

## Q4 2016 Earnings Call

### Company Participants

- Eduardo de Toledo, Chief Financial Officer & Investor Relations Director
- Fábio Schvartsman, Chief Executive Officer

### Other Participants

- Bruno Giardino, Analyst
- Ivano Westin, Analyst
- Jonathan Brandt, Analyst
- Juan G. Tavarez, Analyst
- Karel Luketic, Analyst
- Leonardo Correa, Analyst
- Lucas Ferreira, Analyst
- Lulica Rocha, Analyst
- Marcio Farid, Analyst
- Thiago Lofiego, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, and welcome to Klabin's Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session, when further instructions for you to participate will be given.

As a reminder, this call is being recorded and broadcast live via a webcast and may be accessed at <http://cast.comunique-se.com.br/Klabin/4Q16>, where the presentation is also available.

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

With us today in São Paulo, we have Mr. Fábio Schvartsman, CEO; and Mr. Eduardo de Toledo, CFO and IRO. Mr. Schvartsman and Mr. Toledo will comment on the (01:50-01:57)

## Fábio Schvartsman

...cost reduction mainly in the Puma Unit that has been growing consistently and reaching stabilization and also in our paper unit. So these are the main drivers that we had in this quarter. So, strong reduction in costs in the period.

Besides, I would like to reinforce the excellent performance of our conversion areas, both for corrugated boxes and bags that in the fourth quarter of this year delivered a 4% growth in volume whereas the market dropped by 4% in corrugated boxes and 12% drop in the period. The cements market according to the association.

The ramp-up of Puma is as expected. In December, it reached 85% of its capacity on the average of the fourth quarter, 80% of its capacity. This was exactly what we expected for the period.

Finally, I would like to make a special mention to our evolution in the production of fluff because after the approval of the product by many clients, for the first time in the fourth quarter of this year, we had significant sales volume of fluff and we reached 29,000 tonnes in the period. Very well. So this has to do with 2016.

Now, let's say a few quick words about 2017. 2017 will be very different. 2016 was the start-up of Puma and stabilization of Puma. In 2017, our focus is much more on efficiency on looking for results and we expect Puma after the stoppage in March may reach its nominal capacity.

We have many high return projects in our pipeline being discussed by the company and right now, we already have 15 of these projects approved with a total investment of BRL 223 million and BRL 100 million additional EBITDA when the projects are started.

And I would like to make a special mention to a new bag line (04:35) a cleaner of the fiber line in Ortigueira and two new printers replacing five in our Piracicaba unit. These three investments together amount to BRL 120 million of the BRL 220 million (sic) [BRL 223 million] (04:51) that I mentioned and with approximately BRL 60 million additional EBITDA to be produced by these three investments.

Besides, we are working very strongly on cost reduction with Professor Falconi on our paper units as well as our Forestry unit and this should add three-digit cost reduction to the company. Also, regarding SG&A, they should be kept constant in real terms although - or in spite of the fact that Puma started operations in March/April last year and this happens because especially the corporate expenses will be dropping significantly during this period.

Of course, as we have been repeating, we're working to grow our participation in the fluff market, and this should be gradually achieved during 2017. Also, we would like to reinforce the fact that prices have been behaving mainly in pulp in a better fashion than last year and especially in China where we can see very clearly a very strong demand for pulp in general.

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Finally, I would like to make a few remarks about some news already at the beginning of this year. First, there has been a very strong change in the outlook for the world market of kraftliner due to the growing demand from the U.S. market due to the production problems in some units. The fact is that the supply/demand equation has been very strongly impacted and we see a very strong increase in the prices of kraftliner all over the world. So much so that, should this process confirm itself, Klabin once again will consider the possibility of increasing its exports, tapping into this moment of a heated demand from other markets.

Also, I would like to highlight the fact that ABPO in its review of January should already show a growth of 5% in volume in Brazil vis-à-vis January 2016. And even more important than that, Klabin has already achieved growth in conversions both for corrugated boxes and bags higher than two-digits in volume. And this is something that gives us a lot of satisfaction because it not only represent the corrections of the measures taken, such as the acquisition of Embalplan and Hevi, and it also shows that our performance in the market has been consistent.

