

Y 2021 Earnings Call

Company Participants

- Alexandre Nicolini, Executive Director, Pulp Business Unit
- Cristiano Cardoso Teixeira, Chief Executive Officer
- Douglas Dalmasi, Packaging Director
- Flavio Deganutti, Director, Roles & Member of Executive Board
- Marcos Paulo Conde Ivo, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Caio Greiner, Analyst
- Caio Ribeiro, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- Marcio Farid, Analyst
- Rafael Barcellos, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, and welcome to Klabin's Conference Call. (Operator Instructions) As a reminder, this conference is being recorded and broadcast simultaneously via webcast. You may access it at Klabin's Investor Relations website, where the presentation is also available for download.

Forward-looking statements that might be made during this conference in relation to Klabin's business outlook, projections, operating and financial targets and potential growth should be understood as forecast based on the company management expectations in relation to the future of Klabin. Such expectations are highly dependent on market conditions, on Brazil's overall economic performance and on the industry and the international market behavior, therefore, they are subject to change.

With us today, Mr. Cristiano Teixeira, CEO; Marcos Ivo, CFO and Investor Relations Officer; and the other officers of the company. Initially, Mr. Teixeira and Mr. Ivo will comment on the company's performance during the fourth quarter of 2021. After that, all the officers will be available to answer any question that you might have.

Now I will turn the floor over to Mr. Teixeira.

Cristiano Cardoso Teixeira {BIO 17567319 <GO>}

Welcome everyone to Klabin's conference call about the fourth quarter of 2021 results. As you know, the last quarter of the year is a seasonally strong period in terms of market sales for products offered by Klabin. The quarter continued to have a global economy still recovering from the economic impacts of COVID-19, when all of a sudden there was a new problem with the arrival of the Omicron variant causing interruptions in the production chains and also supply chains and the lack of labor besides the operating difficulties of logistics shippings that we have in the quarter.

Klabin with the integrated diversified flexible business model continue to experiment a good demand for Klabin's products mainly exposed to more resilient markets such as hygiene, food, beverages and packaging, also based on a very good commercial strategy. Thus Klabin reached once again a cash generation measured by the EBITDA of BRL1.9 billion in the quarter, a 70% increase on a year-on-year comparison and for the whole year of 2020 end, the annual EBITDA record BRL6.9 billion, reinforcing our trust in the path that we have followed too far.

In Pulp, the supply-demand balance was reached with different consumption among geographies, there's strong demand in Europe, U.S. and Latin America, China with the domestic market still under pressure by logistics but still operating with good price movements. Klabin is the only producer in Brazil of the three kind of pulp and shows flexibility in the sales mix among the regions.

In the Kraftliner market, the U.S. domestic demand continued to be consistent and ended up reducing the supply of paper to other market favoring price increases and stimulating the packaging paper global dynamic. During the fourth quarter, Klabin started sales to the market of the newest paper Eukaliner already having positive returns from clients about the performance at the end of the year MP27 already reached 70% utilization rate of its production capacity.

In Packaging, the last quarter showed a deceleration in consumption felt by Klabin and by the market in general. This did not have any impact on the accumulated result, which was very good obtained in 2021 and on February 8. Recently, we announced our new step in the cycle of growth in packaging with notice to the market regarding the increase in the conversion of the corrugated box (inaudible) with an investment of BRL188 million.

In Coated Board, demand continues to be very strong, mainly for liquid packaging paper board in Brazil and in other regions. And the new machine, the MP28 is already being built and already represents 14% completion. We highlight the renewal of the participation of Klabin in the Dow Jones Sustainability Index in two categories as well as the Business Leaders Group of the COP26 that occurred in Glasgow.

Our results show an increase in sales in all the businesses with a reduction in our leverage compared to the previous quarter and record annual adjusted EBITDA, reflecting the

efficient allocation of capital of the company, cash generation and value creation for our shareholders.

Now I would like to turn the floor over to Marcos Ivo, who will talk about the financials of the fourth quarter.

Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Thank you, Cristiano. Good morning, everybody, and thank you for participating in our call. Once again, we delivered a strong result quarter confirming once again the strength of Klabin's business model and the predictability of its results among the highlights. The period I would like to mention net revenue of BRL4.6 billion, an upswing of 39% year-on-year, adjusted EBITDA margin 41%, an increase of 7 percentage points vis-a-vis the same period in 2020 net of non-recurrent effect and ROIC of 19.5%.

