm Thiago from Merrill Lynch. I have two questions about boards. Fábio, could you tell us what is your growth strategy for coated board? You talked about a possible Machine 10 in Monte Alegre. I would like to get a flavor in terms of leverage, competitive advantage and the risk of a competitor closing perhaps a big contract with Tetra Pak. So, could you elaborate on that, please?

And then my second question has to do with the new project in Monte Alegre to increase productivity. What is the capacity that we can expect from that site? 700,000 tonnes, 750,000 tonnes, or can you increase production even more?

A - Fábio Schvartsman

Thank you for the questions, Thiago. As for our action in boards, we have clearly a differential in this area. I think that Arthur explained this really well, which is the quality of our coated board associated with a cost which is lower than any other board manufactured anywhere in the world.

Now, this naturally gives a competitive edge to Klabin for future development. It was mentioned in the presentation that we have space (1:23:04) of about 1 million tonnes in LPB in the next five years.

And it was also mentioned the huge expected growth for virgin fiber boards worldwide. Virgin fiber boards have a growth which has been facilitated by a concern with food safety because, with a virgin fiber board, contamination of the food is not possible, unlike recycled board which makes it possible to contaminate the food. So I think that it is only natural that Klabin invests subsequently in building board machine.

Tetra Pak is obviously our dearest and preferential client. And we always focus on having them on board this project. But I want to say that the board growth project at Klabin is a lot bigger than Tetra Pak. If we are going to have a 0.5 million tonne machine, we'll not sell 1.5 million to Tetra Pak, we'll sell a little bit to Tetra Pak and the rest to the rest of the market. So we don't have any specific concerns about what Tetra Pak will do. Now, obviously, we expect this joint work to continue for many, many years to come, but we don't rely solely on them.

As for the level of debt, that's an excellent question. We have been addressing this topic very carefully. So, for 2015, we're stopping all of Klabin expansion projects other than the Puma Project. Now, obviously, we are maintaining our current investments in maintenance of our assets. This will continue normally. But investing in other growth projects, we're stopping, we're - so as not to increase the debt level of the company.

But, again, the board machine is being conceived, is being thought of to start being built after Puma starts operating so that Klabin can benefit from the immediate debt reduction that the Puma Project will bring, because we will be able to increase our cash quite significantly with the Puma Project when operational.

So, we will not have an overlapping of the Puma Project investments and the boards machine. Puma is expected for March 2016. If everything goes well in June 2016, we will start building the boards machine. After verifying that Puma is right on track, is operational, generating cash, only then will we start building a new machine, not before.

With this in mind, we will prevent the debt level of Klabin from getting out of control. As for an increase in indebtedness, it is happening precisely according to our estimates. The project is contracted in Brazilian reais according to budget, so there's no reason for indebtedness to grow in an unproportional fashion.

There are some accounting effects derived from the fact that the Brazilian currency is depreciating. When the real depreciates, our debt for prepayment of imports, and this is the way that we work, that suffers an accounting impact, but not a financial impact, because these debts have a maturity of 7 years to 10 years. So there is an impact, but it is merely an accounting effect and the payment of this debt is done with the income coming from future exports of Klabin. Klabin is permanently exporting and that's why we prepay our imports.

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Today, I see Klabin's indebtedness in a very comfortable position. The peak will be around 4 times, which is not only predictable but also controllable. All of our debts today have been contracted in such a way that they do not collide with the cash flow generation of the company. I think that the whole process is very well controlled. We don't expect any negative surprises.

We are moving towards improving our earnings for next year with the additional tonnes that we will have available. They will certainly generate a better result next year. They will also help contain our debt level. And in 2016, we will have the new Puma Project starting its operation.

And your last question was about the Monte Alegre mill and the debottlenecking. The Monte Alegre mill, I guess, that most of you have visited and you know it is very - it's a very busy mill. It's an old mill. We revamped it a number of times. It is technologically - it has state-of-the-art technology, but we don't have a lot of room to expand. I don't believe we are going to expand the Monte Alegre mill. New capacity expansions will take place in the Ortigueira site, which was prepared to that end. With all of the necessary infrastructure, it is only natural that we will expand there.