And I confirm that the intake of orders for February and March shows that this is not an isolated phenomenon in January; rather the opposite. We should expect a very good news for our conversions in February and March as well.

And another positive factor that should be highlighted was the reduction of Puma in the last month of January. Of the 85% that Puma has reached in December; in January, it reached 93% of its capacity already. As a consequence, we are on the right track as we wanted to be and this adds vis-à-vis the December production over 10,000 additional tonnes for the company of output. And together, with the increase in production, of course, we have cost reductions, which is only natural in this kind of environment.

So, it is with great satisfaction that now I give the floor to my colleague, Eduardo de Toledo, who will make remarks about the finances of the company. And it's very good to start the year on such a positive note rather differently from the last year in Brazil in which the news were not so good. So, Eduardo, you have the floor.

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

Good morning, everyone. Thank you for participating in Klabin's conference call.

I would like to make a few remarks about the slides of the presentation. So starting with volume on slide number 3, if you want to refer to it, you can see that the fourth quarter, the total volume sold by Klabin reached 777,000 tonnes, 56% more on a year-on-year basis, driven by sales of pulp from the Puma Unit. And, in 2016, for the total year, the sales volume amounted to 2.650 million tonnes, 45% higher on a year-on-year basis.

Regarding the sales of paper and packaging, they amounted to 475,000 tonnes in the quarter, 5% lower than the fourth quarter of 2015. This reduction comes from the strategy that the company adopted to reduce the use of recycled paper in this quarter. It was a strategy for this quarter.

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And sales of pulp in the first (11:13) quarter of operation of this unit amounted to 301,000 tonnes, in line with the production volume, 308,000 tonnes. So sales are very much in line with the production volume in the fourth quarter of 2016 in pulp.

With the new wholesale, the total exports were 54% of the overall volume sold, comparing this to 38% in the fourth quarter of 2015. Net revenue in the fourth quarter of 2016 reached BRL 1.964 billion, a 23% growth vis-à-vis the same quarter last year. And for the year, net revenue was BRL 7 billion, 25% growth vis-à-vis 2015.

Now let's go to slide number 4. The unit cash cost of the pulp production for hardwoods, softwood, and fluff fibers in the fourth quarter of 2016 was BRL 768 per tonne, a drop of BRL 13 per tonne on a quarter-on-quarter basis.

Over the quarter, the Puma Unit took ramp in its – on its learning curve, as Fábio mentioned, evolving in all the technical aspects, highlighting the reduction in the cost of fibers and also the increase in the net generation of energy. And these two evolutions allowed us to absorb the cost increases from the events, which are non-recurrent and also regarding salaries. And considering this doesn't hold, the unit cash cost reached BRL 1,700 per tonne, a reduction of 16% vis-à-vis the same period last year, explained basically by the dilution of expenses from the increase in our sales.

Now, going to slide number 5, we show the EBITDA evolution, and in this quarter, we had BRL 653 million, 8% growth on a year-on-year basis. For the year, the EBITDA was BRL 2.287 billion, a 16% growth vis-à-vis 2015.

Going to slide number 6, the consolidated net debt of Klabin was BRL 12 billion at the close of December. Thus, the net-debt-EBITDA ratio was 5.2 times, which is in line with the third quarter of 2016 and represents an important reduction vis-à-vis 6.3 times that we had at the end of 2015. It's important once again to mention that Klabin has no financial covenant linked to its debt, which means that these indicators have no significant impact on the company's general position.

Now, slide number 7. Here, we talk about investments. Klabin invested in the fourth quarter of 2016, invested BRL 511 million. This is a high level of investment because there's still an important part of investment from the Puma Project in this total, BRL 172 million, which means that one-third of the investments made were made in Puma, still.

