

Q3 2013 Earnings Call

Company Participants

- Antonio Sergio Alfano, CFO, IRO
- Fabio Schvartsman, CEO

Other Participants

- Alex Sciacio, Analyst
- Carlos de Alba, Analyst
- Jon Brandt, Analyst
- Juan Tavaréz, Analyst
- Lucas Ferreira, Analyst
- Marcelo Aguiar, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

Presentation

Operator

(Interpreted). Good morning. Welcome to Klabin's conference call. (Operator Instructions). As a reminder, this conference is being recorded and also being broadcast live via webcast and may be accessed at webcall.riweb.com.br/klabin/English, where the presentation is also available for download.

Before proceeding, I would like to mention that forward-looking statements 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 as mere forecasts which are based on the expectations of the Company's management regarding the future of Klabin. Such expectations are highly dependent on market conditions, on general economic performance of Brazil, on the industry and of the international markets. And therefore they are subject to change.

With us today in Sao Paulo we have Mr. Fabio Schvartsman, Chief Executive Officer. And Mr. Antonio Sergio Alfano, CFO and IRO. Mr. Schvartsman and Mr. Alfano will comment on the Company's performance during the Third Quarter. Afterwards, they will be answering any questions that you might have.

Now, I would like to turn the conference over to Mr. Schvartsman. You may proceed.

Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Good morning, everyone. It is a pleasure to have you again during this Klabin earnings conference call for the Third Quarter of 2013.

I would like to divide my initial remarks into three parts. The first part will be about the operating results of the Company in a nutshell. Afterwards, I would like to make some remarks about the Brownfield expansions that Klabin is currently undertaking. And finally, I would like to close my remarks by making some remarks about the Puma Project.

Now let's talk about our results. Once again, we had the pleasure to have another good half year for Klabin, in line with our expectations, with a significant evolution vis-a-vis the Third Quarter last year, year on year.

And I would like to mention that this is one of the points that becomes clear about the performance of the Company in this last quarter. I am talking about our flexibility as a company and our commercial agility that allowed us to redirect, very quickly, volumes to different markets once we saw changes in the conditions of the domestic market, as we had already anticipated to you in the last quarter results conference call.

So we reversed the trend of exports of Klabin with a 12% increase in volume in the Third Quarter this year and 30% in reais, which is very clear evidence of the commercial agility and flexibility of the Company, which was one of the competitive advantages the Company has in our performance in the pulp and paper market. I would also like to add that the Company's performance was sound in all business lines.

And a very quick remark about our expectations for the Fourth Quarter. We expect a strong Fourth Quarter, in which we expect an increase in the results of the Company in line with what happened between Third Quarters, that is to say a strong result. And in spite of the unfavorable seasonality of the Fourth Quarter, especially December, we expect Q4 to be equal or even better than Q3 of this year.

Once again, we are focusing on this period, 2013, with very positive results overall for the Company. And I would like to congratulate all the executives of the Company that have been doing a great job in this regard.

Secondly, I would like to say a few words about the Brownfield expansions of the Company. I don't know whether you have a consolidated view about what the Company is doing in terms of Brownfield expansion. The Company, in fact, is adding 300,000 tonnes of capacity between now and the end of 2014.

This represents over 15% of the current capacity of the Company. And as a consequence this allows us to expect an important increase in the results of the Company, driven by these expansions. As we all know, these Brownfield expansions are the most profitable ones that there can be for the pulp and paper companies, because they represent an increase in capacity without adding fixed costs, which is generally translated into very good earnings.

Okay. So where will they come from, the 300,000 tonnes? We have 80,000 tonnes of sack kraft that will be started up in November. We have 110,000 of recycled in Goiana, in Pernambuco that will be started up in the second half of next year. We have 50,000 tonnes of the debottlenecking of M9 of Monte Alegre that will start operations in June 2014.

