

Q4 2018 Earnings Call

Company Participants

- Cristiano Cardoso Teixeira, Chief Executive Officer
- Gustavo Henrique Santos de Sousa, Chief Financial Officer and Investor Relations Officer
- José Gertrudes Soares, Pulp Commercial Director

Other Participants

- Douglas Dalmasi, Packaging Director
- Gabriela Cortez, Analyst
- George Leon Staphos, Analyst
- Marcos Assumpção, Analyst
- Renan Criscio, Analyst
- Renato Maruichi, Analyst
- Thiago Lofiego, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to Klabin's Conference Call. At this time, all participants are in listen-only mode. Later, we will hold a question-and-answer session when further instructions for you to participate will be given. As a reminder, this conference is being recorded and broadcast live via webcast, and that may be accessed at cast.comunique-se.com.br/Klabin/4Q18. You will find the presentation 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 target, and potential growth, our belief and assumptions based on the management's expectations in relation to Klabin's future, these expectations are highly dependent on market conditions on the general economic performance of the country, of the industry, and of international market. Therefore, they are subject to change.

Today with us in São Paulo, we have Mr. Cristiano Teixeira, Mr. Gustavo Sousa, and other officers of Klabin. First, Mr. Teixeira and Mr. Sousa will be making remarks about the operating performance of the company in the fourth quarter. Later, the officers will answer questions that you might have.

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

Cristiano Cardoso Teixeira {BIO 17567319 <GO>}

Hello and welcome to the fourth quarter of 2018 conference call of Klabin. Let's say a few words about the expectations that we had in early 2018. When we had a very clear confidence in the Brazilian economy there should be recovery and this was the beginning of 2018 and we had our highest attention focused on the domestic market as you know according to ABPO and the quarter was quite strong.

Nevertheless in May, we had the truckers' strike. And afterwards, there was a very big stress in Brazil because there is incoming elections and at the end of the year growth was below what we expected. And still, talking about the ABPO at the beginning of the year, we expected that in December 2018 for our closing, we expected 3.5% and we closed 1.6% with ABPO and this is quite representative of what happened in the domestic economy.

In the external scenario, there were strong concerns about trade, mainly the situation between the United States and China, but ultimately they did not have any impact on prices. So we closed the year with an average price in pulp and paper especially kraftliner at a very good level of average prices.

And with that, 2018 was marked as a year with EBITDA beyond BRL 4 billion for Klabin, a record production by Puma and margin 40%. So we closed the year, we are very pleased for the fact that, in spite of a very difficult year, we read very good figures.

And now I would like to give the floor to Gustavo, and then we will come back for the questions.

Gustavo Henrique Santos de Sousa {BIO 20558478 <GO>}

Thank you, Cristiano. Good morning, everyone. Let us start our presentation on slide number 3, where we show an adjusted EBITDA in the fourth quarter of 2018 of BRL 1.133 billion. This represents a growth of 33% vis-à-vis the same period of 2017. Our pulp production in the quarter amounted to 416,000 tons, a 6% increase year-on-year, which is a record production. Our revenue from sales BRL 2.785 billion, higher by 21% vis-à-vis the fourth quarter of 2017. Our EBITDA margin was 41%, our leverage dropped by 0.3 times vis-à-vis September 2018 and we closed December of 2018 with a leverage of 3.1 time and our pulp cash cost was BRL 700 per ton, 2.8% increase vis-à-vis the fourth quarter of 2017, which is below the inflation rate of the period.

Now let's go to slide number 4, and looking at our net revenue, we delivered net revenue of BRL 2.785 billion, a 21% growth comparing with the same period in 2017, mainly due to the average dollar, which was favorable, it was higher, which is more favorable to Klabin the average dollar for the fourth quarter of 2018 were BRL 3.81 vis-à-vis BRL 3.25 in the fourth quarter of 2017. Besides we had better prices in the main products of Klabin and also an increase of 2% in the volume of sales, our EBITDA closed at BRL 1.133 billion, an increase of 33% vis-à-vis the fourth quarter of 2017.

