

## Q2 2014 Earnings Call

### Company Participants

- Antonio Sergio Alfano, Chief Financial & Investor Relations Officer
- Fábio Schvartsman, Chief Executive Officer

### Other Participants

- Alan Glezer, Analyst
- André Pinheiro, Analyst
- Carlos F. De Alba, Analyst
- Felipe Koh, Analyst
- Lucas Ferreira, Analyst
- Luiz Otávio Broad, Analyst
- Milton Sullyvan, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning. Welcome to Klabin's Conference Call. At this time, all participants are on listen-only mode. Later, we'll be starting the question-and-answer session when further instructions to participants will be given. As a reminder, this conference call is being recorded and broadcast live via webcast. It may be accessed at [webcall.riweb.com.br/klabin](http://webcall.riweb.com.br/klabin), where the presentation is also available.

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

Today with us today in São Paulo are Mr. Fábio Schvartsman, CEO; and Mr. Antonio Sergio Alfano, CFO and IR Officer. Firstly, Mr. Fábio Schvartsman and Mr. Sergio Alfano will comment on the company's performance during the second quarter. Afterwards, they'll be here to take any questions you may have.

Without further ado, I'd like to give the floor now to Mr. Schvartsman. Please go ahead, sir.

## Fábio Schvartsman

Good morning. Thank you all for being connected to participate in our earnings conference call related to Q2 2014. I would like to start with my opening remarks, highlighting that the second quarter for Klabin is usually a very challenging quarter, and that's because it's a quarter in which usually we do the scheduled maintenance of our main plant, which is Monte Alegre plant. And as a result, over the cost, (2:29) we have higher maintenance costs and limited production.

This quarter was financially challenging to us. Just as we had the scheduled maintenance, we also had the overhaul of Machine 9, which is the main coated board machine at Klabin. And this machine had an increased capacity during the stoppage at 50,000 tonnes per year. It was a successful investment, taking BRL 90 million as expected and led to a loss in output, an additional loss in production of 15,000 tonnes. What I mean by 15,000 tonnes, I'm referring to additionally to what was not being produced during the scheduled maintenance. As a result, we had to face an economic scenario that, as you all know, was very unfavorable, and with our hands tied, so to speak, because we had limited capacity during this period.

Well, I'm happy to say that the company's performance this quarter was very adequate despite all the circumstance that were so challenging that I've just mentioned. Therefore, our business grew by 8% vis-à-vis the same period of the previous year, which I consider to be successfully done considering the challenging scenario. The good news about this tough scenario is that the stoppage is over now. This is part of the past. Machine 9 is now fully operational, now giving us the right to address the market properly.

And if you go deeper into the details of our performance this quarter, you will see that Klabin worked on big amount of actions this quarter in order to reach the proper performance. For instance, with our limited capacity for coated board, we were forced to cut down on our exports this quarter. As you can see in our release, we lowered our exports for coated board 19% this quarter, whereas in the domestic market we improved our sales during the same quarter, therefore, showing how careful Klabin is with the tools available.

It's interesting to consider our kraftliner scenario, too. Unlike the scenario for coated board and, by the way, because kraftliner is not so strongly affected by Monte Alegre stoppage, we managed to expand our kraftliner exports by 19% this quarter.

At the same time, because the market was weak during the second quarter, the conversion market suffered and it suffered particularly with bags in which civil constructions, as you all know, has been having very weak performance this year and, consequently, this has an impact on cement consumption, which in turn has a significant impact on the sale of bags by the company.

This was partly offset by our sales of boxes. As you may know, Klabin sells boxes, particularly for the food segment. These are more resilient industries compared to the other sectors of the Brazilian economy.

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As a result, with very different actions and by addressing very correctly each one of the issues on a case-by-case basis, Klabin's performance was good in such a challenging quarter. And like I said before, the good news is that this is part of the past. The economy now is slightly better than before. Our stoppages has concluded. The overhaul of Machine 9 is also completed.