What Arthur mentioned is that the work that they are doing aims two things. First, to reduce costs by increasing production efficiency and increasing a little bit the capacity of the current mill or the current machines that we have. As he showed, from 2011, our capacity increased by 50,000 tonnes just by making manufacturing adjustments. Now, we are changing our working routines to try to get an additional productivity out of these machines. But, again, these are mild adjustments. In the best case scenario, we are talking about additional 50,000 tonnes.

A - Operator

Now, we are going to have a question asked by phone. The question will be asked in English and the answer should be in Portuguese.

Ms. Chelsea Konsko from TIAA would like to ask a question. Please go ahead ma'am.

Q - Chelsea Konsko {BIO 17438250 <GO>}

Hi, and thank you for the call. I just wanted to see if you could provide a little more color regarding the different market dynamics in terms of coated boards have been performing a little bit weaker, while your box board and corrugated boxes have been seeing stronger demand. So I was just wondering if you could provide a little bit more color about the outlook there.

A - Operator

(1:30:46 - 1:30:54) and is about the corrugated market and what is our expectation regarding the coated board market.

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Well, looking forward and looking at the fourth quarter, what we expect is, boards, we are not facing a market problem. It's more related to the production capacity. We had bottlenecks in our production capacity in the third quarter, which led to a reduction in the volume sold domestically because of our lack of capacity, not because of a reduction in demand. The market is weak, but there is a high demand for Klabin's products.

So as we debottleneck our production capacity, as we are doing, we will see again a healthy growth in the coated boards market. I don't expect a great leap in the fourth quarter in the volume of coated boards because now we are trying to catch up. In other words, we are now delivering the orders that were delayed because of the production issues that we had in the previous quarter, so I cannot expect a great increase in volume in the fourth quarter because of that.

Now, as for corrugated boxes, the same trend we saw throughout the year will continue in the fourth quarter, Klabin performing better than the market. The reason for that is that we have an additional capacity in Jundiá and Goiana. Since our cost is lower and the flexibility of our line is great, and the cost is low, as I mentioned, this creates a huge demand for our product. As long as we have the capacity to supply the market, we will continue to grow, and this is what we expect for the fourth quarter. Our volume will definitely continue to increase until the end of the year. This will be a capital year for the production of corrugated boxes.

I did not mention, but I can mention it now since the question was asked, I didn't make any comments about what I expect for the fourth quarter, so let me give you a flavor on that. For the fourth quarter, we expect to continue to grow our results as we have been doing so far for the recent quarters. For the next quarter, we expect the same. For next year, given the volume increase, this volume has a mix which is very similar to the whole mix for Klabin, and so we expect an EBITDA per tonne that will be similar to the current Klabin level. So we can expect growth for next year given the additional capacity that the company will have.

Okay. Now, we will take questions from the audience.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Good morning. My name is Milton Sullyvan from Brasil Plural. Thank you for the opportunity to participate in this event. I have two questions in fact. Two questions on the board market. First of all, we understand that today we - you can have very high margins on that board segment because of the quality of your product. I just want to have a better idea about where that advantage stands, whether it lies in the fact that the forest has very good cost and quality or whether that advantage lies more on the side of production? I would just like to have a clearer picture.

The second question is about the board contracts. How are they negotiated? I mean - and whether the way they are negotiated also include some provisions about exchange rate variation and whether that variation has an impact on the cost and the contracts of boards?

A - Operator

So, I will start with your last question. We export approximately half of our board production, which means that that half is charged in foreign currency. The adjustment is automatic because prices are denominated in U.S. dollars. Now, in the domestic market, the answer is, no, there is no direct correlation between the sale price and the foreign exchange - and the exchange rate. Of course, the - throughout time there is a tendency for these things to get closer, but there is no direct transfer.

The export logic is more competitive in the international market. And in the domestic market, what we want is to supply our clients with products that they can sell, so things are denominated in local currency. If there is a depreciation of the real by 50%, we would certainly not increase anything similar to that to current prices or according to the current currency, no way.

Another question from the audience, please?

Oh, in fact, I didn't finish my answer because he also asked me about cost and I would like Arthur to help me with that answer.