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Now going to the slide number 5 of our presentation. We will be mentioning the highlights of our main business units, starting with pulp. We had an increase in the volume of sales of 10%. We closed the fourth quarter of 2018 with a volume of sales of 399,000 tons. This increase drove the growth of 52% in our net revenue from Pulp, amounting to BRL 1.1 billion. We also had a favorable move in prices with average list prices in Europe, for short fiber of hardwood and was \$1,045 per ton which is an 11% increase vis-à-vis the fourth quarter of 2017 and for softwood \$1,223 per ton, 28% increases vis-à-vis the average of the fourth quarter of 2017.

Now, looking at our kraftliner unit, we had an 8% increase in those sales volume and we closed the volume of sales at 93,000 tons with the strong demand for packaging. The prices were historically high. The list price - average list price was \$843 per ton in Europe, which is a 3% vis-à-vis the fourth quarter was 2017 and increases in volume sales prices and average dollar bought about 39% increase in the net revenue from Kraftliner.

Now going to slide number 6 and looking into more detail about the pulp performance. We closed the fourth quarter with a production by Puma 416,000 tons, which is a quarterly record since the beginning of the operations of this unit. In this quarter, Puma produced 8% higher than the nominal capacity. The production cash cost in the fourth quarter of 2018 was BRL 700 per ton, which is a 2.8% increase vis-à-vis the fourth quarter for 2017. We had improvement in cost in personnel and services with a dilution of free cash (00:09:02) and cogeneration of energy in Puma operating with 70% of our surplus energy sold in contract and 30% in bought (00:09:15). In the fourth quarter of 2018, the average COD was BRL 166 (00:09:21) spot price and the fourth quarter of 2017, it was BRL 405 and we had an increase in cost in fiber because we bought more third-party wood and chemicals and fuel.

On page number 7, we have a view of our net debt and leverage. We closed the month of December with A gross debt of BRL 19 billion with available cash of BRL 7 billion and a net debt of BRL 12.4 billion. We also had a reduction in our leverage when measured in reais of 3.4 times in the third quarter of 2018 to 3.1 times in the fourth quarter of 2018 and when we look at the same metric measured in dollars from 3 times at the end of the third quarter of 2018 going to 2.9 times at the end that the fourth quarter of 2018.

On slide number 8 we have a view of our debt schedule. In the fourth quarter we started the strong work of liability management. In December we had - we raised in dollars going from BRL 1.9 billion distributed between 2019 and 2022 to 2025 and 2026 with the reduction in the financial cost. With that our average tenure of our debt in foreign currency was 48 months in the third quarter of 2018 going to 51 months in the fourth quarter of 2018. And this initiative of liability management continues underway right now Klabin sees good opportunities to extend the debt profile both in the domestic market and the foreign market as well.

Now go into slide number 9 where we have our free cash flow. I would like to refer to the last column to the right which is the 2018 column. We closed this year with EBITDA higher than BRL 4 billion, the CapEx of BRL 956 million, interest paid BRL 1 billion. It is important to highlight that in this figure of interest paid we have those interests regarding the fixed

debentures issue mandatorily convertible debentures of BRL 1.7 billion which had interest of 8% in dollars and that were converted into units in January 2018.

Full payment of interest referring to 2018 and also in January 2018 equivalent to BRL 180 million, and this was a financial cost that something that was a debt, and that as of this conversion in 2019, we no longer have this financial cost. We had an interest - income tax of BRL 160 million, very negative variation of working capital totally related to the increase of about BRL 2 billion that we had in sales, but had dividends and interest on equity paid amounted to BRL 840 million, and free cash flow BRL 866 million. And when we adjust this figure giving back the special projects such as the Puma, dividend and IOE we read BRL 1.9 billion in adjusted free cash flow representing a yield of 10.7% in the period for the free cash flow yield.

Going to slide number 10, we have dividends paid to shareholders, referring to 2018 fiscal year. We have payment of dividends and interest on equity of BRL 919 million, in February we will be paying BRL 270 million in dividends and interest on equity, and BRL 145 million in dividends, BRL 125 million for payment on February 22, and the additional BRL 35 million - on the 25 (00:13:48), BRL 125 million in interest on equity to be paid of February 22.