Also, during this quarter, this figure was impacted by the acquisitions of Embalplan and Hevi, as we said before. For the year, total investments were BRL 2.6 billion and the main ones were the investments made in Puma BRL 1.7 billion in this year.

Now, going to slide number 8. As Fábio had mentioned, here we show that most of the company strategy regarding progress and investments is based on high return investments that already amount to over BRL 200 million, as Fábio mentioned.

Well, these are my remarks. Now, Fábio and I will be available to answer your questions.

## Q&A

### Operator

Our first question comes from Thiago Lofiego from Bradesco BBI.

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

Thank you and good morning. I have two questions. About Puma, Fábio, could you talk about the performance of the cash cost? Regarding our expectations, this is slightly lower than the potential and we understand that you will have general stoppage in March and we will get to a lower level after the stoppage. But is this figure in line with what you expected some quarters ago? And you talked about 93% capacity in Puma today, so what is the cash cost that you have in January. Just to understand if you've already improved your cash cost?

And my second question has to do with your strategy in the next steps towards growth. The new coated board machine, we know that you have some potential market in order to sell your products, and the United States could be one of them. But with the new administration in the U.S., do you believe it makes any difference and you will be focusing on other options, or would you continue to consider the U.S. as a target market in this new political face of the United States?

#### A - Fábio Schvartsman

Thiago, thank you very much for your questions. First, about Puma and the cash cost. The cash cost of December was much lower than the fourth quarter already because, in December, we reached a level of utilization of capacity that was higher, and we are learning how to operate Puma in a more efficient fashion.

Needless to say that the drop in January is even more significant, so the drop in costs that we will be delivering is very relevant. However, I cannot quantify this right now because they are not available yet for the market, but you should be expecting new drops.

And after the general stoppage in March, we will have the last fine-tuning so that we may operate in normal conditions regarding the utilization of our capacity and the cost of our operation. Everything points to the fact that the operation will be (19:14) according to plan once we get to the normal levels of operation.

Regarding the strategy and the coated board machine, I thank you for the question. It's important to clarify that the coated board machine is totally different from the pulp sludge (19:35). A pulp is just commodity and provided you (19:38) effective market price, you accept and that's it. And the coated board market is much smaller and our main coated board is for liquid packaging, which is a very small market in itself. As a consequence, you cannot make an investment in a coated board machine unless you have a very strong guarantee that you will have clients that will be buying the production from this machine, and this is the way we're working.

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We are negotiating with our clients. And the negotiation come to a point in which we are absolutely sure that the demand for this machine will be taken in order to make the investment profitable, then the investment will be made. And the only question I cannot answer yet is when the investment will be made. I can guarantee that the investment will be made, it is still in our strategy.

And it's funny that you should mention the United States and the changes - the political changes and this world has been going never in a straight line. Things are changing very quickly and a lot. So it's very soon to say anything about consequences and impacts of the U.S. politics. The fact is that Klabin coated boards, when the new machine is operating, it will be much lighter than the equivalent product, which is manufactured in the United States. So, with major gains in this regard that by itself could justify being purchased by the clients and our production - our production cost will be much lower than the production cost in the United States which makes it totally feasible. However, we have to wait and see what happens in the United States sales (21:44) regarding imports.

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

Okay. Thank you very much. Perfect, Fábio.

**Operator**

Karel Luketic, Merrill Lynch.

**Q - Karel Luketic** {BIO 16467278 <GO>}

Good morning, Fábio and Eduardo. Thank you for the question. I have two. One is a follow-up for Puma. Could you give us a guidance regarding your volume expectations for this year for type of fiber, if possible, breaking down? And the second, Fábio, you mentioned that the cost reductions come from Falconi's consultancy, and you have a possibility of three-digit reduction. So, when do you expect this to happen and from where will these cost reductions come?

**A - Fábio Schvartsman**

Well, let's start with Puma. We will get very close to the nominal capacity after the stoppage in March, so it's very easy to make the math. Take into account the fact that we operate at 93% capacity in January, there is no reason whatsoever for February to be worse. In March, we will have the stoppage and then we expect to reach nominal capacity after the stoppage. And by making the math, my math - well, your math will be as good as mine, okay? And with the additional benefit because the costs will come down as well.