We have what is not submitted yet to the approval by the Board. But during the next Board meeting it will be submitted. I am talking about two Brownfield expansions, one in Angatuba and one in Piracicaba. They are smaller. And that should be adding an additional 60,000 tonnes to the current capacity of Klabin.

If we add all this, this represents 300,000 new tonnes and they will be in operation by the end of 2014, all of them.

And lastly, as I said before, I would like to say a few remarks about the Puma Project, first regarding the increase of our budget to BRL5.8b. What I would like to say about this is that this increase was due mainly to the devaluation of our currency, the real. And that partially impacted the budget that we have for the Company. And besides, we must consider that this devaluation has a favorable impact on future revenues generated by the project in the same manner. So the project is today more profitable than it was before this restatement.

Now, regarding the capitalization process for the Puma Project, as you all know, we announced by a material fact that in the next few days we will be calling two general shareholders' assemblies that will be deciding about the unit for the Company, for the capitalization of the Company. And this will happen in the next few days. We are about to finish all the necessary documents to convene these meetings. And as soon as these documents are ready we will be convening these two meetings.

Regarding the way we will carry out the capitalization, we have already informed the market that we are working with two alternatives. One is a capital increase, a regular follow-on. And the other one by means of mandatorily convertible debentures. And I know that you are all very curious about these debentures. And I would like to take the opportunity to tell you what we can already tell you about that.

First of all, debentures will be a private debenture placement. And as a consequence this will be subject to preemptive rights to the shareholder base of the Company. And the condition of the debentures. And by conditions I understand price, the conversion price and interest rate. And this is the object of negotiation with the investments in the debentures and of course this is not ready. And as it is not ready we cannot disclose anything about it.

And thirdly, about the volume of this debenture operation. We are working, if necessary, to have a total capitalization by means of debentures, if necessary. I repeat that, if necessary.

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Besides, I know that the market would like us to explain how we will be deciding whether we are going to have a capital increase or whether we are going to issue debentures. And if and when the decision will be made. When? Well, the decision will be made immediately after the meetings that will be convened in such a way that we can do this as quickly as possible, in order to have our capitalization ready.

And regarding the choice between equity and debentures or a combination between equity and debentures, the decision will be made at the same time and the decision will depend on the market. A strong market means equity, a weak market means debentures. And any combination thereof is also possible.

And I wanted to bring this to you right at the beginning of the presentation exactly, because I would like to remind you that this is an earnings conference call and the objective is to talk with you about our Third Quarter earnings, such as we do every single quarter. And we have been doing this in the last few years and we will continue to do so.

And of course, we will have quite a lot of time and we will have the necessary discussions and we will be imparting the necessary information to all of you about the capitalization process on a timely basis. And this is not the case of today. Today is an earnings conference call.

So now I would like to give the floor to Sergio. And afterwards we will be answering any questions that you might have. However, we will not be able to answer any questions about capitalization beyond what we have already said.

Antonio Sergio Alfano {BIO 4337533 <GO>}

Thank you, Fabio. Good morning, everyone. And once again, thank you for participating in another earnings conference call of Klabin.

The signs of a slowdown that we talked about that we saw in the Second Quarter, they lost momentum over the Third Quarter and the packaging and paper market kept a trend that was existing already in the first half. The higher average foreign exchange rate during the quarter drove competitiveness of national products in exports and continued to inhibit imports of finished products and packaged products with board or boxes produced abroad into Brazil in the scenario of a staunch market in Brazil and increased export revenues due to the appreciation of the dollar. The Company benefited from the diversification of its product lines and the markets in which it operates.

So we had an average dollar that was quite strong during Q3. But at the end of September the average exchange rate went back to the same levels that it was at the end of June 2013, closing the quarter at BRL2.23 per \$1.

In Q3, total volumes sold by the Company grew by 3% on a year-on-year basis, amounting to 453,000 tonnes. Exports grew by 12% and the share of increased from 28% to 31% of the overall volume of Klabin, as the Company expected already, due to the better export

conditions. And with the increase in our exports and the change in the product mix, net revenue in Q3 including wood was BRL1.203b, an 11% increase on a year-on-year basis.