Now going to slide number 11, we have a summary of the potential transaction related to the royalties that Klabin placed on certain brands. On Monday, February 4, we published a material information and on February 6, we published another material information and on 7th of February, we published the convening of a shareholders agreement in order to decide about this issue and the transaction proposed is to issue a 100 million ONs to the company that the holder of the brand and we were talking about, BRL 344 million overall and the extension of the royalty contract that per person value (00:14:43) of BRL 702 million this represent a discount of 50%, five-zero and for the management, one fundamental point is to show that there is value creation for minority shareholders should this operation be approved by shareholders meeting, the contract will no longer exist and relatively no longer be paid and the proposal is not (00:15:14) leveraging of the company and I would like to remind you that during this meeting on March 17, we will have the ON and PM orders and there will be no participation of the shareholders that benefit from this contract.

With this, we conclude our presentation and now we would like to open for questions. Thank you very much.

Q&A

Operator

Now, we would like to start the Q&A session. Our first question comes from Thiago Lofiego, Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

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Good morning, everyone. Cristiano, can you hear me because I'm not at the office I'm using a mobile phone. Thank you. I have two questions. On corporate governance, I think this will be very beneficial, this transaction, this regard. Do you believe that in the next year or couple of years you will see more of these actions regarding corporate governance in the company considering listing in the Novo Mercado. And the second question has to do with the growth plan. Could you give us an update, please, about the company's mindset regarding making the investments that you have been talking about and what is the timeline for that, a reasonable timeline? Thank you very much.

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

Thank you, Thiago. Regarding governance, I believe that the most the important thing that should be taken into account is the pace. Today we are living in a special moment in the company. Another important step and I would even say one of the most important steps, historically Klabin has very – has always been a major player in terms of giving steps in corporate governance and this is another very important step. And this step creates a lot of value to all shareholders. And we can see that this step of on-going improvement in governance tends to continue, but we do not have any commitment on the part of the controlling shareholders or the board of directors any commitment in terms of migrating governance toward the one single class. This is not on the table. What is on the table is the pace, the improvement and gains in terms of governance. So this is where we should focus, on go improvement and not establishing steps – concrete steps.

Now talking about growth, in the Executive Committee, we have very advanced studies and we have not submitted this yet. We have – we are very motivated and we were involved in very important improvements in the project with our engineering area. So we're there. In the Executive Committee things are very advanced, but not have been submitted to the board of directors any proposal yet.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, Cristiano.

Operator

Renato Maruichi, Santander.

Q - Renato Maruichi {BIO 17847481 <GO>}

Good morning, everyone. I have two questions. The first one has to do with third-party wood cost. I think the sector is close to beginning a new cycle of investment. And the main players do not have enough forest for new plants. So do you see the price of third-party wood going up gradually in the market already? And the second question is the following. Could you give us some more details about your negotiations with the controlling shareholders that receive royalties and how did you get to the 50% discount and why paying them in shares and not in cash? And what about the end of royalties and how this impacts the claim that Klabin has about that?

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

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Renato, thank you very much. I am going to give the floor to Gustavo. He will start by talking about third-party wood and then I will be coming back.

A - Gustavo Henrique Santos de Sousa {BIO 20558478 <GO>}

Thank you for the question. In relation to the cost of wood third-party wood, and your question about any changes in the cost, the answer is no, we have not seen this. What could happen in one quarter or another is a variation of cost, because of the distance, the radius, but the cost itself has no variation.

I think it's important to say that Klabin has been increasing strategically the safety strategy think about security – thinking about future supply of wood.

Now, talking about royalties as I emphasized during the presentation our objective in this transaction was to show that there is value creation for everybody for the minority shareholders and whatever the end figure may be it must be very clear that it represents substantial discount vis-à-vis the present value of the flow of payments that is the object of the contract when we get to BRL 344 million and that represents 50% discount vis-à-vis the metrics that I mentioned during the presentation, we should look at what is the annual flow of royalties in 2018 it was BRL 52 million. And if we were to do the math of this expense by the multiple of EBITDA, we would see that there is a discount as well.

So this transaction was set up this way with these parameters so that we could not only capture this – the brand for Klabin and compensating the holders of the brand and at the same time showing that as far as Klabin and minority shareholders are involved there are advantages and it is important to have a transaction this way because of leverage impact. And this is why we chose to issue new shares so that it could be neutral vis-à-vis our leverage.

