

Q4 2015 Earnings Call

Company Participants

- Antonio Sergio Alfano
- Fábio Schvartsman

Other Participants

- Alan Glezer
- Caio Ribeiro
- Daniel Sasson
- Gabriela Cortez
- Jonathan Brandt
- Juan G. Tavaréz
- Lucas Ferreira
- Marcio Farid
- Thiago Lofiego
- Vincenzo Paternostro

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 have a question-and-answer session when further instructions for you to participate will be given.

I would like to remind you that this conference call is being recorded, and it is also being broadcast live via webcast and may be accessed at [http://cast.comunique-se.com.br/klabin/4Q 15](http://cast.comunique-se.com.br/klabin/4Q%2015) where the presentation is also available.

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

With us today in São Paulo, we have Mr. Fábio Schvartsman, CEO, and Mr. Antonio Sergio Alfano, CFO and Investor Relations Officer. Mr. Schvartsman and Mr. Alfano will make

remarks about the company's operating performance during the fourth quarter and the year of 2015. Afterwards, they will be answering questions that you might wish to ask.

Now, I would like to turn the call over to Mr. Schvartsman. Mr. Schvartsman, you may proceed.

Fábio Schvartsman

Good morning, everyone. Once again, it's a great pleasure for me to be with you in order to make some comments about the fourth quarter of 2015 of Klabin. Once again, it's a great pleasure for us that we inform that we are delivering what we said we should be delivering in the last call.

Klabin was able to increase markedly its exports 52% in volume. And with that, we were able to significantly increase our EBITDA in the fourth quarter of 2015 on a year-on-year basis. EBITDA grew by 25% during this period. And it is with joy that we say that Klabin is better as a whole, got close to BRL 2 billion with a 15% growth vis-à-vis 2014, showing once again the excellent progression of the company's performance. And in fact, this was our 18th consecutive quarter of increasingly higher results. And I think I should add that this means quite a lot. And the fourth quarter of this year, as we said, was by far the strongest of 2015.

Gentlemen, I would like to mention a few highlights regarding this last quarter, starting by our exports. With a major increase in volume of Klabin as a whole in our production, 13% increase in the fourth quarter vis-à-vis the fourth quarter of 2014, we had an impressive 65% increase in the volume of kraftliner, 41% growth in the exported volume of coated board, and 31% growth in the volume of industrial bags exported as well. And I believe that these are very major figures. And they are evidence of the major agility and adaptability of the company to the different changes in the economic scenario.

If you analyze our figures, the figures that we delivered over the last few years, you will notice that the company made money and increased less than 20% volume of exports in the third quarter of 2011. And in the fourth quarter of 2015, we delivered 38% of our volume being exported, which means the company was flexible enough to double the share of our exports in our overall volume in order to optimize our performance.

And the second point I would like to mention as being very important is that even some items that could seem to be negative such as the growth in SG&A, I would like to mention to you that the major source of growth in SG&A are not administrative of core (05:45) but these are expenses that had to exist for the preparation of Puma, mainly expenses with forestry, supply chain, and logistics and also a redoubled endeavor that we are making in P&D - R&D. These are not really expenses because they are investments in fact because even with figures that might see negative at a first glance, they are in fact a major driver towards our future growth.

Very well, now talking about the scenario that we are living in the Puma Project. The Puma Project is about 30 days before start-up, start-up is confirmed for March, and we are here

- we are now commissioning all the equipment for the plant. And the commissioning is going very smoothly unless there is a surprise that could happen. But the plant should be operating in March, pulp sales.

I would like to mention that before the plant being ready and operating, we have already sold 100% of our hardwood supply. It's not only the fiber and the remaining and (07:23) 70% of our production of fluff and softwood for 2016. Of course, this helps the start-up to be very smooth, and our operation is very smooth over the year.

Regarding the scenario, we will continue following the same path. Company will continue to grow exports, and I would like to remind you that our business is seasonal. And when I say growing exports, I'm referring to a comparison with the same quarter in the previous year. Otherwise, we would be leaving aside the seasonability that exists and this wouldn't be right from the evaluation viewpoint. And even more important than that, I think we are comfortable to say that unless something totally unexpected happens, we will continue following the path with an evolution of our results over the whole year. And more specifically in the third - in the second quarter - in the next quarter, the EBIT of the company will continued to grow, such as we have been delivering for the last 18 quarters.

It's a sad fact that the Brazilian crisis is so deep. And we are sad when we say that we have to export more to offset the weak domestic market. Nevertheless, on the other hand, Klabin has this capacity, and it is up to us to look for results and not only complain about the fact that the domestic economy is weak. And I believe that we delivered reasonable results if you take the fourth quarter of the year. This is when the economy was very weak, but you can see that we sold 5% higher than the sales or the revenues of the same quarter in the last year. It's a combination of resilience in the domestic markets of Klabin and the export capacity that allows us to have an ongoing growth in our results and, of course, with the management team, which is a top team. And this is the reason why we are able to deliver these results.

So this is what I had to say to you. And now I would like to give the floor to Sergio Alfano, who will be making remarks about the - our performance in the last quarter.

Antonio Sergio Alfano {BIO 4337533 <GO>}

Good morning, everyone. It's a great pleasure to address you again. I will be talking about the results in the quarter and in the year of 2015.

Regarding the sales volume in the fourth quarter, the total volume sold by Klabin was 499,000 tonnes, selling practically its whole capacity of 2 million tonnes. And this figure represents a 13% growth vis-à-vis the fourth quarter of 2014.