In the nine months, the sales volume grew by 2%. And over the Third Quarter, net revenue from papers grew by 8% vis-a-vis the Third Quarter of 2012, whereas the revenue from converted product grew by 13%. And in the year to date, the consolidated net revenue grew by 9% for Klabin.

The unit cash cost for the Third Quarter was BRL1,737 per tonne, a nominal increase of 6% year on year. Conversion drove the participation of higher added-value products that have a higher cost in the Company's product mix, reflecting an increase in the unit cost over 2013.

Besides the change in the production and sales mix, the exchange rate variation and inflation brought pressure on some components, such as OCC, chemicals, fibers and freight. And over the quarter, we saw no significant non-recurrent effects in our cash cost.

EBITDA in Q3, adjusted EBITDA, was a record for the Company, amounting to BRL426m, with a 35% margin. It was the ninth consecutive quarter where we had an increase in adjusted EBITDA in Klabin. For the nine months of the year EBITDA was BRL1.119b, with a growth of 16%, higher than the same period last year vis-a-vis 3% increase in volume.

Net debt, consolidated net debt on September 30, BRL3.6b, BRL158 million increase compared to the end of Q2 2013. However, the net debt/EBITDA ratio adjusted closed the period at 2.4 times, at the same level of June.

Investment. Klabin invested BRL270 million in Q3. And of this amount BRL105 million were spent in the projects for the new sack kraft paper machine and the new recycled paper machine in the Northeast.

Sack kraft machine in Correia Pinto is already in a test phase and the startup is estimated to mid-November. The schedule and the budget were successfully complied with.

In the Northeast, implementation of the recycled paper machine has already been concluded; that is to say, the first phase. And it should be started up in the second half of next year.

Regarding the Puma Project, the Company concluded 40% of the earthmoving work in Ortigueira for the future implementation of the new pulp plant.

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

Questions And Answers

Operator

(Interpreted). (Operator Instructions). Tiago Lofiego, Bank of America.

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Interpreted). I have two questions. Thank you for the questions. Regarding the debottlenecking project, do you have any others besides the one that you mentioned? But have you reached the limit for the potential of your debottlenecking project?

The second has to do with the Puma Project. I apologize for asking. But I would like to understand if you have an update regarding the timing. That is to say, do you have any change regarding the schedule? Is it taking a little bit longer than you expected?

And have you changed anything regarding the coated board machine? Do you intend to add an additional coated board machine after the Puma Project?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Thiago, thank you for your questions. Okay. The first question was about the debottlenecking project. The good news is that we still have, yes, debottlenecking and we are evaluating some other opportunities. Some are not ready and this is why we are not talking about that, because we must have the investment project ready and with the adequate return. And before having that, of course, we cannot talk about it or discuss this.

But we have barely touched the Santa Catarina plant, where we also have relevant opportunities in Brownfield. And of course we will be considering this in the sequence. And besides, in Monte Alegre, we also have room for debottlenecking for the seven -- machine number seven and number six. And we have not yet worked on that. So, the Brownfield will continue to come.

And of course we are doing first the ones that are more obvious and with more evident returns. And we are in this process, where we have these 300,000 tonnes for the next 12 months coming in. And this is very good.

Regarding the Puma Project and your question about that, first, regarding the timing, nothing has changed regarding our schedule. We were very careful with that. And this is why we are already advanced in the earthmoving stage, as well as other negotiations that we carried out in order to bring forward this critical path. So, we maintain, as a realistic estimate and a conservative estimate, the First Quarter of 2016 as the startup of the Puma Project.

And the board -- the coated board project, I have been telling you that we are talking about a pulp plant right now. It's very interesting and very profitable. Of course, we are a paper company and of course making coated board continues to be our focus. However, our focus is to go ahead with our pulp project. And afterwards we will be discussing, when the time comes we will be talking about the coated board machine, when the time comes. Thank you.