Now I will just briefly comment on the status of the Puma Project. I've just come back from Curitiba City. And yesterday, together with all the suppliers involved in Puma Project, we had an alignment meeting. And at this meeting, we had a long presentation by each one of the suppliers giving us an update of the performance of their works related to Puma Project. And I came back with the information that, precisely, we are within the timeline, the schedule and fully within our budget. In other words, up to now, we only have reasons to affirm and state that we remain confident that we'll be starting up our operation in March 2016 for the Puma Project and precisely within the schedule expected. In other words, we keep on working hard in the most important accounts of the company, doing our best.

We have other investments as well. Debottlenecking, as you know, we have just been through the second investment of the cycle, which was the overhaul of Machine 9 which was successful. And we have 50,000 (8:17) tonnes of top-quality coated board at low cost to be competitive in the market. This is precious. (8:23)

And we keep on moving forward in the recycled paper machine in Goiana. This machine has been within the schedule and also within the budget. Our expectation is that early 2015, this machine will be fully operational. And at the end of the day, this will help us reach the 2 million tonnes expected for next year.

In addition, the bottlenecking at Piracicaba and Angatuba is in progress, and we'll also be ready early next year, adding more capacity to Klabin to be competitive in the market. Therefore, we are delighted to say that the company keeps on rebuilding according to our plans and our expectations.

Now I'll give the floor to Sergio, who will be giving more details on our performance in the second quarter of this year. Over to you, Sergio.

**Antonio Sergio Alfano** {BIO 4337533 <GO>}

Thank you, Fábio. Good morning, everyone. Thank you for joining us in our conference call.

In terms of volume and revenue, the second quarter had a total volume sold by the company which went down 2% year-on-year, totaling 419,000 tonnes, and this was affected by the addition of 10-day stoppage to install equipment and increase the coated board output in Monte Alegre plant Machine 9. Despite the slowdown in paper and packaging markets in Brazil, Klabin flexible lines and exposure to more resilient factors allowed the company to report flat domestic sales year-on-year with 296,000 tonnes

delivered. Therefore, due to volume constraints, the volume exported totaled 123,000 tonnes, 6% lower than the second quarter of 2013.

The net revenue in the second quarter, including woods, amounted to BRL 1.151 billion, growing 5% year-on-year and increasing 8% in the domestic market and decreasing 4% in exports. In the first half of the year, the sales volume totaled 861,000 tonnes, remaining flat vis-à-vis the previous year. Net revenues increased by 9% in the same comparison, reaching BRL 2.355 billion.

What about the total cash cost this quarter? It's amounted to BRL 827 million or 4% higher than the second quarter of 2013. The unit cash cost was BRL 1,975 per tonne, or 6.8% higher than the second quarter of 2013, mainly affected by the overhaul of coated board Machine 9 in Monte Alegre, therefore, affecting the apportionment of fixed costs of the plants delivered in the quarter.

Despite the lower sales volume and the worse economic activity in Brazil, Klabin increased its operating cash flow again, and the adjusted EBITDA reached BRL 334 million in the second quarter, growing 8% year-on-year and with an EBITDA margin of 29%. With this result, our performance keeps on improving for the 12th consecutive quarter.

In the first half of the year, our EBITDA totals BRL 758 million or 9% higher than 2015, with a margin of 32%. As to net debt over EBITDA at the end of June, our consolidated net debt was BRL 2.8 billion vis-à-vis BRL 2.7 billion at the end of March. Consequently the net-debt-over-EBITDA ratio was at the same level of the first quarter of 2014 and closed the second quarter at 1.7 times. Klabin invested BRL 653 million in the second quarter, out of which BRL 82 million were invested in projects to improve capacity and BRL 464 million earmarked to Puma Project.

During the first half of 2014, investments already amounted to BRL 1.158 billion. We highlight our expenses with Puma Project, which totaled BRL 813 million. The building works of the project are within the schedule. Until today, approximately 2,800 people are working on-site, and by year-end, we expect to reach 5,000 employees. Since the beginning of the project which started last year, disbursements amount to BRL 911 million.