Regarding the deductibility or non-deductibility of the royalties, this is a controversial point between companies and the tax authorities in Brazil. We have internal report showing the deductibility of these royalties, so we are comfortable in terms of putting these expenses as deductible according to the parameters that are in the law.

Q - Renato Maruichi {BIO 17847481 <GO>}

Well, my question about paying in shares and not cash because there is an upside for the controlling shareholders because of the price of your shares, but I understand the impact that this could have on terms of the company's leverage.

A - Gustavo Henrique Santos de Sousa {BIO 20558478 <GO>}

Yes, Renato. Here at Klabin, we always think that the Klabin's value is very often much higher than the one that is reflected in the share prices, on the share prices, but in order to have this transaction, we have to have a parameter so that we could have in other – in other cases similar to that, you see that, you have to have – we adopted the average of the last 60 days or 39 trading sessions, but based on similar cases we went to this metric considering the last 60 days.

Operator

Renan Criscio Credit Suisse.

Q - Renan Criscio {BIO 18747357 <GO>}

Good morning, everyone and thank you for the question. My question has to do with the pulp prices. We see an increase quarter-on-quarter and also year-on-year. Could you explain this increase and how should we consider this cost from now on and specifically about the average radius? What about this quarter and what will the average radius you see in the remainder of the year? And about pulp, have you decided about your commercial strategy when you have autonomy over these volumes? Because we see some players with list prices that are slightly higher than others. And do you believe that there is a difference between your price list and the other players including the spot price. So what will be Klabin strategy about this? Do you intend to give presence to value and not volume or do you intend to have the spot price in practice slightly lower than the list price of other Brazilian players?

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

Thank you, Renan. I would like to start by Gustavo and then Soares will be talking about contract.

A - Gustavo Henrique Santos de Sousa {BIO 20558478 <GO>}

Thank you for your question. And let's talk first about the cash cost of pulp, something that we have been stating, quite a few times and we gave emphasis in the last quarter is that Puma is operating in the third quarter already higher than the nominal capacity.

So in the third quarter and the fourth quarter, we have already seen a good dilution of fixed costs. So in payroll (00:26:07) and services; this was very favorable in these two quarters already sequentially. And what we had in terms of increases, they were related to increase in chemicals and fuels and there is an important variation regarding exchange rate in chemicals and fiber has to do with the strategy of wood supply. As we have already mentioned in the fourth quarter, we bought more third-party wood already considering, strategically increasing our supply in order to have an adequate security for these levels in the long-run. We have already adopted that and we will be seeing this in the next periods; especially during 2019 and now about the strategy for the sale of pulp. So Soares will be answering this (00:27:04).

A - José Gertrudes Soares

Thank you very much for the question. As we said during the (00:27:11) meeting, last year; Klabin strategy will be focusing on the sale of this volume.

On medium sized and small clients our volume is not big enough to participate in the large account and of course we will be present as well in large accounts but with a relatively small volume, low volume, and our main focus will be on small and medium-sized clients scattered throughout many regions focusing Europe, which is a super

important market for this volume, China and also a stronger presence in South America and Brazil.

We already have the strategy practically in place and our process of sales start to phase out of our relation with (00:28:03) as of April. So, we are already negotiating with the client in the several markets that I mentioned and the response has been quite positive so far because our product has already been used by clients in many different markets. And for this reason, we will not have to use a lot of our time in terms of quality approval.

The quality has already been approved. Clients have been using the product in the last three years. So, we just have to conclude commercial negotiations and going back to your point about how we are going to deal with pricing. We're going to follow the market parameters, list price and levels of discount proportional to their size and how often they buy such as is the case of other players in the market and we are going to avoid the spot deals, where prices are lower. So, this is the strategy aiming at small and medium-sized clients scattered throughout the world and with lower discounts because our volumes will not be so big due to the size of our production. So, basically this is it.

Q - Renan Criscio {BIO 18747357 <GO>}

Thank you very much.

Operator

Marcos Assumpção, Itaú BBA.