Operator

(Interpreted). Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted). Good morning, Fabio, Sergio, everyone. I have two questions. The first one has to do with the market and prices. I know it's very complicated to talk about prices. But if you could make a general remark about your estimate for the end of the year and beginning of 2014, because you have some competitors in coated board that have announced increases and in corrugated board you have the issue of OCC bringing pressure. So maybe you can make some general remarks about your expectations. I would be very grateful if you could do that.

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

(Interpreted). Lucas, regarding prices, as you said yourself, there is some pressure on costs, both on paper and coated board. Corrugated board, well, the pressure comes from the OCC side. And for coated board regarding the imported components involved. So with this pressure you might see some price increases in both lines, driven by the market and by the international market, both domestic and international.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted). Fabio, when you talked about Q4, you said that it would be equal or better than Q3. So you're not counting or you're not factoring in the price increases. Is this what you mean?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Well, I am not going to count on a price increase that has not happened yet.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted). And my other question has to do with costs. Sergio explained about the cost pressure comes from many different factors. But I would like to understand, Sergio, if we could go deeper into that. This increase of 6% year on year in costs, what is the impact of the sales mix on this?

If you didn't have this impact of the mix, could we expect a different increase, like the ones that we saw in the last few quarters, or were OCCs and the exchange rate decisive and that they should continue to impact?

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

(Interpreted). Well, it's both. We had the effect of the mix and also the effect of the cost, as we have already said. And both are involved in the increase in the costs of the Company. And on the other hand, we continue to work on our cost reduction program, especially in forestry and in boxes. We expect to continue seeing interesting news from the viewpoint of cost reductions.

Nevertheless, the reality that we have to cope with is some cost pressure on one hand and on the other hand some good news, with a more added-value mix which is producing and will produce better results for the Company from now on. However, this has a higher cost. So you have to be a little bit careful in this regard and you have to analyze these factors in a segregated fashion, separately.

Q - Lucas Ferreira {BIO 16552031 <GO>}

(Interpreted). Thank you.

Operator

(Interpreted). Alex Sciacio, Santander.

Q - Alex Sciacio {BIO 16118415 <GO>}

(Interpreted). Good morning, everyone. Fabio, I would like to know about the mix. We saw Klabin placing a higher volume in the foreign market and benefiting from the foreign exchange rate. And from Q3 now we saw an appreciation of the real and exports are a little bit less attractive than they were before. And you mentioned that the domestic market is a little bit tougher than it was at the beginning of the year. So, maybe you could tell us how you see the Klabin mix between the domestic and the foreign market to the end of this year. And the evolution of the domestic demand, make a comparison. What about the evolution of this market?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Alex, I would like to correct something. I didn't say that Q4 demand will be weaker; it's quite the opposite. Demand in Q4 is recovering already in an important fashion vis-a-vis Q3. This is what I said.

So we do have a strong demand from the domestic market. And as you said yourself, Klabin is agile. Klabin can work in the most adequate fashion in order to deliver the expected result. So if the domestic market is stronger and if exports now are slightly worse, then you should expect a Q4 with stronger domestic sales for Klabin.

Q - Alex Sciacio {BIO 16118415 <GO>}

(Interpreted). Okay. The second question has to do with the new debottlenecking that you mentioned and that you are still evaluating. The Angatuba, Piracicaba are new as far as we are concerned. So could you say something about these debottleneckings?

In Monte Alegre, for instance, if you have any estimate regarding how much this could add to the capacity of Klabin, if the magnitude would be close to 50,000 tonnes that you will be obtaining from MP9 or whether the magnitude will be higher. And also the possible timing for the debottleneckings and if it is for 2015 or maybe later or before that.