A - Arthur Canhisares {BIO 16986800 <GO>}

As far as I understand it, what Klabin does, and does it well, is as we have a very competitive forest and also very close to the site, we start up with a big differential. And if we act intelligently, this competitiveness not only can be maintained but also reinstated.

And during Francisco's presentation, he explained how we are building this new pulp plant. And this plant is not being made just to save on CapEx. The plant is being built to be the lowest cost plant in the world, meaning that all of the equipment for that plant and the way the mill is being planned has been carefully thought so much so that what we want is to produce at very low cost. We have the advantage of the forest and we'd leverage on that advantage creating an industrial process that increases our differential.

So it doesn't matter whether that short pulp price will be low or high. Klabin will continue to sell its product and, at the same time, will make a lot of money no matter the market condition because of the cost. The cost will be much better than the cost from any other producer, be it domestic or foreign.

Q - Operator

I'm an investor and, first of all, I would like to say that I really like the model of this presentation. My question is very basic and I do apologize if it is too basic. My expectation in terms of the future results has to do with fluff. I know that fluff, I understand that nobody manufactures diapers in Brazil. I understood from your presentation that everything is imported. But who are you going to sell that diapers to? Are you going to make the diapers or you already have a partner that will take care of that part of the production chain?

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Well, thank you very much for your question. No, it is not a very simple question. It's not a very basic question even because the diaper market is a very new market to us and nobody knows exactly how the market operates. In the diaper market, diapers are supplied by companies like Klabin now that produces fluff and other fluff producers.

During Soares' presentation, he talked about the major fluff producers in the world and these are the ones who supply to the diaper producers. And there is a very interesting moment that is taking place in Brazil right now, which is the construction of this plant in Brazil. And as a consequence, there is another plant being built in Bahia for women's sanitary pads.

So the two raw materials of diapers which are absorbent, and fluff will be locally produced at the same time. Therefore, it's just natural that this will generate a certain growth in the domestic diaper market. We are very hopeful and we believe that the market will react quite well to this new product offering. But now, concerning who will manufacture the diapers, I mean, there are major diaper producers. For instance, Kimberly Clark, Procter & Gamble, Hypermarcas in Brazil, and there are also the smaller diaper producers. There was a slide shown by Soares who gave us a picture of the machine that produces diapers.

The only thing that you need is to buy a machine like that in the picture and to buy the raw material. And if you do that, you will produce diapers. Maybe the company will have issues with distribution and branding, but in terms of production, it's very simple. And clearly, this is not Klabin's core business. Klabin just supplies raw materials and Klabin does not sell packaging for cereals, morning cereals. We just supply the raw materials to those companies who make the boxes and the packaging and the end packaging.

Now we have another question over the phone.

Our next question is from Carlos De Alba from Morgan Stanley.

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

Yeah. Good morning, everybody. Thank you very much. The first question is regarding the ramp-up of the Puma Project. If you can give us an idea or a sense of how do you see production coming through after the start-up of the project, that'd be useful.

And the second question has more to do with the current operations. If I looked at the release from yesterday, the sales volumes year-to-date or in the first nine months of the year compared to the first nine months of 2013, increased by 1%, net revenues increased by 8% and adjusted EBITDA increased by 8%, which tells me that the company is benefiting from better mix, higher prices or a weaker currency to increase revenues above the increase in sales volumes.

However, the 8% increase in revenues is similar to the 8% increase in EBITDA so there is not operating leverage really coming through right now. And so I'm a little bit concerned on the cost pressures that the company may be facing. In the report also, it did mention that the year-to-date unit cash cost increased 7% in the first nine months of the year

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versus the same period of last year. So that tells me that here there's some cost pressures perhaps I think in the company. I would like to hear what you have to say about this issue and how is the company trying to tackle those pressures. Thank you.

A - Operator

In terms of the ramp-up of the Puma Project, we were careful with the industrial part of the Puma Project. I mean, we've had to bring in the new officers who are getting ready to take over the management of the company, but we will try to do something very unique during that phase. A ramp-up is a ramp-up. Every factory goes through that and Puma will be no different. So it's just natural that in the first year with a start-up schedule to occur in March of 2016, we will have a new production of approximately 800,000 tonnes. This is what should be expected for 2016, which is absolutely in keeping with the efficient ramp-up of the plant, and that's what we would try to do.