In June, during maintenance stoppage, the overhaul of the coated board Machine 9 was completed. The new capacity will add 50,000 tonnes per year, and the next expansions include the new recycled paper machine built in the Northeast and the two increased of (14:31) capacity in the countryside of São Paulo.

I would like to thank you all, and now Fábio and I will be here to take your questions. Thank you.

## Q&A

## Operator

Ladies and gentlemen, we are starting now the question-and-answer session. The first question comes from Mr. André Pinheiro from Itaú BBA.

### **Q - André Pinheiro**

Good morning, Fábio. Good morning, Sergio. Good morning, everyone. My first question is about the stoppage in the second quarter of Machine 9 in Monte Alegre. I'd like to know if you could give us some color about the financial size or amount of the stoppage so we can have an idea of the costs by Klabin in the second quarter excluding the stoppage. That's my first question.

### **A - Operator**

André, the cost of the stoppage is similar to the cost we had last year updated by the increase of service this year, so we're speaking of approximately BRL 44 million. That's the general cost of the stoppage.

As to the overhaul of Machine 9, well, in addition to the stoppage, we had the overhaul and we invested BRL 90 million in this overhaul of Machine 9. And on top of that, we lost output during this period due to the machine that was being overhauled, 15,000 additional tonnes in addition to what we would lose with the stoppage. Thank you.

### **Q - André Pinheiro**

Now, the second question is about the Puma Project. We've been working, doing a great job in terms of execution. And this is on time and on budget. What about the budget? Any change in CapEx in the Puma Project? We can see exchange appreciation in recent months. Any changes that you've been managing to have better negotiation with the suppliers and also considering the change in the exchange scenario.

### **A - Fábio Schvartsman**

André, there haven't been so many changes in Puma Project because we don't have so many imported input. Approximately 30% of the plant runs with imported inputs or equipment. And part of the amount was already deferred as down payment to build several of the equipment that is under operation. So, the exchange effect, the positive or negative, was very little on the total budget of the project and, essentially, we'll have the same budget that we had before.

### **Q - André Pinheiro**

Perfect. Thank you, Fábio.

### **Operator**

The next question comes from Mr. Thiago Lofiego, Merrill Lynch.

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

I have two questions. Fabio, I wonder if you could comment more about the outlook in the domestic market for future quarters and how can that be translated into EBITDA growth vis-à-vis the previous year. Could we expect that you would start growing again big (17:50) digits vis-à-vis last year when it comes to EBITDA generation?

And the second question is do you see any kind of price pressure in any of the products you deliver in Brazil? Is that happening already?

**A - Fábio Schvartsman**

Thiago, I'm sorry. I don't understand the second part of your question. You asked about price pressure?

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

Yes, price pressure in some of the products that you sell in Brazil. Do you feel any pressure already?

**A - Fábio Schvartsman**

Pressure for reduction, is that what you mean?

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

Right, reduction pressure.

**A - Fábio Schvartsman**

Okay. I did not understand, but I got it now. Okay. As to our expectation of results, as I've said before, the second quarter was very complicated, but it's over and I think we managed well in such a tough scenario. Obviously, things will be easier now. We run our businesses once our machines have a higher coated board capacity and they're fully operational, so we have more work and tools (18:57) now.

But I can tell you right now is that our expectations and now I'm referring specifically to the third quarter, we don't have so much visibility about the market down the road, but we expect to improve our EBITDA year-on-year. And as we speak, I'd rather not mention what the growth will be. I don't want to give any numbers. The Brazilian economy is very volatile right now, so it depends a lot on how much we'll be selling domestically, how much we'll be exporting once we define the level of results. But I can assure you that regardless of this scenario with a higher EBITDA year-on-year, this is our goal.