A - Fabio Schvartsman {BIO 2067677 <GO>}

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(Interpreted). Alex, we have not been imparting information about other bottlenecks -- debottlenecks, because we don't have them yet. And I could not possibly explain to you anything about volumes coming from what machine. And of course we are working to obtain this information, all these data. And to be sure about the data. And of course, as soon as we have the data, we will be sharing this with you, because it is in our interests as well to share this with you. Whatever we obtain, we share with you immediately.

Regarding Angatuba and Piracicaba, up to some months ago things were not so clear about the feasibility and the size. And as this became clear we immediately informed the market. We are still a little bit careful regarding the data, because this will still be submitted to the Board of Directors. These are returns that have very high expected returns. So I expect this to be approved by the Board.

But in spite of that, we still have to be careful and follow the right. I understand that you're anxious to obtain this information, in order to have more data for your projections. But for the time being, all I can say is that for 2014 we will have these 300,000 tonnes already in operation. In 2016, we will have the Puma Project operating. And in the meantime, as soon as we have new information, we will be sharing with you.

Operator

(Interpreted). Vincenzo Paternostro, Credit Suisse.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

(Interpreted). Good morning, everyone. Thank you for the questions. My questions have to do with the competitive environment in the corrugated board market. This market has always been very difficult because of the informal players and the very small competitors and the informal or grey market. But very recently we had International Paper coming on board. And what about the presence of this new, more rational player? What kind of impact is it having on the market dynamics?

And what about the margin for this segment next year, taking into account this increase in the price of scrap, of OCC. And that removes competitiveness from the smaller players?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Klabin has been delivering a good performance in the conversion market, be it for boxes or bags. And in boxes this is due directly to something that we have already talked about with you a few times. We did the total overhaul of the Jundiá unit, the Jundiá plant. And the expansion and conversion of the Goiana unit or plant. And because of that, we can have this additional capacity of Klabin and our sales volume was able to grow quite a lot this year.

But as you said yourself, the competitiveness of Klabin, due to its integration, it is very high. For this reason, we are able to tap into this additional capacity in order to further advance in the market, such as we are doing during this fiscal year. I do not believe that the situation will be different next year, because the same pressure factors that existed in

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2013 are expected for 2014 as well. As a consequence, we continue to expect an important evolution in our conversions for 2014. Thank you.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

(Interpreted). Another question, still about this. Do you expect more consolidation in this segment? And would Klabin be interested in some opportunity to evaluate some M&A opportunity in the specific corrugated board area?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Well, Klabin analyses all the opportunities that exist in the sector. So I cannot tell you beforehand whether we are interested in this or that. And the answer, as well, it depends in whatever is available and where it is available. And of course we will be analyzing our opportunities regarding consolidation. Although I believe this is a long-term trend and an unavoidable one, I do not see any significant strides in this direction so I'm not placing my bet on inorganic growth for Klabin. Thank you.

Operator

(Interpreted). Carlos de Alba, Morgan Stanley.

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

Yes. Thank you, very much. A great result. And the first question will be can you remind us how much incremental EBITDA do you see coming out of these 300,000 tonnes of Brownfield expansion? Clearly, the trajectory of the EBITDA in the last 12 months or in the last two years has been fantastic without increasing capacity. So if you can comment about how much further EBITDA do you see now that you are expanding volumes, that will be very useful.

Second is, in spite of this very positive trend in EBITDA generation and cash from ops, the reality is that net debt to EBITDA has remained around 2.4 times. And obviously you have been investing over the last few quarters in these Brownfield expansions and that has restricted your free cash flow. Could you comment as to how do you see your free cash flow generation going forward, meaning cash from operations minus CapEx? And when do you expect this to increase, obviously putting aside the Puma Project, because clearly that is what would be available for shareholders and in order to reduce net debt to EBITDA. Thank you.

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). I apologize. I forgot that I had to enter in Portuguese. There is simultaneous translation only one way, from Portuguese into English. So, going back to what I said, thank you, Carlos, for your questions and for your kind words about the Company's performance.