Now let's go to Page number 4, where we show you the volume of sales increasing by 1% year-on-year, reaching 950,000 tons in the quarter, and this growth was driven by the sales volume produced by machine number 27. Net revenue went up 39% year-on-year due to the strong demand for Klabin's products and also the price adjustment that we had over the year and also the exchange rate devaluation in the period. The net revenue growth in all business lines on a year-on-year basis in spite of some cost pressures drove adjusted EBITDA that reached BRL1.884 billion in the quarter, a 70% increase vis-a-vis the fourth quarter of 2020 net of non-recurrent effects.

Now going to the next slide, Slide number 5, I would like to mention that the results of 2021 represent the 12th consecutive increase in the Klabin's EBITDA. The sales volume in the year was 3.6 million tons, 6% higher on a year-on-year comparison coming from the incremental volume of the corrugated box units that were acquired from International Papers of Brazil and sales of machine number 27 and net revenue went up 38% year-on-year with a positive performance in all segments.

Price adjustment that drove the net revenue performance more than offset the higher costs, and the result was a record adjusted EBITDA that reached BRL6.865 billion with a 46% growth on a year-on-year comparison and expansion of the margin to 42% in 2021.

On Slide number 6, benefiting from the price recovery on an annual comparison as well as the flexible sales mix between and among geographies and the portfolio with the three types of fiber, short long and fluff. The Pulp net revenue was BRL1.5 billion in the quarter, a 56% increase if we compare to the same period in 2020. The pulp production cash cost was BRL1.6069 per ton and 42% increase on a year-on-year comparison and this increase is explained by the higher participation of fluff in the sales mix, by the hike in the price of both chemicals and fuels and the inflation in the period.

Additionally as planned and aligned in our previous communications to the market or notices to the market. Third-party wood participation increased because of Puma II, the EBITDA per ton of pulp sold reached BRL2,439 in the quarter, a major growth. 87% if we

compare to the fourth quarter of 2020 showing the evolution of profitability of the pulp business even with a challenging scenario on the cost side.

Now on Page 7. So net revenue for Kraftliner in the quarter was significantly higher, 106% in the annual comparison, thanks to higher sales volume and favorable market conditions which have driven up the price of this product. Measured by Europe ForEx, the price in dollars per ton was up 41% compared to the same period of 2020. Supply and demand for this product is well balanced indicating the study current market conditions which favors sales volume from machine 27.

Turning to Page 8. At the end of December, Klabin's net debt was BRL20.9 billion, BRL966 million vis-a-vis the prior quarter. That can be explained by the Brazilian currency depreciation against the dollar, which affects the dollar-denominated debt and by the negative free cash flow in the period. Leverage, measured by net debt over EBITDA in dollars went from 3.1 times at the end of September to 2.9 times in December. It is worth mentioning that this is the same leverage we had when Puma II was announced and Puma in April of 2019.

On the next slide. Klabin's liquidity remains robust and ended the quarter at BRL11.2 billion. Liquidity is comprised by BRL8.4 billion in cash and the remainder in a revolving credit line. Average debt maturity between 2022 and 2023 period in which Puma II is still under construction is of approximately BRL1.4 billion a year, a comfortable level for the company. That average tenor by the end of 2021 was of 105 months or around nine years, just like in the prior quarter. Let me remind you that Klabin has contracted and not yet withdrawn private lines in an amount higher than the CapEx to be disbursed until the conclusion of Puma II as detailed in the release.

Turning to Page 10. Adjusted free cash flow net of discretionary factors and expansion projects was positive and BRL1.1 billion in the quarter, driven by our strong EBITDA. In the last 12 months, adjusted free cash flow was of BRL3.8 billion, representing a free cash flow yield of 13.2%.

Now turning to Page 11 as published yesterday in our Shareholders Notice, the company approved a dividends payment of BRL377 million to be paid on February 25th on the accrual basis. Total amount of dividends distributed to shareholders was BRL779 million for fiscal year 2021. Klabin's full dividends and interest on equity policy is available in our IR website.

Now on Slide 12. The first stage of Puma II, which started production in August 30th follows its ramp up as planned. In 2021, our machine 27 production reached 99,000 tons confirming our forecast in our last earnings call. The second stage of the project, which will include a coated board machine is under construction, on schedule and its start-up is planned for the second quarter of 2023.

Since the beginning of Puma II, BRL7.9 billion have been disbursed and out of those BRL759 million in the fourth quarter of 2021. For 2022, as mentioned in our Klabin Day, we plan to disburse BRL4.8 billion of CapEx as follows: BRL2.750 billion for (inaudible);

BRL520 million in special projects and expansion projects as well including in addition to what we already had reported. Investments in the packaging unit in (inaudible), which was announced just this week and the remainder in industrial maintenance and forestry CapEx.