Answering your question about price reduction pressure, we don't feel any pressure right now. By the way, I think you all know that we have some cost pressures that are taking place, for instance, electric energy. And I'm not referring necessarily to Klabin. I'm referring to the market at large. So we have electric energy, pressure from salary rises that keep on happening and also pressure for OTC prices which is substantially higher than before. So if we add all these factors together, there is cost pressure.

Under normal market conditions, that would lead to a price rise for sure. Now, if there will be a price increase or not, that will depend on the company's performance or the economy's performance in the second half of the year, so we cannot tell you right now because there is so much volatility in the economy, we cannot give any figures. If the economy is stronger, there will be room to transfer cost increases, but not if the economy is weaker. But I don't see any expectation anywhere in terms of price reduction.

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

Perfect. Thank you, Fábio.

**Operator**

The next question comes from Mr. Carlos De Alba, Morgan Stanley.

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

Good morning, Fábio and Sergio. Thank you for taking my question. Just wanted to understand, Fábio, when you mentioned about the 2 million tonne expected volumes for next year, how do you see the progression on the ramp-up towards that level? If I annualize the first six months of 2014, the company was running around 1.7 million tonnes per year. So how do you see the progressions toward the 2 million tonnes that you discussed?

**A - Fábio Schvartsman**

Carlos, thank you for your question. If I understood you correctly, you were saying that in 2014, our capacity was 1.7 million tonnes, right? And in late 2013, (22:05) we started up with sack kraft Machine 9, which added approximately 70,000 tonnes of capacity. And afterwards, right now we've just concluded in June the overhaul of Machine 9 with added 50,000 tonnes of capacity. And we have the recycled paper machine in Goiana, which is being built and will be ready early next year, which will add 110,000 tonnes of capacity to Klabin. And we also have debottlenecking in Piracicaba and Angatuba underway, scheduled for next year at 50,000 tonnes of additional capacity. If we add that all together, approximately, we will come to 2 million tonnes of capacity, which is the number we expect to achieve by 2015.

I hope I understood your question correctly. Did I?

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

Yeah. Actually, can you just clarify? So how do you see the capacity utilization then next year in 2015 of these 2 million tonnes? And how do you see the evolution on that capacity utilization in the coming quarters?

**A - Operator**

Carlos, we intend to run all these machines at full capacity. Not only do we sell in the domestic market but we also work on exports. In other words, we have a market for full

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capacity. So with the 50,000 tonnes of additional paper, each ton of the coated board that I - produce ourselves.

As to the recycled paper machine, although the ramp-up will take a couple of months to reach full nominal capacity, once it is fully operational at full capacity, we'll be selling the whole capacity. And by selling the whole capacity in the Northeast, it will release our capacity of kraftliner in the South, improving our capacity to export. So that means we'll be exporting or we'll be selling more in the domestic market if the domestic market is strong. So we'll always do according to the capacity.

And not to mention the debottlenecking in Piracicaba and Angatuba, as you know, Klabin has that strong conversion area. And basically, it uses paper and board produced by ourselves, so it will give us a stronger competitive advantage in conversion, too.

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

All right. And then final question, you mentioned that the economy seems to be improving in recent weeks, months or at least running (25:05) to June. Can you give us a little bit more color if you think that this is just a normalization, say, from a very weaker June, or do you expect this to be a little bit more fundamental behind this piece of recovery?

**A - Operator**

Carlos, I'm not an economist and I don't have a crystal ball either. So, all I can tell you right now is that June was extremely weak.

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

(25:39)

**A - Operator**

It makes no sense to assume that June represents a standard of behavior. And because - well, July, we will be stronger, that's a given because June was really weak. But if the pace in July will be sustainable in future months, it is too early to answer, too early to tell.

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

Right.

**A - Operator**

It will all depend on the economy use of inventories that are being built by the sales that are taking place now in July, and I cannot anticipate that either. That's why I'm being very careful. And I don't want to say what will happen in the third quarter when it comes to the domestic demand because that's the main driver of cost generation at Klabin.