Now, going to your questions, the 300,000 tonnes of our expansion, I expect they will be producing results that will be proportional to the other tonnes that we have once they are

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Brownfield. I see no reason whatsoever for these tonnes not to produce equivalent results to the ones that we already produce. So we are considering a proportional growth, at least as far as the EBITDA is concerned.

Regarding the Company's indebtedness and free cash flow and the Puma Project, what I can share with you is what the Company's management thinks. We have all these Brownfields starting up in 2014. And this will be just the initial year of the investments in the Puma Project. The peak of the investment will happen in 2015, when all these Brownfield investments will be fully operational since the beginning of the year and producing additional EBITDA. And in fact helping us to deleverage the Company.

And stemming from that, our expectation for 2015 is to focus mainly on investment in the Puma Project and of course not making other investments that might bring pressure on our leverage without producing results within 2015. And this is the reason why we are accelerating our investments right now. This has this rationale that I'm describing, increasing the capacity to generate results on the eve of a major expansion project.

I believe that over 2014 and 2015 you will see exactly what I'm telling you. During 2014, we will be completing all these Brownfield projects. We will have the corresponding result coming on stream. And we will have the beginning of heavy investments for the Puma Project that will be accelerating in 2015, when all the Brownfields will have already been delivered and be fully operational.

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

Thank you, Fabio.

Operator

(Interpreted). Jon Brandt, HSBC

Q - Jon Brandt {BIO 5506998 <GO>}

Hi. Good morning. Thank you for the opportunity. I just wanted to get your views on 2014 in terms of demand in the sector, just given it's somewhat of a unique year with elections and World Cup. Are you expecting anything, any major demand surprises on the upside for next year?

And secondly, I just wanted to ask you about CapEx for 2014 and to clarify one of Carlos' questions, if you could give us a little bit of guidance for 2014 CapEx, maybe excluding the Puma Project.

And lastly, just in regard to the previous question, it sounded like you said that there weren't going to be -- that all the Brownfield projects would be completed by 2015. Does that mean that we won't see any more Brownfield project announcements, other than the ones that you've already announced today, until after the Puma Project? If you could just clarify those remarks, that would be great. Thank you.

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A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Jon, thank you for your questions. And you had an excellent perception of our remarks. Yes, we do have other Brownfields. However, we are managing a company. And we are managing a company that is about to embark in a major investment project and it is only natural for us to do things in different phases over time.

In 2014, we will have many Brownfields coming on stream and we are talking about five or six Brownfields becoming operational. And this will give us great joy in terms of cash generation and results in 2015. We will be concentrating the Company on the execution of the Puma Project. And we are not going to force indebtedness, additional indebtedness.

I'm not saying that there will be no Brownfields. This is not what I'm saying. It depends on where, under which conditions, everything in a very balanced manner. I'm just giving you the rationale that we will be using over the next few years. Exceptions might happen. But they will be exceptions to the rule.

Q - Jon Brandt {BIO 5506998 <GO>}

Thank you.

Operator

(Interpreted). Juan Tavarez, Citigroup.

Q - Juan Tavarez {BIO 15083199 <GO>}

Hi. Thank you. Good morning, everyone. My first question, just to touch on CapEx, I know you're mentioning a couple of debottlenecking projects and I'm curious on the most recent one that was approved. Is that CapEx included in the initial guidance you gave us for this year of around BRL750m. And if not what is the amount of CapEx that will be attributed to that project?

And then my second question is regarding costs. I know earlier this year you mentioned that you had several cost initiatives, essentially targeting a cost base of close to BRL400m. I'm wondering if you can give us an update there on the progress. What is that cost base today and what other initiatives are in place to continue to reduce that cost base?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Regarding our CapEx for 2013 and 2014, in fact many of these Brownfields, especially debottlenecking of M9, they were not in our budget but they are mainly to be spent in 2014. Everything that was not included in the guidance will lead to expenditures mainly in 2014. And 2013 is about to end and what we have not spent now we will be spending at the beginning of 2014. So you may take into account the fact that our investment guidance for 2013 continues to be valid 100%.