On the last page, we highlight our main achievements and recognitions in ESG in this quarter. For the second year in a row, we are part of the Dow Jones Sustainability Index in two categories; World and Emerging markets. We had a record number of companies that were in this and we are in one of the 10% that were assigned this category. We are for the ninth year in a row in the B3 ISE. We also celebrated joining CDP Triple A being Klabin the first company in Latin America to reach the top rating for climate change, forestry and water security programs, and that is an exclusive group of only 14 companies in the world. We also received a new certification from FSC, an International Organization testing the sustainability of our (inaudible) a byproduct of our forests. These acknowledgments among others, thanks to the ESG integration to our strategy.

Now, Cristiano and all the other officers and myself will be available to take your questions in the Q&A.

Questions And Answers

Operator

Thank you very much. (Operator Instructions) The first question comes from Caio Greiner from BTG Pactual.

Q - Caio Greiner

Good morning, everybody. I have two questions. About your commercial strategy for pulp and geographies, you were talking about European markets and the U.S. market. And could you share your geographical breakdown, do you believe that you will be producing more with higher prices and the relevant -- and how do you see this. China and India is still raising prices and I would like to know about your commercial strategy for the short run?

And the second question, what about the client feedback about Eukaliner because they are receiving Eukaliner now and they are using it. So what about the evaluations, the assessment on the part of your clients in terms of productivity and have you had any negative feedback about Eukaliner that could hinder the overall perception of your clients about Eukaliner?

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

Thank you, Caio. Nico will talk about the commercial strategy for pulp and then Flavio will talk about feedback of Eukaliner clients.

A - Alexandre Nicolini {BIO 21861040 <GO>}

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Caio, good morning. Thank you for the question. And as we usually mention, we have a flexible business model for the Pulp business unit. We work with the percentage of contracted volume in some regions, but we also have a percentage in which we have a flexibility in terms of channeling to the market where we believe that there is a better profitability for 2022 very much because of the situation, especially regarding logistic bottlenecks, regarding containers, we are placing more strength of our sales in more mature market, Europe, United States and we have a relevant participation in Brazil just to remind you, but without leaving China because it's still an important market, a growth market, but also thinking about the distribution that may lead us to maximize our result from the price's viewpoint, China has been recovering since mid-last year, as you know. Increases were implemented in January and we announced an additional for February before coming back from the Chinese New Year already and discussions have already started about sales for February. Nevertheless, we understand that these USD50 will be implemented during this month.

Regard to Europe and the U.S., we made price announcement not only for short fiber but for the others as well and in long fiber USD40 increase in Europe for January. And for February, we announced an increase as well, and this will start over the next few weeks. For eucalyptus USD30 and discussion start this month, but our expectation is that this price has a very good chance to be implemented. For fluff, price increases were bigger USD50 in January, USD50 in February and we have already announced USD110, discussions in January have already been implemented, February under negotiation and for March a very good expectation for the implementation because this market continues to have a very high demand.

A - Flavio Deganutti {BIO 22267586 <GO>}

Here's Flavio Deganutti. Last year, we produced of almost 100,000 tons and we have a very big advantage. We have a very big conversion in boxes for food, for protein, for e-commerce. So a major part of Eukaliner produced initially was transformed into boxes and then we started to export to the main destinations, South America is a major destination, Argentina, Chile, besides the main countries in the South of Europe that have already received the material.

As we said, confirming the dozens of tests that we carried out for performance, for speed, they have a very good performance because you can drive this very quickly and to save energy. And also reducing the damage and the compression allows a reduction of up to 10% in the boxes. And the expected quality that is the printing quality that we already expected mainly compared to long fiber papers. So, to a large extent, this was confirmed here in-house and now we have the confirmation from our clients.

Q - Caio Greiner

Thank you very much.

Operator

The next question is from Daniel Sasson, Itau.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you. Thank you very much for this opportunity and good morning. My first question is about cash cost. We have seen a mix of third-party wood with a higher weight in your cost mix with a greater need of fibers after starting up Puma II. I would like to know what are your expectations about cash cost for 2022, if we are still going to see this cash cost at stoppage going up in the next quarters or if this is going to be stable?