It would be too early to say anything, and it will be based on information that I don't have right now about the market in the future. So, what I can tell you right now is that our



EBITDA will keep on growing, but the extent of this growth will basically depend on the strength of the economy at the time. Whether it will grow a lot or too little would be affected by these factors.

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

Fair enough. Thank you very much.

## Operator

Our next question comes from Mr. Milton Sullyvan, Brasil Plural.

**Q - Milton Sullyvan** {BIO 19085202 <GO>}

Good morning. Thank you for taking my question. I have two questions. The first question is about demand. You mentioned that the demand is better now in July compared to June. Could you give us a comparison between the demand before and after the World Cup now with the numbers that you see for July?

And my second question is about market share. You've been gaining market share now with a growth in volume in a market that is not growing so much. So how much room do you expect to see for market share if the market does not recover as much as you expect in the future?

## A - Operator

Don't you have easier questions to ask? Wow. Okay, let's do it. Demand pre-Cup, well, it is about the same level, pre and post World Cup. In July, we came back to business as usual. If this is sustainable in the future, I insist I cannot affirm what will happen in the future because there are many things interfering in Brazilian economy right now.

As to our market share growth, I made a comment in the beginning and I said that, basically, we sell to food manufacturers. And usually, food manufacturers suffer less during economic crisis compared to other manufacturers of consumer growth in Brazil. And obviously, we expect not to suffer that much if the market gets worse. Now that's what's happening and I don't see why it would be different.

July or the second quarter was emblematic in this regard. We managed to maintain our volumes and even slightly increased the volume in a very critical market. So if the condition comes back, and I hope it does not come back, Klabin will still keep on having very strong volumes considering the destination market of these products.

**Q - Milton Sullyvan** {BIO 19085202 <GO>}

Thank you very much.

## Operator

The next question comes from Mr. Lucas Ferreira, JPMorgan.

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

Good morning, Fábio. Good morning, Sergio. My first question is a follow-up question. I would like to understand the current capacity of corrugated machines at Klabin. Will you still increase conversion? There was an impact this quarter, right? And I would also like to understand that considering the bag market is not so strong, would you continue producing the kraftliner and the new machine for longer time or any expectation about when you'll be producing more consistently the bags in this machine?

And the second question just as a reminder, could you comment on the mix of coated board or papers with the start-up of the new machine SC (30:51) or are you just going to close the gap of your exports and lower exports? I wonder if you could comment the qualitative aspects of coated board production in the future after the start-up.

## A - Operator

Lucas, thank you for your questions. When it comes to our corrugator capacity, we do have some capacity available. We can certainly keep on growing this year and also next year with the same pace.

In other words, well, sometime next year, we might consider additional capacity for corrugators if we keep on growing, as we've been growing up to now. But for 2014 to 2015, our capacity is enough to meet our growth expectations with no difficulties whatsoever.

Now, answering your questions about sack kraft or bag production and if we are producing kraftliner in the new machine, that's a very good question, actually. Obviously, when you start delivering and the bag market is weak, you start producing kraftliner together with sack kraft to sell in the kraftliner markets.

So that's already a stage that we've overcome. Right now, we are producing more sack kraft in the machine and selling sack kraft and our kraftliner. The bulk is being exported. That's the capacity generated by the machines.

So actually, the bag market is really weak in Brazil, and I don't see possibilities to recover or rebound in the market in the short term. So the good news is that we have enough costs to exports (33:04) and we will keep on producing significant amounts of sack kraft.

As to coated boards, you might imagine that when you have limited capacity, you'll always try to meet the most important customers' needs first. Sometimes, you fail to meet others. But what I'd like to say right now is that the 50,000 tonnes of additional capacity will be sold approximately with the same mix of coated boards that we sell today. In other words, we will be selling LPB and SBB, but particularly to the export market.

As you can see, based on the figures in the second quarter, we were forced to step on the brake because we didn't have enough coated boards to deliver. So we decided to favor the domestic market and we sacrificed exports regardless of the unprofitable or not as profitable as sales in the domestic market because our commitment is to supply always to

the domestic market because that's our preferred market and that's where we want our consumers, our customers to keep on running their business very smoothly.