Regarding the cost reduction initiatives, we have two groups of actions, so to say. One is actions at the plant, which is something that started last year already, and half of the amount has already been tapped into in the ramp last year and the other half will happen over the few months of this year, which means that most of the benefit will be obtained right at the beginning of this year.

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And the second part of Falconi's work is with forest area and the logics are very simple here. At Puma in Paraná, we've doubled the size of our forestry operation. And as a consequence, there are countless opportunities to maximize efficiency and optimizing efficiency. And this is where we will be focusing and this will bring about very strong results as of the fourth quarter of this year, but we are talking overall about very significant figures from now on.

**Q - Karel Luketic** {BIO 16467278 <GO>}

Thank you.

**Operator**

Lucas Ferreira, JPMorgan.

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

Good morning, everyone. Fábio, I have two questions. One has to do with cash generation and the other one about the company's capital. What about cash generation and your leverage you had in the fourth quarter – so burning a little bit of cash maybe because of the high CapEx. So maybe you could talk about additional payments for Puma or if the CapEx will be dropping from now on and you will start generating cash.

And regarding your capital structure, Klabin has always had a very high cash. And now with lower interest rate, will you be maintaining the same cash level? Will you be maintaining a higher liquidity because of new projects? And I was curious about your initial remarks that I thought was much more positive regarding demand from the Brazilian market. What is driving this increase in demand? Is it because of industrial production, the economy as a whole, and what kind of impact could that have? If you talk about prices, do you believe this will have a positive consequence, or maybe some other companies will be coming back to the market and flooding the market with corrugated boxes?

**A - Fábio Schvartsman**

Lucas, thank you for your question. Let's talk first about the more interesting issue, which is the Brazilian market. There are three factors here that have to be contemplated. The first one is an improvement in the demand from this market in general. Secondly, in the case of Klabin, it has to do with the acquisitions that we made, and the operations are going forward faster towards the volume that we were aiming at. And thirdly, a very good performance of Klabin vis-à-vis large accounts. Klabin works with key accounts, large accounts, and the major Brazilian companies have been buying from Klabin more recently.

So I cannot say that if this already represents a Brazilian recovery of the economy from now on. But what I can tell you is that the only factor that I have in my hand (27:18) which is the inflow of orders for Klabin continues to be very strong in February and March, which means that the outlook is very bullish for Klabin. And the price effect will be favorable

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because OCC – comparing to the same period last year, OCC has a much higher cost and that seasonally the economy becomes more active.

As of March, the price of OCC will tend to go up and the cost of manufacturers that use recycled paper will be under pressure. And I am sure that this will be translated into a need to increase prices in the market as a way to offset this. Otherwise, they will not be able to cater to the market. You cannot cater to the market by destroying cash, which would be the consequence should we not see an increase in prices. So, the scenario in this combination of a strong demand and high OCC prices is a scenario of price increases undoubtedly.

And in the fourth quarter, regarding our leverage, there were non-recurring factors that drive demands in Puma and mentioned what – it was a correct decision to acquire these companies because our goal is to represent the disbursement that starts to bring our EBITDA very quickly to the company, so you deleverage even faster. Besides, over the year, we change the way we pay our income tax from a core basis to cash basis, and this led to an extemporaneous payment of income tax, but this means that we will no longer be paying income tax because of this change. So these were the main factors that led us to have a higher outlay in the fourth quarter.

Of course, they are no longer present as of now. Things (29:35) get into a natural deleveraging process. The deleverage of the company will happen in any scenario – any scenario of exchange rates, any price scenario, it will happen. It could be more intense or less intense depending on the impact of these factors, but deleveraging will happen in a faster manner as of now and we have to – of course, the high return investment that we mentioned, although they represent some cash disbursements, very quickly, they bring more EBITDA to the company. So I believe we are in a very interesting situation.