And my second question is that we have seen in this quarter a difference between production and sales of papers and if we put together paper and conversion up a little over 60,000 tons, and I would say, it has to do with the lead time with the production of paper until you get back to your clients, is that right? Can we see -- can we find sales catch up in the next quarters even going over production or do you have another explanation for that increase in the inventory level? Thank you.

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

Thank you, Sasson. Marcos Ivo is going to comment on the wood cash cost and then either me or him or someone else can talk about sales. From now on this difference in sales production is basically because of logistics impact and that should get normal because of the impact of quarter-on-quarter or because the problem will and then we are going to ship whatever is on the chain. So this is a problem that is not related to the product sale, but it has more to do with the logistics chain.

Regarding cash cost. Now turning to Marcos. I just would like to comment something about before and it's important because that has to do with our growth structure, how we intend the company to grow. And this first cycle for Puma II, we got word from third-parties and during that period that we use this wood that is far from us, so during this period of time, we are of buying the land that is closer to Klabin and we started the forest process.

And then the second cycle of that wood, we believe that this average distance will come down and we'll go back to a verticalization levels with own wood and that will be happening at the same time as we reduce distance to where we got the wood from. So in terms of the structure, the Klabin's cost will come down in the second cycle.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

But now let's turn -- let's be more specific, well just adding to what Cristiano said is still on an inventory, this is not this is logistics and the variation that we see in each quarter it has to do with our schedule in terms of downtime. So over the year, when you see the full year or 12 months, you will see Klabin Sally wood it producers and it has been in our history in the past few years.

About costs, Cristiano already explained the concept, but I would like to bring another topic, we are working on this topic with a lot of transparency with the financial markets. So since we announced the Puma II project in April of 2019, we presented a deep explanation about wood. It is in some of our presentations, some of documents that's on our website and even last may when we migrated the machine to coated board machine. So that

means that for the first since years, considering Puma II is an eucalyptus project, for the first six years, it will have third-party wood and that has an impact in the wood price.

How do we see that in the future? We have the first is that now in 2021, when we started the production in machine 27. Now, we are going to have another step in 2022, the magnitude is a little lower than what you see when you look at the line of cash cost of pulp and where we have more details and when you consider the fibers line. When you compare the cost of fibers in the fourth quarter of 2021 to the fourth quarter of 2020, what we expect in terms of increase for 2022 is a little bit less than that magnitude, that will then stabilize and it is going to come down starting 2025, 2026, one Klabin will be switching third-party wood by its own wood which was planted in the acquired land.

So far, we are moving on exactly as planned. Now about the other topics, the other items and the production cash costs we do have inflation all over the world which has affected commodities prices. This has had a huge impact in chemicals and fuels last year and this is also reflected in our cost in the last quarter and the fourth quarter and the behavior in 2022 will be dependent on the price of these commodities. We are moving on with a lot of focus and the factories working in productivity and optimization or consumption and we will move on with this agenda.

Q - Daniel Sasson {BIO 19234542 <GO>}

Excellent, great. Thank you very much.

Operator

Thiago Lofiego from Bradesco.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, everybody. I have two questions. The first one has to do with the price of kraftliner that continues to go up in 2022. Do you believe you still have room for price increases in order to recover the premium that you usually have vis-a-vis the international market?

And the second question, still regarding kraft. What about your strategy and the integration for kraft this year, given all these factors the global kraft market which is very strong and in Brazil, a weaker economic activity but you do have very good market share. So I would like to know how you're thinking about these two topics?

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

Thank you, Thiago. Flavio will be talking about the price and I will start to add to the second question and then I will turn to Flavio. Klabin units fundamentals and about which we talk to you all the time is a company that seeks the integration of its papers in a percent that might keep stability of results. This means that we can arbitrate between the domestic market converting papers that could be exported or exporting the papers as the margin is higher.

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And the way we deal with the situation is based on the fact that we have fully integrated company and we can focus on the export market. And in the last few years based on the investments made, this has been bringing about a lot of benefit because now we have a higher liner capacity and we can start opening our partnerships with global partners and we were limited because of the availability of paper, but now we can have partnerships with big box producers mainly in Europe and long-term contract. So Klabin can be faithful to the international market and clients of corrugated boxes and with the persistent relationship with these clients, especially the ones that we have a contract of course we always do that and mainly maintaining a level of partnership with large consumers of paper mainly box manufacturers abroad with the same loyalty that we have with the client here in Brazil. So you have to arbitrate between these two worlds and you have to respect first all the contracts that we have and secondly we have to respect our margins.