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

Thank you very much.

**A - Operator**

I hope I've answered your question.

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

Yes. Thank you. You did.

**Operator**

The next question is from Felipe Koh, Citigroup.

**Q - Felipe Koh** {BIO 17962174 <GO>}

Good morning, Fábio, Good morning, Sergio. I have just one question. The other questions were already answered. What about your sales mix? You mentioned before that you will prioritize the domestic market, the domestic supply due to the additional stoppage for coated boards. And I believe it is also – the domestic market is more profitable than the foreign market.

Now, at this exchange level of BRL 2.25 – BRL 2.20, BRL 2.25, do you still have this appeal or this argument saying that exports would be as profitable as the domestic market? Any changes? And what is the outlook for the second half of the year? Do you think the mix will be greater for the domestic market or maybe you possibly would sell or export more often?

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

Felipe, Sergio speaking. In terms of the profitability of the domestic or foreign market, if we check the profitability we had with the exchange rate at BRL 2.45 in exports, obviously with a drop in exchange rate, we lost some profitability with exported products. Now that levels are BRL 2.20 or BRL 2.25 compared to exchange rate in the first quarter. But because Klabin has worked very hard in recent years to lower the production, cash cost for the mills because we export basically coated boards, paper and kraftliner, so with the cost reduction, Klabin still has an EBITDA margin or a profitability that is quite respectable for exports, too. Obviously, when the exchange rate is BRL 2.45 in the first quarter, margins were better compared to now at BRL 2.20 or BRL 2.25.

**Q - Felipe Koh** {BIO 17962174 <GO>}

So probably, we should see something more targeted for the domestic market, right?

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

The domestic market, like Fábio said before, we meet all the domestic market's needs. But we're also present in the export market. We have regular customers in foreign markets, too.

### **A - Fábio Schvartsman**

Felipe, just adding to his comment, if the domestic market grows, which is a possibility in the second half of the year, obviously, we're going to meet that need. But if the market grows in parallel, which has been happening so far, actually, we'll be exporting more. And Sergio put it so well. He said that the profitability difference comparing exports and domestic sales is very small.

### **Q - Felipe Koh** {BIO 17962174 <GO>}

Okay. So I have a second question, if I may, about coated board and now the debottlenecking of Machine 9. You probably had a lower volume of coated board due to that stoppage. Are you so glad? (38:17) Particularly when it comes to coated board, do you think that customers have lower inventory levels and then we could try to offset the volume - volume offset in the second half of the year?

### **A - Operator**

I hope so. Obviously, we have to do everything in our power with our limited capacity to meet everybody's needs. And obviously, if compromised, the inventory levels along the chain. So it's reasonable to assume that we'll have to fill out and replenish inventory somewhere.

### **Q - Felipe Koh** {BIO 17962174 <GO>}

So maybe coated boards of all the products?

### **A - Operator**

These customers probably have the lowest inventory levels based on that reading. (39:05)

### **Q - Felipe Koh** {BIO 17962174 <GO>}

You're right. Thank you.

### **Operator**

The next question comes from Luiz Otávio Broad, Ágora Corretora.

### **Q - Luiz Otávio Broad** {BIO 4218471 <GO>}

Good morning, everyone. Could you comment on new funding that you're planning, your finance debt and the expansion of your capacity, particularly for the Puma Project? Recently, you issued debt in the domestic market. And now in foreign markets in July, your cash is very high. What about the future? And new investments, will you fund them

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with part of the cash you have or debt or new issuance and would it be more domestically or in foreign markets? Thank you.

## A - Operator

Let me tell you something. We launched this bond – issued this bond as cash enforcements to back our cash. As you know, Klabin has an important investment cycle and having a backup to our cash is always important. This is not related to any kind of funding or new investment because every new investment that we have has already been financed and announced, including Puma Project. The funding structure is fully set. Well, there is some strengthening in our financial position benefiting from a window that would favor both (40:55) for that purpose.