And then you asked us about our cash position, I do agree with you that our cash position on Klabin has two reasons to exist (30:38). The first one was the Puma Project. Because we had to work with a huge cash availability in order to avoid any kind of problem during construction and also the advantage of arbitrage because we are able to attach (30:55) and at a very low cost in the international market and even at very high interest rates in Brazil. So, everything points to the fact that we should be working with a reduction in our cash position, coming to comfortable levels, of course, but not as high as what we have so far.

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

Thank you.

**Operator**

Leonardo Correa, BTG Pactual.

**Q - Leonardo Correa** {BIO 16441222 <GO>}



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Good morning, everyone. Thank you. The first regarding export market. Fábio, initially you mentioned the price increase of kraftliner in the international market, and based on what we see, they went up by 5% almost in a window of one year, still lower, with a drop, with an upper trend now. What about the relation of that with the exchange rate depreciating more significantly now and a possible additional flow in the next few months, which could bring more pressure on the exchange rate? So how can you conciliate the increase in your export and maybe the exchange rate going towards BRL 3 to the dollar?

And some other questions, if you allow me. Based on your answer regarding the Puma capacity utilization close to 100% in the year and in the first quarter, it will be slightly lower, but the volume - regarding fluff specifically that depends on certification and maybe has a higher degree of uncertainty, what is the level that you expect for fluff in 2017? And CapEx, you mentioned BRL 220 million in small projects, additional, and I would like to have some indication of CapEx for 2017.

### A - Fábio Schvartsman

Leonardo, let me start by the CapEx. The CapEx for the year would be BRL 950 million. We have investments in (33:19) which is normal, in forestry as well. We have these high-return projects. And although I tell you that we have over BRL 200 million approved, this disbursement will not occur during the year. Only part of that will occur during the year. And there are some little things that we still have to pay for the Puma Project, and they will be paid in the first half of 2017 as we have the formal delivery of each piece of equipment for this plant. So this is my answer to your question about investment.

Now, going back to kraftliner exchange rate, et cetera, I would like to draw your attention to the fact that the 5% increase that you can see is in the past. Right now, the increases are much higher than that. And this is the reason why I can tell you that there will be some action by Klabin regardless of the level of the exchange rate in terms of increasing our exports because the market will pay whatever they have to pay for in order to supply themselves.

As what we have today in terms of available capacity, it's not able to cater to the whole demand of the market, and this is a general situation - worldwide situation. And as we are operating every single day in this market, I can guarantee to you that the final prices are reacting much more intensely than the 5%. And this will become more clear as months go by and as you get information regarding the level - the price levels that are being practiced. This is a phenomenon that we see beforehand because exactly of the orders that are placed to us. And the orders that we receive today represent that we will be paid in 30, 60, 90 days. So it's nothing right now.

And fluff - regarding fluff, we have a target and we disclosed this during the APIMEC Meeting and we are working in this direction. The contracts that we have show that we will get there and we are increasing - every quarter, you will see a significant evolution of our fluff sales vis-à-vis the previous quarter. This is a ramp that will lead us to very high production and delivery of fluff volumes during 2017. I would rather not give you exact

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figures because exact figures are impossible to guarantee as we see the normal oscillations, variations, the supply system.

## **Q - Leonardo Correa** {BIO 16441222 <GO>}

Thank you.

## **Operator**

Ivano Westin, Credit Suisse.

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

Good morning, everyone. Thank you for the question. The first point has to do with the strategy for M&A. You made it very clear that Embalplan and Hevi represents an important step in the company strategy. You gained installed capacity and clients and this confidence at your client base and also gains in synergy and logistics. So what could we expect from now on? Similar transaction, small acquisitions? Is there a level of indebtedness that would be a trigger to postpone other acquisitions? You talked about this, Fábio. Could this lead you to make new acquisitions and what is the outlook that you have for pulp and paper?