The market volume that is not under contract and in which there is no loyalty that is to say because the market is not looking for this kind of loyalty with us or because the market is growing. So for these marginal market, we will always be seeking profitability. Of course giving priority to our contract, our large box client and now all over the world, the consumers of paper.

A - Flavio Deganutti {BIO 22267586 <GO>}

Cristiano has already touched some important point, the natural position of the market is some premium for the domestic market and we have the new announcements mainly from U.S. manufacturers of kraft, there was a degree of concern in terms of new capacity coming on board in the U.S. and in Europe. And this was balanced by the demand that we see a spectacular demand for containerboard and kraftliner especially the export market is very well balanced. And we continue with our strategy of maximizing our profitability and we follow the prices of the International market and the domestic market follows these moves with some premium over the year. This is not going to happen immediately, but over the year this is what we will be see.

Of course, here we have the contract and as Cristiano said, we saw important volumes by means of contract booked through the domestic and the export market and whatever is outside the contract, so we have a higher degree of price flexibility.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Very clear. Thank you very much.

Operator

Rafael Barcellos from Santander.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Good morning. Thank you for the question and congratulations for your results. I would like to talk about corrugated boxes. I apologize for the long question in 2020 and '21 there was a growth in the GP, what can we expect for demand in 2022, do you believe it

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will be greater? And for corrugated boxes, I would like to know about the competitive environment and we have lost the sound. We have lost the sound.

A - Unidentified Speaker

Could you start your second question again?

Q - Rafael Barcellos {BIO 20593721 <GO>}

Well the first question was about demand. And two about corrugated boxes, I would like to hear from you about the competitive environment. Looking at the fourth quarter, it seems to me that you have lost a little bit of market share, so I would like to know about competition, mainly with the new product project in (inaudible), how do you see the evolution of market share of Klabin for the next two years?

And the other question is about kraftliner, prices have been going up quite a lot as you said yourselves, with the drop of exports from the U.S., but now we start to see export stabilizing in the coming on board of capacity from Klabin, do you see any risk of correction in terms of kraftliner?

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

Rafael, as Flavio said and of course he's going to add to what I say, I will start by the second one and then Douglas Dalmasi will talk about the demand for corrugated boxes in Brazil. About your second question, we get into very complex macroeconomic questions and I think you will be more capable of elaborating on that than we, but anyway, we see inflation in many countries in the world with a big impact. Today, we had the number of the U.S. inflation being published with the interest rates going up 5 times per year so the U.S. are trying to reduce inflation or balance or offset and economic impact will be felt one way or another and the effect will be felt. And there are other complex macroeconomic issues, for instance, China in terms of exports for logistic limitations, not to mention the certainty that nobody has that there will be no new variant of COVID. So we are living in a very complex world and every single year I feel that this year is more complex than the previous one. On the macroeconomic side, it is very difficult to tell you exactly what will be the behavior of exports from the U.S. for interest because it involves too many factors. Nevertheless, we are very confident about the fundamentals of our product.

Paper mainly in e-commerce has already proven to be a very big advantage, very big facility and because of environmental reasons it is gaining space, so to say for primary or secondary packaging. So I have no doubt whatsoever about the transition of traditional retail to e-commerce with two digit growth and major economies in the world or major economies in the world getting to a more mature level in e-commerce and gaining momentum in Brazil as well. So in packaging, paper and corrugated boxes that can be lighter and therefore reducing the weight for transportation and also being more sustainable. This is already a reality, this is a global trend and this is not going to change. In the short run, there is the macro economy playing.

And now I would like to -- Douglas to add about the demand in Brazil.

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A - Douglas Dalmasi

Thank you for the question, Rafael. We cannot complain about demand for corrugated boxes right now. We still see very good levels of demand and of course going hand-in-hand with the Brazilian economy and of course when we compare this to the second half of 2020 and the first half of 2021 that were impacted by higher consumption in the pandemic, this scenario becomes more clearer at the levels still very good.

And regarding our participation, whenever we look at the margins and in order to continue to grow our margins. In the last quarter of 2021, we did not consider the market share isolatedly and there was a slight loss as you said yourself, but for the remainder of the year, we expect to continue to follow the performance of the economy and we believe this is going to be a good year vis-a-vis last year, but always prioritizing our margins and with the best possible distribution of our volumes tapping into the advantage that we have or of having an integrated business, our contract and our clients.

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

Thank you, Douglas and just adding Rafael. Corrugated boxes in Brazil were 3,600 tons. It's already 4 million tonnes. 4 million tons of corrugated boxes in Brazil. So we have already seen a substantial growth. And the announcements of new capacity in this case, mainly by Klabin we have just announced that regarding the Northeast.