A question that you did not ask but I would like to answer is that for the moment, even though we have already dispersed almost BRL 1 billion in the Puma Project, our net debt over EBITDA remains 1.7 times, which I consider to be a highlight. It is not trivial to invest so much and manage to maintain your net debt over EBITDA ratio as it is now.

So I think our financial team has been doing a great job, not only the finance people but also the operations team. They have been helping to grow our results over the period. And we feel comfortable to reiterate that the limits of indebtedness that we announced for the Puma Project will be met or will be even lower than the limits, which is good information to share anyway.

## Q - Luiz Otávio Broad {BIO 4218471 <GO>}

Thank you.

## Operator

Our next question comes from (42:11)

Hi. Thank you for the call. You mentioned what some of the costs were related to the stoppage and the overhaul this quarter, but could you provide a normalized figure for the unit cash cost this quarter? It seems that you provided that historically, and I didn't see anything in the release this quarter.

And also my other question is, given the cost pressures that you'd mentioned earlier in the call, are there any additional cost-cutting measures that you could take in light of the fact that, given the weak economy in Brazil, you may not be able to increase prices to compensate?

Let me start by answering the second question about cost-reduction programs, if I understood you correctly.

Yes.

As we mentioned before, over this quarter, we keep on focus on our cost-reduction program. And right now the main focus is on forestry and in box conversion areas. Both have cost-reduction programs. Professor (43:37) is working and we have good perspective to bring significant cost reduction proportional to the base cost.

And later on, over next year, we will be possibly working on efforts to lower our costs in our Santa Catarina plant, and they have not been included in this project yet. So this is continuous efforts by Klabin. So we manage to maintain very low costs, and at the same time, deliver results under tough economic scenarios, just as the one that we had in the second quarter this year, as I explained previously in this call.

As to your second question about the cash cost, I think the information is available in the press release. Let me see. So information, as we always announced, they are included in the press release. We informed our unit cash costs, which increased this quarter due to the stoppage. So if you exclude the stoppage costs, you have very accurate information about the normalized cost of the operation during the period.

I hope that answered your questions.

But I'm just wondering on a per-unit basis, considering the impact on volumes and there are several moving parts this quarter, on a per-unit basis, what would be the cash cost excluding the stoppage and the impact from the remodeling of the plants?

### **A - Fábio Schvartsman**

I'm sorry, I was talking to Sergio, but you should not consider the stoppage a non-recurring event because it happens every year. And consequently, that's a cost that the company will have again next year and in future years. So excluding this event, to check the cost creates a circumstance that is not true. It is part of the nature of big paper mills like ourselves. You do have significant stoppages every year in order to sustain the information with top quality for the subsequent year. So, we don't disclose this guided information because it might be misleading because the correct information includes the stoppage cost since it will happen again next year at the same time.

### **Q - Operator**

Okay. Thank you.

The next question comes from Alan Glezer, Bradesco BBI.

### **Q - Alan Glezer** {BIO 17508681 <GO>}

Good morning, everyone. I have two questions. First, about costs. I would like to know that with the slowdown, with the Brazilian economy there, cost pressure that we saw last year about OCC already has a recovery, with the cost pressure with OCC. And what about the bottlenecking - the debottlenecking of Machine 9 in addition to the 50,000 tonnes of capacity per year also has a positive impact on cost?

The second question is about the conversion business. You had 2% growth quarter-on-quarter basically because the focus of the company is on beverages and the meat packing plants. What about other customers? Did you see any kind of slowdown in the level of procurement? Basically, these are my questions. Thank you.

## A - Fábio Schvartsman

Let me start with the easier question which is the last one. You're right. The market, except for the sectors you mentioned, had a deep slowdown, particularly in June. It started in May and it got even stronger in June.

As to the debottlenecking of Machine 9, look, arithmetically speaking, it leads to cost reduction because we had exactly the same operating fixed cost we had before. And now we took 50,000 tonnes additionally per year out. So there is a proportion of reduction of the fixed cost per tonne delivered in this machine.