## **A - Fábio Schvartsman**

Not (37:25) about acquisitions. Yvonne (37:30) it's important to make it very clear that our number one target is to reduce our leverage. This is normal after the huge investment that was necessary over the last two to three years. And when we make investment, seriously, the high return investments as well as the acquisitions of Embalplan and Hevi, we see this as deleveraging of the company because I can say a price and gain synergy in such a way that I ultimately produce more EBITDA proportionally.

So, the rationale continues to be the same. We look for projects that may give us this kind of return. Well, let us agree that these are wonderful projects and all the ones that can find, we will be doing. But it's difficult to find these projects because you have to look for them, because you have to guarantee the level of return. That is our target. So it will be made even more clear in the evolution of our results. So I can guarantee to you, if we find projects that continue to deleverage the company, undoubtedly, we are going to go after them. They are all small projects, they are negligible from the viewpoint of the whole company, but they help accelerate the generation of EBITDA.

You asked about - there is a very strong demand from China for all kinds of pulp and this has translated into price increases. This is not the same situation in the U.S. market and neither in the European market. What we see is that traditionally, prices were slightly lower when you discount everything that you have to discount in China than in these other markets. And now, what we see is that they have already reached a balance. And if this continues, China will go beyond these other markets in terms of the net prices and this will lead to a reaction from these other markets.

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As you can imagine, in the U.S. and the European market, there is no big boom of pulp demand that might lead to an increase in demand. And in China, due to the effect both of the stable growth of the economy as well as the anti-pollution measures that led to shutdown of less efficient plants and (40:35) all kinds of raw materials and also due to the increase in the world OCC prices, all this made the Chinese use pulp instead of OCC in some cases. So, the scenario is not a trivial one, but with a stronger China and the Rest of the World maybe coming after China.

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

Thank you, Fábio.

## Operator

Marcio Farid, UBS.

**Q - Marcio Farid** {BIO 21017394 <GO>}

Good morning, everyone. Thank you for the question. Fábio, you talked about corrugated boards. What is your view for coated board in Brazil? What about this first month in terms of demand? And what do you expect for the next two months? And regarding OCC, you talked about high prices in spite of the recent correction of prices. What is your outlook for OCC prices looking ahead for the next two quarters?

**A - Fábio Schvartsman**

Thank you, Marcio. We believe that OCC - well, it does have the seasonal drop in January and February, but it dropped to much higher levels than the previous January and February. So we believe that as of March and April, OCC should go beyond BRL 700 and maybe going to BRL 718, which was the previous level. So this is our outlook for OCC prices in Brazil.

With relation to coated boards, this situation of coated board is more (42:31), so to say, because we have rigorously the same installed capacity that we have, and we sell everything that we produce. So the only variation that we have is when we are able to expect a little bit more production from the machine, which is happening now. 1%, 2%, 3% more in output. So it has nothing to do with demand, but how much I can take from our machines in terms of output. And we are having this slight increase in our capacity or utilization of capacity. And as a consequence, this is what we will be delivering to the market. We have demand for everything and more. So there is no issue regarding demand for coated board.

**Q - Marcio Farid** {BIO 21017394 <GO>}

just to follow up, can you quantify your growth - organic growth without the acquisition for corrugated board?

**A - Fábio Schvartsman**

Yes. Nevertheless, this is not public information. I apologize to you, but I will not be able to give you this information.

**Q - Marcio Farid** {BIO 21017394 <GO>}

Thank you.

**Operator**

Bruno Giardino, Santander.

**Q - Bruno Giardino** {BIO 15974970 <GO>}

Good morning, everyone. Fábio, about the coated board machine. I think the concern is more regarding supply and demand. So, is there a leverage condition in which we would consider making this investment? And what about import tariff for fluff that is sold in the local market?

**A - Fábio Schvartsman**

Regarding the coated board machine and demand, it's very simple. As I said, if I had to sell 50,000 tonnes more or 100,000 tonnes more, that would be child's play. If I place a machine with 0.5 million tonnes, it's not 50,000 tonnes or 100,000 tonnes. Here, we are talking about selling significant volumes that make the machine profitable. And the only way to do this is when you have very firm and strong contracts that eliminate this discussion about leverage because as we will be able to finance this plant based on the contracts.