But still looking at the '21 demand comparing to our expectation for '22 at least here in the company, well, we are talking about 4 million tons of corrugated box. And if you maintain this, this will already be strong but we have the expectation and we have to be prepared to face any scenario whatsoever. But to make a long story short, up to the end of the year, we will have an additional BRL90 million in the (inaudible) the family income from the government and additional BRL10 million that because of the elections and investments expected around BRL200 billion. So many things will be going on during the year.

There could be additional income generation or increase in the number of jobs and it is based on a basis of 4 million tons of corrugated boxes. So we are very careful with these evaluations but the companies such as ours has to be prepared should this all happen.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Very clear. Thank you.

Operator

Our next question will come from the English Question. English, Roman [ph] is going to be interpreted simultaneously and it's from Carlos De Alba, Morgan Stanley.

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

Yeah, (inaudible) everyone. Thank you for taking the call. A couple of questions I have, a lot has been discussed already in the market but in terms of -- and costs, but in terms of

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and expenses we also notice quite important increase certainly quarter-on-quarter but also year-on-year in SG&A, more on the selling expenses and event than on the general and administrative expenses. Could you comment on what drove that and to what extent this is going to be sustainable and how do you see the new level of SG&A expenses going forward?

And then on the balance sheet, we discussed the inventory increase in the quarter, but also there was a quite important increase at least from a cash flow perspective, suppliers represented almost BRL335 million of cash outflows. The end of the year balance in your balance sheet wasn't particularly higher than the last quarter, but the impact on cash flow generation this quarter was important. So I don't know if you could share some comment there and highlights that help us to understand what happened?

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

Thank you for your question, Carlos. We are going to answer the first part of the question about the SG&A, but I would like to ask you to repeat the question about the balance sheet in English because we did not understand the translation please. So about costs and expenses Marcos Ivo will start the question and then we'll go back and ask you again about the balance sheet.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Okay, Carlos. About SG&A specifically, about G&A because sales expenses regarding net revenue of the company have come down. Talking about G&A, when we had an increase of 8% in the fourth quarter of '21 vis-a-vis the same period of prior year and 23% in year-on-year, we have two different impacts. So we have inflation in Brazil, which last year was around 10% and we also had an impact of the clients that we acquired from International Paper. Remember we just took over this operation at the end of last year and this year we have the full year of the company's with us. And finally, in the fourth quarter of the year, we did have consulting services for specific projects. And now looking at 2022, we expect that will step up with inflation or we have no new price increases because we will not have increase in store because we had last year. So the expectation that we have for this year is to follow-up inflation.

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

Just adding to that Marcos, there was a productivity gain in the company was a margin of 42% in this last quarter one when compared to the last quarter of 2020. I will then ask you to please -- your second part of the question you repeat that and if you want to ask that in English that's fine.

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

All right. Thank you very much. So the question is on the balance sheet. I mean, it's balance sheet and cash flow and it has to do with suppliers. In the fourth quarter, suppliers represented almost BRL335 million reduction in cash flow, it was quite important. So I wonder if there is any comments that you may have -- you can attribute this to a change in the terms with your suppliers or some volatility around the transactions

with them. I just wanted to understand because your working capital was much more negative than what we expected for the quarter?

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

Okay, Carlos, thank you for your question. And so, Marcos Ivo who will comment.

A - Marcos Paulo Conde Ivo {BIO 21106710 <GO>}

Now talking about the working capital, Klabin had an important reduction of working capital in 2020 and 2021 and it's important to remember that in these last two years Klabin net revenue increased a lot and even then we, at the end, we had a reduction in the absolute amount of the working capital and that means that in terms of percentage of net revenue, working capital vis-a-vis that revenue was even stronger. So first, I needed to highlight that.

Second, it is only natural that we have variations in the different quarters. So we always look at things in the mid and long-terms. In the mid and the long-term that structure reduction that we have in the working capital in the last two years, we expected to maintain that, that is we will be working to maintain the working capital of Klabin regarding our net revenue at the same level that we have now after this reduction.

Specifically about the suppliers' account where we had a reduction at the end of the year-on-year, where we have a combination of a seasonal effect would -- and also movement of Puma II suppliers. Puma II suppliers did not have normalized amounts or values over the year-over-year, so in different quarters we might have variations in this account related to payment of these suppliers.

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

All right. Thank you very much.