As to cost pressure, you mentioned OCC. Actually, the price pressure for OCC is lower. Maybe it is lower than expected. However, OCC is at a higher price compared to what it was last year or early this year. And the other cost pressures still exist. Electricity, for instance, as you know, has had significant cost increases. And labor bargaining agreements, although in real terms they went down, well, the real or actual increase is lower. But we also have a nominal increase, so we do have cost pressure still very strong on this sector.

## Q - Alan Glezer {BIO 17508681 <GO>}

Thank you for the answers, Fábio.

## Operator

The next question is from Vincenzo Paternostro from Credit Suisse.

## Q - Vincenzo Paternostro {BIO 17670256 <GO>}

Good morning, Fábio. Good morning, Sergio. My question is about the corrugated box market. As you mentioned, we still see a strong pressure on costs. And based on ABPO data, the demand was relatively weak in the second quarter. Consequently, I assume many smaller and less efficient companies are also going through hard times. I'd like to know in that sense if you imagine there might be any capacity closing or shutdown by this less efficient company or a new wave of consolidation.

Last year, International Paper arrived then we had Irani consolidating with São Roberto. Do you think you might see a new consolidation wave? And how do you envisage or see this new consolidation wave? Do you see it as a positive effect in the sense that it will bring more discipline of supply to the industry, or do you see it as a risk of having a better structure, stronger player in the market? These are my questions. Thank you.

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

Vicenzo, this is Sergio speaking. Answering your question about corrugated box, we don't believe that due to cost reasons or lower demand, there will be any plant shutting down or any exit of corrugated box players. And in the short to mid, long-term basis, we don't believe there will be a consolidation that might have an impact on the market.

The market is very fragmented. There are many players with a small market share, and any possible consolidation would have very little impact on these new shares or anything that might affect the market structure. We don't believe this will ever happen, Vicenzo.

**Q - Vicenzo Paternostro** {BIO 17670256 <GO>}

Okay. Thank you.

**Operator**

Excuse me, the next question comes from Milton Sullyvan, Brasil Plural.

**Q - Milton Sullyvan** {BIO 19085202 <GO>}

Thank you for the follow-up. I have just one last question about working capital. What is your expectation for the future? We saw a big increase in the supplier line which, as I assume, is related to the Puma Project. Could you give us some more color about the working capital expectations in the future? Thank you.

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

Sergio speaking, Milton. In terms of working capital, obviously, during this stage of heavy investments that the company is going through, the working capital in terms of current liabilities tends to go up in the suppliers line. But that's not a cash inflow. Working capital has to do with payable suppliers. So our levels are expected to remain as usual, excluding the suppliers' account for the pulp project. So basically, our operating working capital is around BRL 300 million, and now it is slightly lower due to the said drop and because of the suppliers' account related to the project.

**Q - Milton Sullyvan** {BIO 19085202 <GO>}

Thank you.

**Operator**

There are no further questions. I would like to give the floor back to Mr. Fábio Schvartsman for the closing remarks.

**A - Fábio Schvartsman**

Gentlemen, thank you very much for joining us at this conference call. As I said at the beginning, we were fortunate to deliver good results in a challenging scenario, and the third quarter will probably be easier than the second quarter considering the rebound in the economy and our improved capacity.



We keep on being committed to cut down our costs in our areas. We don't intend to move away from it at no time because we are committed to turn this company into a company that operates with lower and lower costs, so it remains competitive in the long term.

We are also happy to see that the Puma Project, which is so important for Klabin's future, is being performed within our expectations, within the timeline, within the budget. Consequently, I believe the whole company is dedicated to deliver increasing results and right now to expand our capacity which will start in the beginning of 2016 with the Puma Project up and running.

So thank you once again for being with us, and we look forward to seeing you again in our next conference call. Thank you very much for your attention.

## Operator

This concludes Klabin SA conference call. Thank you all for joining us. Have a good day. Thank you.

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