Your colleague from HSBC asked me about CapEx for 2014. And on purpose I didn't talk about it because we are exactly discussing our budget right now and I do not wish to give

you visibility that might be different from the one that we will have in our internal exercise. And as soon as our Board of Directors approves our investment for next year, we will be sharing this information and the investment guidance with you.

But in 2014, what we will be doing is the Brownfields that we mentioned. They are small. For instance, the debottlenecking of M9 means BRL96 million expenditure net. So this is nothing major regarding investments. And this is why the return on these investments is very high.

Regarding our cost structure and the cost cutting projects, in forestry we are already obtaining ongoing gains from our cost reduction process and the total reduction has been some 10% to 15% a year, based on the previous year. And part of that is consumed by inflation itself. We have around 10%/15% a year in cost reduction in forestry. And we delivered this last year and we are delivering this this year.

In the case of boxes, the exercise is being accelerated right now and most of the results from this will be seen in 2014. This year, we don't have a lot to show in cost reduction in boxes. And it is offset by the fact that we are selling much more boxes than we sold last year. So I believe this would be my answer to your question.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Great. Thank you, very much.

Operator

(Interpreted). Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

(Interpreted). Good morning, everyone. Thank you for the question. The first one has to do with the sack kraft market. Could you talk about 2014, how much we could expect from the 80,000 tonnes? Can we work with full capacity, all this becoming sales in 2014 already?

And the second question, Fabio, you talked about the Puma Project and it was very clear that many decisions depend on the market. I would like to know if the decision regarding your capitalization could have an impact on other actions, be it the creation of units, or are they totally independent?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Thank you for your questions, Renato. Regarding sack kraft, all machines have a ramp-up period. They start operation, as Sergio mentioned, in mid-November. And of course 100% will be around mid-2014 for this machine. So we will not yet have the 80,000 tonnes available. It will be a little bit less.

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And the advantage is that today we are buying a lot of sack kraft in the market because we do not have enough capacity to meet the demand that comes to us. And of course, this machine already starts with most of its production already placed in the market. And currently export markets are better today than they were when we planned for this machine. The price of paper in dollars is higher than it was and also, due to the exchange rate that is better as well. So we should be selling everything, be it in the domestic market or exporting the difference.

Regarding the interplay between the way we'll be choosing our capitalization and the restructuring of Klabin in terms of shareholdings, we believe that there is 100% correlation because we were careful enough to place a reversibility clause. And nothing is valid if capitalization does not occur. And by capitalization you should understand both equity issue and debentures issue. And debentures, if they are issued, they will be converted into the units and as a consequence, in fact, it is as if we were issuing shares.

Q - Renato Antunes {BIO 17439917 <GO>}

(Interpreted). Thank you.

Operator

(Interpreted). Marcos Assumpcao, Itau.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(Interpreted). Good morning. Congratulations for the result. Regarding the coated board business, Fabio, what about the upward trend in prices, not only for Klabin but also for competitors? Do you believe that the price increase that we heard about and we saw over the Third Quarter, is there an impact on the result of Q3 or not?

And could you please compare profitability from coated board and kraftliner between the domestic and the foreign market? If you consider BRL2.2 exchange rate, do you continue to be flexible in terms of selling here or abroad with a similar profitability?

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

(Interpreted). Marcos, thank you for your questions. Regarding the price increase for coated board, the answer is that there was a zero effect in Q3, none whatsoever.

Regarding the exchange rate, whether it makes exports more feasible, yes, at profitability conditions very similar to the domestic market and the average in terms of foreign -- average exchange rate that we export at is not very different from the one that we have now. So the difference was really very small between one and the other. And Klabin continues to have the alternative of doing either one or the other, whatever is best from the Company, for the performance of the Company and for the services delivered to the clients.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

(Interpreted). What about the volume of wood? We see an improvement in the construction market in the US and the exchange rate is more favorable. So could we see the volume of wood at the same levels as Q3 or even higher?