Operator

Thank you very much. Now Caio Ribeiro from Bank of America.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good morning, everybody. Thank you for the opportunity. Could you talk about the packaging paper prices environment, mainly in the domestic market because the OCC prices have dropped, is this causing any pressure on the average prices charged by the producers and there is a competitor who is already slashing prices? And how do you see the environment regarding margin, especially in China and in Europe, do you believe that the levels are good or do you expect some increases on the part of paper producers in the next few months?

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

Thank you, Caio. I will start by the second part. This seems to be the routine today and then Flavio will take over and he will talk about the price of paper in the domestic market.

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The margin from producers, we are following all the results of the sector and it does not seem to me that there is comfort in the Northern Hemisphere vis-a-vis margins. I believe that the Northern Hemisphere or the non-integrated producers of pulp continues to be high in terms of transferring prices. And structurally, we see the Northern Hemisphere with difficulty in some cases in terms of transferring these costs to prices, mainly printing and writing paper.

But in packaging paper, there has been a transfer to prices all over the world and the producers were able to recover their margins, mainly those who have a more competitive cash costs. So they are more strict in terms of margins in Northern Hemisphere. And in the Southern Hemisphere, we have a very competitive cash cost here at Klabin and our ROIC is better. So it continues to be difficult for those who do not have a very competitive cash cost.

A - Flavio Deganutti {BIO 22267586 <GO>}

Caio, good morning. First of all, the prices had a very different behavior from what is normal and what Klabin exports in virgin fiber. So this is something very unique. I have been in this industry for so many years and this is unprecedented, what happened more recently was a natural reorganization, if you look at the average for 10 years of five years, it favors the virgin fiber in the domestic market which is only natural. And Klabin sees these price movements based on the supply of OCC, as you said yourself, in the medium and the long run.

From the viewpoint of the supply in Europe and the United States and Southeast Asia in Brazil, there is a shortage of OCC and this is structural. So the new capacities coming on board have brought a degree of balance, including the export that usually went to China. But we have seen a rebalancing in this supply in some destinations and the same happens in Brazil. In terms of Klabin, OCC, we'll be slightly higher than where it is today and this reorganizes the prices of paper that are based on OCC. Klabin continues to be very flexible and virgin fiber is the one that we act with the most. So based on this dynamic, there is no material impact on our business. And in the world OCC gives signs of USD150 and in China USD400 already.

So if you look at the longer time frame, we have the same balance that is being reduced that was the change of China increasing their OCC collection and reducing U.S. exports and this remaining in the U.S. or -- but there is a remodeling of the consumption of OCC in the world, but it is around USD150 and USD400 in China, which is still favorable regarding the paper market.

Q - Caio Greiner

Very clear. Thank you very much.

Operator

Next question is from Marcio Farid, Goldman Sachs.

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Q - Marcio Farid {BIO 22379440 <GO>}

Good morning, everyone. Thank you for this opportunity. I have a few follow-ups. I don't know if Nico is in the call, but Nico if you can comment please on the Chinese market, we have seen an interesting price recovery and the market is still strong and which are the main drivers for this favorable moment and what are your expectations for the short, medium and medium and long runs?

And also going back to Caio's question earlier, what can we think about the paper producers margins in China, especially after of this pulp price increase we are following and prices for paper for printing paper, coated board and sanitary papers and this is lower than inflation -- fiber inflation that we have been saying. So how are the paper producers reacting to that in China?

And finally, a positive surprise, and the result was the realization of prices. And I think that was mainly in the long fiber and maybe fluff, and if you can comment also on the fluff outlook and if we used to have room for more positive surprises over of the year?

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

Thank you very much, Farid. Yes, Nico is here and he will take your questions.

A - Alexandre Nicolini {BIO 21861040 <GO>}

Hello Marcio, good morning. Thank you for your questions. About China, considering the current inventory levels and the chain whether by logistics bottlenecks or by annual downtime -- maintenance downtime or strikes in Finland that effect not only long fiber but also short fiber among also other travel problems kind of problems that ended up interrupting production. Considering the current scenario, when we compare that to 2020 when we started foreseeing a weaker market in China, that's 2021, sorry, for 2022 we see that price movement a little bit more on the positive side, the logistics bottlenecks will keep on limiting these volumes to China. We know that ports are full because of COVID specifically and several producers I'm talking as well are redirecting products and volumes to other markets considering that we still have a high price difference between Europe, United States and also Brazil and China. So we see that movement in China is a very positive one and we understand the price implementation now in February will happen smoothly.