Q - Marcos Assumpção

Good morning, everyone. My first question has to do with pulp, Soares please. Thank you very much for the explanation regarding your commercial strategy. Now, could you say a few words about the outlook for pulp prices, the net pulp prices looking ahead in this third quarter, and there is a small price lag there and we saw that prices were still very good in the fourth quarter. So, could you talk about the net price in each one of the regions, so that we may see if there is a big difference still between the net prices between China and Europe? And where do you believe that prices will stabilize after the Chinese New Year? Because we saw a very big dispute in the market with Brazilian producers holding on to their volumes because they didn't want to sell with lower prices and the Chinese buyers offering very much lower prices with the spot prices at lower level. So, could you talk about the market?

And the second question about investment that you made with the timber fund, if we should see more similar deals in the next few quarters because it seems to be a very interesting strategy increasing your forced rebates (00:31:01) without a big need for investments in the short run?

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

Thank you, Marcos. Soares and then Gustavo will be talking.

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A - José Gertrudes Soares

Hi Marcos. Good morning. As you said yourself, the market went through this big dispute between mainly Chinese buyers and Brazilian suppliers. We are not yet a major player. We are more or less observing this moment. But the impression that we have is that the market is going through a moment of reversal of this curve, this downward curve and it seems to me that the inventories of paper producers in China, they are low, because they didn't buy anything in November and December and in January, very small purchases and the trading companies were holding onto their volumes, ended the last two, three months buying just a little. So it seems to me that inventories we do not have exact data, but the impression that we have is that inventory levels in the trading companies and Chinese paper producers is coming down and sometime new purchases will have to be made.

As you know exports from Brazil were very much reduced during this period and competitors from other regions of the world that produce pulp. They are not able to absorb the whole demand that comes from China even if the demand is lower than half. So it seems to me that as of next week when the Chinese New Year comes to an end, it seems to me that we will be seeing the real situation of inventories in the chain in the Chinese trading companies and paper producers as well. So we will see some changes in prices there. What seems clear today is that we are already leaving this bottom and your question about Europe of course, the prices in Europe are slightly higher than prices in China. European clients have been insisting in these moments - downward moments in order to bring the prices close to Chinese prices. I do not - I cannot tell you the level of negotiations for the end of February. You know that the FOEX (00:33:45) is around \$1,000, so dropping by \$50 from the end of last year to today.

And we have the impression that both deals are lower than \$1,000, something like \$975, \$980 in spot deals and the prices are in line with the prices announced for China for February. So the net prices are very similar, of course, still with a tug of war happening between the different regions of the world. So this month will be decisive and our impression is that the market is starting to find an equilibrium as of the second half of February.

Q - Marcos Assumpção

Soares just to confirm thank you again for the explanation. It was quite clear and the markets have stabilized in your opinion. Well, where do you think it would stabilize closer to the Chinese buyer or closer to the Brazilian suppliers.

A - José Gertrudes Soares

Well I believe it would be half way. I believe that this level of \$720, \$730 which is what we are seeing in February this is where it seems to me that it makes sense at least for the second quarter of this year, as of the third quarter we will be seeing a supply already better balanced with demand and this is when we will see a recovery of prices. But it seems to me that between the second and the third quarter it would be closer to \$730, \$720 then lower than \$700 as we have been seeing some suppliers practicing.

Q - Marcos Assumpção

Thank you very much.

A - Gustavo Henrique Santos de Sousa {BIO 20558478 <GO>}

We still have the second question by Marcos Assumpção. Marcos thank you for the question this is Gustavo for the benefit of participants at the call I'm going to recap the terms of the announcement that we made Marcos.

So, on December 13 of 2018 we have announced a partnership, which is Guaricana Reflorestadora where Klabin and with the management organization put together this partnership to acquire land with forests in Santa Catarina. We are talking about 115,000 (00:36:38) hectares of land and the characteristics of this partnership with that Klabin had already 4,500 hectares of foresters and our partner had BRL 190 million putting into this partnership, Klabin will have 69.48 of the voting stock and 35 of total capital of this company.