Moreover, the quality of the equipment that was chosen and everything we did during the construction phase will help us to reach that goal in terms of leverage in the volume, price over cost. The equation will change a bit. First of all, the volume leverage will be higher after 2015. As I said during my initial presentation, we will have an additional capacity of 8.5% which will be available next year, which alone means that this will represent an important volume growth.

What will increase Klabin's EBITDA will come from volume. We will work on the price side or on the cost side as well so that they will perform below price. And so we will have a favorable combination and we will be able to leverage on top of that 8.5% volume growth. I think this is all I can say at the moment. We are working on the budget right now as we speak so we don't have any numbers yet. I'm just giving you an overall idea because of the expectation that is around this subject.

Now questions from the audience once again.

Q - Marcos Assumpção

Good morning. I'm Marcos Assumpção from Itaú BBA. My first question refers to profitability from exports vis-à-vis domestic market. I would just like you to elaborate a bit more on that considering the current exchange rate and what is the company's profitability for boards vis-à-vis the domestic market.

A - Operator

The good news is that that is improving. As the exchange rate is evolving, our profitability is improving. But the best news is that the profit or margins in the domestic market are even better. We make more money selling domestically rather than exporting. But if the exchange rate depreciates further, maybe things will change, but that's not the case yet. They're close but it's still marginally better to sell domestically.

Q - Marcos Assumpção

Okay. Now, in terms of Klabin's flexibility, what would be the limit? Let's assume that we experience a higher depreciation of real, what would be your ceiling in terms of sales to the domestic market?

A - Operator

Marcos, that's a technical question and I have to be careful not to answer it very technically because we have to consider the clients and we work for these clients. And I do not intend to undersupply them to have gains abroad. So even though it might be true that if the exchange rate appreciates or depreciates, it will be better to export. Our long-term future at Klabin is very much linked to the domestic market in our relationships with our clients, and I'm not going to change that.

Having said that, we still have a lot of room in products where there are many vendors. But what is natural, and I think that it will be more prevailing next year once we have more recycled paper in the Northeast, is that we will use more recycled paper in that region, and this will give us more room to do other things.

Recycled paper is not exported, but the others are. So this will allow Klabin to export other products. We will certainly increase our exports. If you look on that side, paper products will be more exported and this is already happening. And the peak will be in 2016 when all of the operations will be moving on and Klabin's exports should double or even triple in the near future.

Q - Marcos Assumpção

My last question about corrugated board. Despite the low growth in the market, Klabin is performing well in terms of volume and revenue. Can you tell me about your profit margins for corrugated paper? I think that you are performing well and this has had a positive impact in the company's results.

A - Operator

As Klabin is an integrated company, when I sell the box, I am selling Klabin's paper, I am selling Klabin's tree. There is a positive effect throughout the chain. So the profitability of corrugated paper for Klabin, given all of its own integrated fixtures (1:50:19), is very good, and as good as the other lines that Klabin already has.

One more question?

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning. I'm Lucas from JPMorgan. It became very clear in Razzolini's presentation that the company has good controls in place to deal with the challenges brought along by the Puma Project. So my question is, what are the critical paths of the project, or what are the bottlenecks, the things that cannot go wrong because if they did go wrong they would delay the project?

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And if possible, I would like to ask Soares, we know about the Kraftliner market. We know that recycled paper has an important role to play and also the old corrugated containers that have been falling in price. So I would like to know about this market dynamic. Are you going to have the OCC more available to small producers? Might this have an impact on Kraftliner?

A - Operator

About the critical paths of the project, well, the project went through a number of phases. We practically finished the underground work, the foundation work. We did quite well and the weather helped. We did have some rainfall, but every now and then only. It didn't impact much. And now we are going through the civil construction work. We had good mobilization of the labor force. We were careful not to concentrate the civil construction on only one contractor. We have six or seven companies operating, very skilled people. All the EPC work is unfolding quite well. We've had no delays whatsoever.