For the next months, we still foresee a very positive market. The scenario for the year, we can already tell you that this is better than what we already have considering all these exogenous factors that are parked in the market, but on the other hand, we can understand that we have room for a second quarter that will also be very positive.

About our sales mix and our price differentials, we already had an assumption that the fluff market would grow in 2022 in comparison to other fibers because there is no capacity increase for the market here. If you look at the prices and the price forecast of consulting services, we already saw price gap that was relevant between fluff and the other fibers, such as short and long fiber and bales and that allowed us to use machine 26 of Puma and I mentioned that on Klabin Day. We are now operating at limit mix of this

machine, we're already producing 65%, 70% of fluff volume and the remainder in long fiber and the domestic market in long fiber is very relevant and basically we are the single supplier here for that.

So this mix perspective won't change and the price perspective is positive. In the beginning of the call, I mentioned we had a price increase announcement in January that was already implemented, we announced 50 more for February, we believe this is going to be implemented and USD110 price increase starting in March and when the time comes we will understand if this is essentially possible to be implemented or not.

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

And also Nico, I would like to take this question and comment something that we have been discussed in Klabin for many years, which is flexibility and sometimes you're well understanding and sometimes don't. But we always try to make it clear and we want to make clear why we made the decisions we make especially regarding CapEx, so when we chose to have two drive fibers diversified basket of fibers, short fiber, long fiber. So now we have three different products in the same site and can you comment more please the price difference of entering the pulp's now?

A - Alexandre Nicolini {BIO 21861040 <GO>}

Okay, very nice Cristiano. Yes, that's right. The business model implemented at Klabin which is a diversified one allows us to gain an important share with some clients because we are the only supplier with all types of fibers in the same basket. In terms of prices, we have a prices differential of over USD250 in the net price between fluff and short fiber prices. And for a long fiber, as I mentioned, we can have a relevant share in Brazil and focusing segments that is now only paper but also specialty papers and this price differential was around USD150 to USD200 per ton. Thank you very much.

Q - Marcio Farid {BIO 22379440 <GO>}

Thank you very much, Nico and Cris. And if you allow me considering question or comment more and you mentioned a high premium USD250 in the average price of fluff against short fiber. Can you remind us what is the cost difference so that we can understand how you tap into margin and the fibers with less premium. Thank you and good luck in the second quarter.

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

Hello Farid. Considering what we can talk about it's a very, very good. It has great advantage there.

Q - Marcio Farid {BIO 22379440 <GO>}

Okay, great. Thank you.

Operator

We received a question from the webcast platform from (inaudible).

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Q - Unidentified Participant

Good morning. You recently announced the (inaudible) inorganic expansion differently from the IP acquisition in Brazil. Do you see opportunities in corrugated boxes for M&As or will you continue with organic project?

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

Thank you for the question. And it has to do with opportunities and circumstances. Nevertheless, what we can tell you is that the focus is the increase and integration and growth. And in this specific state with the opportunity that we identified, organic growth is the best solution undoubtedly. Also because of the supply of paper because Klabin is the best solution for these supply of paper for these region, so it makes a lot of sense to have this in this region. This will be considered in every single state, will be considered individually, it's a case-by-case analysis and the M&A opportunities that might arise. Well, the best way to answer your question is by looking at our dynamic in the last years, we acquired three companies and we were very successful in the three acquisitions that we made and also we had major projects in corrugated boxes such as was the case in (inaudible) around 2014. And the same is valid for the North and the Northeast and we are a growth company and we are dynamic, we are flexible, we are ready for M&As and we are also ready for organic growth.

Adding to all that at the end of the day, this is a company that will continue to grow the growth that we have been delivering in the last 10 years.

Operator

Thank you very much. There are no more questions, I would like to give the floor back to Mr. Cristiano Teixeira for his closing remarks.

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

Thank you very much. I would like to mention how we see the first quarter of 2022 at Klabin. The first quarter seasonally is more moderate and the domestic market is slower and the world trade feels the impact of the Chinese New Year recess at Klabin. We will continue to grow with results as consistent as the ones that we have delivered in the previous quarters in relation to sustainability. I reiterate our full commitment with the best practices in the private sector in the world and I highlight engagement of a whole specialist team at Klabin supporting organizations, both in Brazil and in the world regarding climate change global agenda. Klabin continue steadfast in its vision of long-term value generation and growth with focus on people innovation and sustainable development.

Thank you very much for your participation and hope to see you during our next meeting.

Operator

Klabin SA conference call has come to an end. Thank you very much for participating, and we wish you all a very good afternoon.

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