So, the issue with the contract, this is the reason why we have been working on that. And by having strong contract, then we solve this problem. If we don't have strong contracts, the machine will not have the guarantee of being profitable. And this has nothing to do with leverage. I have to be sure about the return from this machine.

If you remember, Bruno, when we did the Puma Project, we were careful enough to make it self-sufficient. It has drying capacity for the whole pulp that we produce so that we are not obliged to make an investment in integration. Integration is an option for Klabin, and the option has to be used with intelligence that is to save when you have the right conditions in place.

You asked about import tariffs. Fluff right now is protected by tariffs similar to other papers produced in Brazil, about 14%.

**Q - Bruno Giardino** {BIO 15974970 <GO>}

Thank you.

**Operator**

Jon Brandt. Next, question, Jon Brandt, HSBC.

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

Hi. Good morning, everyone. Two questions for me. The first is on Puma. It sounds like you're going to get to 100% utilization in April. I'm wondering if this is something that you potentially debottleneck up to 1.6 million tonnes or 1.7 million tonnes in a bid (47:23) that decision that could begin (47:25) this year?

And then, secondly, just on the kraftliner market, I'm hoping you can comment a little bit more on the export and the reason behind some of the supply issues (47:39) foreseeable future. As well as, you mentioned the 5% price increase in the kraftliner was backward looking. (47:50) or even looking at the prices today (47:52) in the next month or two (47:57) are you looking at similar levels of profitability or would you (48:04) domestic market a little tighter? Thank you.

### A - Fábio Schvartsman

Jon, I will answer whatever I was able to understand from your question because the sound was horrible. And maybe I got the gist of your question. And if I'm not answering your questions, could you please repeat them?

First, regarding the Puma Project and the debottlenecking, our internal study shows that it's only natural to expect that Puma could reach 1.650 million tonnes of production capacity with very small investment. And this means something around \$15 million in investments at some point in time. With that amount, we could reach this level.

Of course, this is in our plan, but one step at a time. This is the way we do things here at Klabin. First, we have to work very well with nominal capacity to optimize our cost and have a very balanced and streamlined operation so that we could push it further. So, this is our next target regarding Puma.

Regarding the kraftliner, and this is where I could not understand your question, maybe you want me to share with you our view of the world market for kraftliner. Jon?

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

Yeah. I'm basically wondering...

### A - Fábio Schvartsman

As you don't live in Brazil, you probably have a better view of the market situation than we have. But specifically, what happened is that the demand for corrugated boxes in the U.S. has been extremely high for some time already, and this is totally decreasing the availability of this kind of paper in the U.S. market. And U.S. producers are the main suppliers to European markets and to other world markets that have a high demand for kraft. But the gradual reduction of the U.S. producer from its presence in the other markets has been causing this phenomenon of growing prices. And the recent problem that we saw in Pensacola ultimately led to a critical situation of very low supply and it became a very difficult situation because there is no more kraft capacity in the world to meet the demand. And this is what has been driving prices up.

Now, what will happen from now on depends on what is expected from the U.S. demand. If this forecast is confirmed that the U.S. market will continue to grow in 2017, the situation will be further aggravated. The price will tend to go up consistently. And what we see based on the orders that we have been receiving is that this is a client view that basically they are accepting very substantial price increases just to guarantee there are supplies.

I'm not sure I have answered your question. Please...

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

Yeah. I mean, I guess, I'm wondering about the different levels of profitability between Brazil and the export market for kraftliner, given the increase in export prices, is it similar or is it through a (52:16) discount to sell in the international market?

**A - Fábio Schvartsman**

Right now, it's already advantageous to export. This is the answer to your question. With the exchange rate and the orders that we have been receiving, it is already advantageous to export. And this is the reason why we are continuing with the process that we had interrupted a few months ago because of the exchange rate reasons and also because of the kraftliner prices that dropped in the past. And now, the situation is exactly the opposite.