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

(Interpreted). I think so. As you said yourself, the markets are quite sound. The problem of extracting logs for sawmills has to do with weather conditions, to a certain extent. So if we have minimally acceptable weather conditions, the figures should continue as they are today, weather permitting.

Operator

(Interpreted). Diogo Miura, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted). Thank you for the opportunity and congratulations. This is Marcelo Aguiar. Two questions. Fabio, could you talk about how many days after the Board approves your proposal do you believe you will be placing the debentures or issuing the debentures? Are we talking about 60 days after the meeting or 90 days? This is my first question. No, this is Marcelo, not Diogo.

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Marcelo, I don't know because it will depend on the path chosen. Debentures have certain rules because of preemptive rights and the public offering has other rules. What I can tell you is that the process will start immediately after the meetings are held and they will end as soon as the calendar ends, having taken into account the modality chosen.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted). I would like to know the future strategy of the Company. A lot is said about the new coated board machine in Monte Alegre and I know that your focus is on pulp right now because it's a major project. And your idea would be to start up the machine, well, start the investment when you're still investing in pulp, or the CapEx for the paper machine will start only when you finish the pulp investment or when the project reaches 100% capacity?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Thank you for the question. Regarding the coated board, let me explain to you. Nobody makes a coated board machine without being supported by a very large contract, purchasing contract. Depending on the contract, the machine is self-financeable, self-fundable. So to say, based on the contract.

And the timing has to do with negotiations with our main client. When and if we reach the end of this negotiation, the coated board machine will exist. And if we do not reach an

agreement we will not have the machine. And as I believe both parties involved are very interested in seeing this happening, my expectation is positive.

And what I am trying to explain to you is that, regardless of any other factors, because the contract itself serves as the funding instrument for the coated board machine.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted). Well, just to make it clear. So you would be expanding your coated board at the same time as the pulp, regardless of the leverage of the Company?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Again, it depends on the contract that we sign with our client. If we have a contract that can be used for the purpose that I mentioned, yes. If the answer is no, then no. I cannot tell you right now. It will depend on the conditions. And we can only cross this bridge when we come to it.

But, Marcelo, for your future ideas, I think you should take into account that our business plan and the strategic view for Klabin post 2016 and 2017, when we have our investments maturing, our expectation is that the sale of short fiber pulp for Klabin will represent approximately 10% of our sales.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted). Okay. Another question, thank you, about CapEx for the debottleneckings. What is the CapEx that is necessary for the Goiana machine in Pernambuco and also for the two Angatuba expansions?

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Marcelo, the CapEx for Goiana is BRL300m, partially paid for in 2013. The DBN of M9 is BRL96m. And for Angatuba and Piracicaba something about BRL50 million for these debottleneckings.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

(Interpreted). Thank you, very much. And congratulations for the results.

Operator

(Interpreted). I would like to give the floor now to Mr. Fabio Schvartsman for his closing remarks.

A - Fabio Schvartsman {BIO 2067677 <GO>}

(Interpreted). Thank you, very much for your presence in our earnings conference call for the Third Quarter. The Company continues to follow its path that we have already discussed with you before. And everything points to a very strong Q4, everything points to our capitalization process being successful. And as a consequence we will go ahead

with our Puma Project. We were very fortunate to find many Brownfields in the Company. And all of them will produce additional results for the Company.

So we are following a very positive track for the evolution of Klabin's results, quarter after quarter and also for the next few years. And as a consequence, I would like to count on your presence in our next call, because I think we will be able to tell you even better news than we are telling you today. Thank you.

Operator

(Interpreted). Klabin's conference call is closed. We thank you very much for your participation and wish you all a very good day. Thank you.

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