And the next critical step will be the transition from the civil construction to electromechanical assembly, assembling the equipment on site. This will begin in March 2015, and that will be a great challenge, managing almost 8,000 to 9,000 people at the peak stage. And so this will be the transition from the civil construction work to the equipment assembly as of March, April of next year.

A - José Gertrudes Soares

As for your question about the OCC, the drop in the price of OCC and the impact on Kraftliner, unlike other moments when the price of OCC was dropping. And the next moment, we would see the price of recycled paper declining as well then impacting the boxes and, at the end of the line, impacting Kraftliner. This time, the price dropped BRL 100 (1:53:11) and the recycled paper prices remained stable. We have not seen any impact on recycled paper prices. It hasn't impacted the rest of the chain, boxes or Kraftliner.

I cannot say that this is the reason, but we believe that smaller recycled paper manufacturers have their prices that are under pressure because of the power, price and the collective bargaining agreement for these manufacturers, and they have very strict margins. And another reason is that we're buying recycled paper from third parties.

As Fábio mentioned, we are increasing our recycled paper capacity so as to have more capacity for Kraftliner. So we're acquiring recycled paper in the domestic market and it is somehow rebalancing the supply and demand side. And that is what I believe is helping prices to remain stable. At least for now, the strategy is working. I cannot affirm that this will continue so, but it seems to me that the scenario is a little bit different than in the past when OCC prices dropped and we immediately saw an effect on paper.

A - Operator

I guess that we have time for one last question.

Q - Victor Penna {BIO 16384328 <GO>}

Good morning. I am Victor, Banco de Brasil. Considering the new start-up of projects in the coming years, I believe that the market will be more - with a rebalance of supply and demand of pulp. Even considering the competitiveness of Klabin and considering that the market remains a little bit fragmented, I would like to know if Klabin sees any possibility of consolidation in the mid to long term? What would be the impact of this to the company and would Klabin be willing to participate in a consolidation process in this segment?

A - Operator

Well, I expect and I would hope to consolidate companies in the sector because, obviously, it is better if we have fewer companies controlling the supply side. However, Klabin is not going to participate in that. Klabin has its own way of doing things, its own way of operating, as we explained to you today. We work towards intrinsic competitiveness in everything that we do and if we were to partner with another company with a different cost structure, with a worse cost structure than ours, this would negatively impact Klabin.

So I don't see that it would be reasonable for Klabin to participate in a consolidation process. Now, helping consolidation to happen in every way we can, of course, we will.

A - Unverified Participant

Okay. Now, I give the floor to Fábio for his final remarks.

A - Fábio Schvartsman

I would like to thank you for participating. We tried to have a different format this year so as to allow for more contact, allow you to have more contact with Klabin leaders so that you could see the consistency and the quality of the work that Klabin is trying to implement on all of our business lines. As for our operating performance, it continues really well.

As for the execution of the Puma Project, what I can say is that we are on budget. We are on time, on budget, which is what really matters. And as for our growth expectation, we have a real growth expectation and opportunity ahead of us. It is materializing. The biggest step change in volume will be taken in 2015 with additional capacity in 2016 and even bigger step change.

And Klabin is definitely entering a virtuous cycle of growth which can be perfectly advocated because Klabin's products are naturally competitive worldwide. It is only natural that a company like Klabin has a strong growth phase, even when there is a retraction of the overall investment level in the country. I believe that this is our take-home message for you. Thank you very much. And now we will receive the attendance seal from Apimec.

A - Ricardo Tadeu Martins {BIO 18747825 <GO>}

I would like to highlight that it is very important that we continue to provide the market with information. Apimec São Paulo would like to recognize Klabin for its attendance in Apimec meetings and we encourage other companies to follow on their example.

We would like to highlight that this is an open forum for investment who are willing to get to know the companies and their business. We know how difficult it is to absorb all of this information. Sometimes the CEO, the CFO have to speak with the managers, they have to speak about the operations. And we are very happy to see that Klabin is willing to convey all of the information and the messages to the market.

Apimec São Paulo would like to thank Klabin for this opportunity and we would like to publicly recognize the company by giving them our attendance seal. Thank you very much.

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