These are the main characteristics of the transaction. And this type of partnership where Klabin has supply guaranteed for wood, by the means of a partnership where Klabin has the majority of the voting stock and minority of the total capital stock of the company tends to be the preferred mechanism for Klabin, in order to have access to more forestry areas. So it's possible that we will see other transactions like this one in the future. Thank you very much, Marcos.

Q - Marcos Assumpção

Thank you, Gustavo.

Operator

The next question is in English from Mr. George Staphos from Bank of America Merrill Lynch.

Q - George Leon Staphos {BIO 1495442 <GO>}

Good morning everybody. Thank you for taking my call. I had two questions, one on cash flow, and then one on the board markets overall. Gentlemen, if we go to slide 9, obviously it was a very good year for adjusted EBITDA progressions for Klabin. However, free cash flow didn't move quite as much as EBITDA in the year, a lot of that was on working capital in terms of the swing in cash flow. What implementation, what programs are you looking at for 2019 to achieve a better free cash yield from the EBITDA that you generate? That is question number one.

Question number two. Can you comment on the progress that you're making with pricing both in domestic coated board and kraftliner market, and how some of the softening that we're seeing in global containerboard markets, it's not significant, but nonetheless it's visible how that might or might not be impacting your commercial efforts in paperboard? Thank you.

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

Let's start by Gustavo, and I'll return to talk about the coated board.

A - Gustavo Henrique Santos de Sousa {BIO 20558478 <GO>}

George, thank you very much for your question. I please ask you to go back to slide number 9 on the presentation so that I can address George's question. When we look at this figure of free cash flow of BRL 866 million, I will start to break down some important topics here.

First when we talk about interests, where we had a payment of BRL 1 billion, if I were to normalize that math to a recurring figure, I would have to make two adjustments, one of them I mentioned in the presentation is that we had a BRL 180 million on interest related to convertible debentures of Klabin and these debentures, when they were converted in January, they have interests - January of 2018, they were related to interests of the whole year of 2018. These debentures have been converted, these financial expenses will no longer be present in 2019. And that represents a BRL 180 million. We also had around BRL 100 million related to break funding fees with movements of early payments of debts, within the liability management strategy of the company, that we - which we decided in 2018 and part of these costs are related to early payments made in the first quarter of 2018 and the other 50% early payments in the fourth quarter of 2018.

It's important to stress that even with these break funding fees are already posted to the liability management accounts, the final cost becomes more competitive than what we had before, but if we were to adjust by this BRL 180 million of the interest of debentures that we do not have anymore and the extraordinary funding fees we would have an interest line very different that would allow us to have a higher free cash flow and probably closer to what George is saying. It would be closer to our EBITDA expansion.

Regarding working capital, we had a negative variation of BRL 191 million. In our models we always consider as an initial assumption that when we have an increase in sales, we have a consumption of working capital of 25% of that increase in sales and from one year to another, we had an increase in sales in BRL 22 billion. About initiatives for 2019, yes, we have a plan for more efficiency in the working capital, but I cannot comment on that right now. First, we have to turn this plan into a reality and probably in the next two calls, I might be able to provide you some efficiency regarding these figures. Now, I'll turn the floor to Cristiano who will address the question on coated boards.

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

Thank you, George, for your question. I am sure that our interpreter did have a huge challenge, probably one of the main challenges of her career interpreting Gustavo and if you have not understood his explanation, you can always call us back. About the kraft market and you mentioned kraft and coated boards and domestic and international markets. I will start on kraft to say that there is a moderate optimism in the domestic market. With the Brazilian political environment a little more clear than what we had last year, we do see some signs of more jobs in civil construction and other signs that start to

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consolidate what we are calling those moderate optimism and that is happening in retail just as the same.

Just remember what is important here for an industry and this is something we always repeat to ourselves, we are waiting for that political stability, confidence, investments, jobs, income and Brazil has had several moments like this one in its history and we expect that as soon as we have all these important facts happening in the country, Brazil will have from everything that we hear from the federal administration that we believe that we will have a long period of stable growth in this country.

So we were dedicated than in the past years specifically talking about kraft for the international market. But in the short term at the end of last year, we started analyzing domestic market, serving our clients because we expect 2019 to be a good year for kraft in the domestic market in terms of volume and price. That does not change our historic and strategic trajectory of increasing the share of profit in the global market.