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

Great. Thanks, Fábio.

**Operator**

Next question in English, Juan Tavaréz, Citibank.

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

Hi. Thank you. Good morning, everyone. Just one question on my side. During your comments that you made about an improvement in local demand, I'm curious across your products when you look at boards, boxes, paper and bags, which of these segments are you actually seeing the most strength in? And, I guess, maybe putting it into context of your recent price increases, which of those price increases, if you could just remind us the amount that you've increased, and have you started to see some acceptance already of those price increases? Thank you.

**A - Fábio Schvartsman**

Juan, thank you very much for your question. The paper markets where it (54:02) have operations in Brazil are the corrugated box and paper corrugated boxes and bags for cement and other kinds and also the coated board. Each one of the three have different situations.

Coated board, I have already answered that (54:22) product has a very high demand both in Brazil and abroad, and it has to do with availability of our capacity. So, it's difficult for

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me to say what we see regarding demand because we always have a problem of catering to the already existing demand. So I cannot identify very clearly if demand is stronger or not. In terms of bags, especially cement bags, the cement industry in Brazil is going through extremely difficult moments and what is going on is that export of bags and therefore from our conversion area have been increasing extraordinarily both to Mexico and to other countries in South America, and also to the U.S., and this is why we see this major increase in our bags area.

Now, our corrugated boxes area only supplies Brazil, and this is the area that I said is behaving better than we expected. And, obviously, some percentage points of growth beyond what we expected for the beginning of the year, so this is the good news that comes from the economy. And our corrugated boxes are used in many projects in Brazil, which is usually a very good indicator. So the corrugated boxes market is very good.

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

Okay. If I can maybe ask one follow-up just on leverage. You mentioned on the M&A front that you would want to be in a better leverage scenario. What would be your ideal net debt-to-EBITDA? And maybe putting into context as well of this year with the Puma ramp-up, assuming less but no (56:29) further volatility in the FX rates and oil prices, where do you see ending this year in terms of net debt-to-EBITDA? Thanks.

**A - Fábio Schvartsman**

Thank you for your question, but it would be useless for me to try to guess the level of our leverage because it's very much affected by the combination between the exchange rate and the price of pulp. So, anything would be just guesswork. So any figure that I might mention to you could be exceeded downwards or upwards, so I wouldn't feel comfortable. I can only guarantee that in any combination, deleveraging will occur, and it will be more intense if we have a high devaluation of the real and the higher are the prices of pulp. But I am sure that Klabin, by the end of the year, will be in a very comfortable position regarding its indebtedness.

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

Okay. Thank you.

**Operator**

Lulica Rocha from Morgan Stanley.

**Q - Lulica Rocha** {BIO 16888481 <GO>}

Thank you for the question. Fábio, you talked about the new project with high return, and you said that the CapEx will not be totally disbursed in 2017. So how much should we expect to have in terms of return from these projects already in 2017? Another question, from the Puma stoppage scheduled for March, what will be the cost of the stoppage in the first quarter of this year?

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## A - Fábio Schvartsman

Let's start by the cost of the stoppage. The expectation is BRL 30 million, BRL 35 million, which is a figure that is in our budget. Regarding the high return project, most of the EBITDA will happen in 2018. If we start up the projects now, only one or two of these projects will be started up in time to generate significant EBITDA within 2017. All the others will be from 2018 on.

## Q - Lulica Rocha {BIO 16888481 <GO>}

Thank you.

## Operator

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

## A - Fábio Schvartsman

As always, it's a great pleasure to be with you and I am particularly pleased because of the better outlook that we are imparting to you vis-à-vis the previous calls. And we will continuously deliver results at Klabin, as we have been doing for quite a long time already. So, I hope I can see you during our next calls or at any other moment.

Thank you very much for your presence, and we wish you a good day.

## Operator

Klabin's conference call is closed. Thank you for participating and we wish you a good afternoon. Thank you.

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