And based on that, the investments that we talk so much about are based on this product, but we see in the short-term an opportunity for kraft in the domestic market. About the foreign market for a kraft that we are following up that up and closely, we always follow also the American market which is in fact the main driver to define price. Once the shipment of boxes in the U.S. and machine occupation - the containerboard machine occupation in the U.S. will determine the volume of sales for the international market and so that's where we meet the Americans in this market.

And based on that we see 2019 for kraftliner very similar in terms of organic growth and also good levels of prices still in 2019 and few significant announcements in kraftliner, now in the market we see a lot of movement in the recycled, but for virgin fiber very little. And on virgin fiber and now I will be talking about what we are seeing in the media in the last two years and very much in the last year and we still see there the major brands looking for a sustainable product, sustainable packages, we see the replacement of the single use plastic especially for food packages which we call foodservice and that brings a non-measured upside. It's difficult to measure what this market will be, a little bit for kraftliner or virgin fiber and now so coated board and up to where this migration will happen and what will be the upside of that for the paper market.

But in my understanding, so far we have been very conservative regarding any projections in terms of consumption of packaging paper or virgin fiber paper. And my expectation is that these figures will actually be higher than what we have seen. About coated boards, an important comment and I would like all of you could pay attention to that.

If you go back to long periods with all the curves of the products based on pulp, but considering here of softwood, hardwood pulps, the kraftliner and coated boards and the coated boards here I'm talking about S1K (00:48:30) not considering LPB. This is the main product of our line in coated boards. If you analyze a longer period of history and obviously pulp has its traditional (00:48:46) on curve with higher levels, but after a period of increase and pulp right after that we do have a delay, but coated boards started to

reflect that increase of pulp and we believe that a lot of that is because of the non-integrated coated boards' manufacturers.

So, after the price increase of pulp, after that non-integrated started to add that to their cost, the margins go back up, and also the prices of the coated boards. Americans have announced the price increases that are significant in \$50 in the case of C1K (00:49:36). So we do have a positive expectation for this paper in 2019. I'm sorry, this is a very long answer, I hope I was clear enough.

Q - George Leon Staphos {BIO 1495442 <GO>}

It was very thoughtful. Thank you very much.

Operator

Next question is from Gabriela Cortez from Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Good morning. Thank you. I have a question about cardboard boxes, the performance for 2018 compared to the figure from ABPO, and is still talking about coated boards. Can we understand that you expect 2019 to have a recovery in the solid volumes because they went down in 2018, right. Can you tell us more about that please? Thank you.

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

Thank you, Gabriela. Okay. Let's start with Douglas, our Packaging Director, and I'll go back to talk about coated board.

Q - Douglas Dalmasi

Hello, Gabriela. Good morning and thank you for your question. In the fourth quarter in our box market was in line with a ABPO's figure of close to 1%, and in the year a little bit lower than ABPO's figure ABPO had a figure of 1.6% and our growth was 1% throughout the year we talked about our strategy to focus and the results for Klabin's chain. And really we prioritize the margin throughout the year. Also exports of kraftliner, domestic market for kraftliner and also the improvement of our business in the whole market, in the whole domestic market.

Now moving on about the coated board market. Yes we do have an expectation here - well and I'll repeat something that I've already said we are with that expectation of an moderate optimism, the domestic market is kind of numb in the last three years. And especially in the foodservice line, we are extremely motivated with that market. Thank you very much.

Operator

If there are no further questions I would like to turn the floor so Mr. Cristiano Teixeira for his final remarks.

FINAL

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

Thank you all very much for your questions. And now just closing this call I would like to say that we do have an excitement about generating value for Klabin in the future and this trajectory has been very clear in terms of a high capacity of the leveraging (00:53:12), a continuous improvement in the operating efficiency, and the constant search for innovation in a market that is really avert (00:53:24) for sustainable solutions especially for the global brands, in the continuous improvement of the company's governance, acknowledging also minority shareholders and especially in the ability to grow and to create value to all shareholders. Thank you all very much. And I'll talk to you next time in the next call.

Operator

Klabin's conference call is ended and thank you very much for your participation.

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