For the full year, the volume sold was 1,833,000 tonnes, 3% higher than 2014. In the fourth quarter, Klabin, once again tapping into its flexibility and competitiveness and the quality of the products, further increased the share of products to exports due to the situation in the domestic market, with 190 tonnes (sic) [190,000 tonnes] (11:29) being exported in the fourth quarter of 2015, a 52% increase on a year-on-year basis. Thus, the

volume exported started to represent in the fourth quarter of 2015 38% of the total volumes sold by the company vis-à-vis 21% - 28% in the fourth quarter of 2014.

In 2015, the volume exported was 627,000 tonnes, 15% more than in 2014, representing 34% of the volumes sold. With the growth of our exports, the domestic market volume was 309,000 tonnes, 3% below the same period in 2014. End of the year, the volume sold in the domestic market was 1,205,000 tonnes, 2% lower than what we saw in 2014.

Net revenue in the fourth quarter including wood was BRL 1.6 billion, growing by 33% on a year-on-year basis and driven by the higher export at a more favorable average interest exchange rate and net income BRL 5.7 billion, 16% higher than 2014. Unit cash cost excluding non-recurring effects of other operating expenses and revenues was BRL 2,041 per ton, 12.5% higher than the fourth quarter of 2014, reflecting mainly the cost in the acquisition of electric power, major hikes during the year, and dollar-denominated input, especially the chemicals that are used in the manufacturing of coated board. Besides higher expenditures with sales due to the higher volume exported in the year, the unit cash cost excluding non-recurring effect was BRL 2,041 per ton, 10% higher than 2014.

The company's EBITDA in the fourth quarter was BRL 603 million, 19% higher than the fourth quarter of 2014. And as Fábio said, this is 18th consecutive quarter in which we delivered this evolution, always when compared to the same quarter of the previous year. In 2015, EBITDA was BRL 2 billion, 15% growth vis-à-vis the previous year. Consolidated net debt of Klabin at the end of December amounted to BRL 12.4 billion, a BRL 797 million increase compared to the - the end of September, mainly due to the BRL 1.4 billion investments made in the quarter. On the other hand, a strong cash generation by company and the lower exchange rate that we saw at the end of the quarter kept net debt adjusted EBITDA ratio is stable, 6.3 times, practically the same level as September 30, 2015.

I would like to mention that Klabin has no financial covenants in all its financings. And the effect of the exchange rate variation in the year is an effect that does not have a significant cash effect in the short run. Regarding our investments, Klabin invested BRL 1.4 billion in the fourth quarter at BRL 1.2 billion were exclusively invested in the Puma Project. The works of the new plant with a capacity of 1.5 million tonnes of pulp both hardwood and short wood continues to be advance during the fourth quarter. And by the end of the September, the site already had 95% of the physical evolution completed and 77% of the total CapEx already disbursed, and the start-up of the line to be in March.

This is what I would like to convey to you. And now, Fábio and myself will be available to answer your questions.

Q&A

Operator

Our first question comes from Thiago Lofiego, Bank of America Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, and congratulations for the results. I have two questions. Fábio, if you could talk about the sustainability of exports and considering the weaker global increase, I don't know whether you consider any anti-dumping procedures. Could you talk about the evolution of your exports in 2016, taking all this into account? And the second question about the coated board machine. Will you be announcing and approving the project by mid 2016, what about the engineering of the project?

A - Fábio Schvartsman

Thank you, Thiago, for your questions. And regarding our export, Klabin exports to a very wide range of sites and countries, and with very little concentration of our exports. I believe that our exports are sustainable and I believe they will continue to evolve in 2016 ex the pulp plant. We are talking about the existing operations and you are right, the international market is weak. In general, everywhere you look, you'll find weaker market.

Nevertheless, the price adjustments downwards in dollars that happened - or that might happen in the future. In general, they are more than offset by the devaluation of the Brazilian currency. So, this means, that the competitiveness of Klabin's exports continues - intact. Of course, we have to go quarter-by-quarter. So the next quarter, we will have an important increase in our exports in this first quarter of 2016 vis-à-vis the first quarter of 2015, always taking seasonality into account.

In relation to machine no. 10, the answer is in your question. The pre-engineering is at full steam. The engineering should be ready by the first half of this year. We are evolving the negotiations with our clients and we expect to close them still within the first half of the year. And having these two things ready, then the project will be forwarded to our board and submitted to the board approval, and this is when we will come back to you in this regard.

We have been extremely careful when we talk about these issues, because we do not want to shift the focus from what is more important, which is to have a good startup of the pulp plant in March, because of course it was the biggest investment ever made by Klabin in its whole history. So we cannot talk very actively about other things before having everything up and going. But I would like to stress that this is the last call that we hold before this plan being started up. So the next time we talk, we duly expect to give you more color about this and other issues related to the future of Klabin, because Klabin is not stagnant, thinking about what is being done today or in the past. We are building our future and we have a whole array of things that will be proposed after the startup of Puma.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Could you go back to the first question, Fábio? How do you see the risk of protectionist measures in some markets? I don't know whether my question is valid or not but we have seen this happening in other markets, other products. So I would like to understand, because as the market is much weaker everywhere we look, do you ever consider this as a possible risk?

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A - Fábio Schvartsman

Thiago, of course. As you have a further deterioration of the word economy, the threat of protectionist measures become more probable or more possible. Nevertheless, Klabin has in its favor a fact that I believe is unique among the exporting companies.

We sell with a higher price to other countries than in the domestic market. So this is really the touchstone for any discussion regarding protectionist measures. So we are exporting at very high levels. I'm not saying that I can guarantee that we will see no protectionist measure. After all, I cannot prevent a country or another company to take this kind of measure. But even if we see this kind of measure, the possibility of success due to the fact that we sell at higher prices abroad than we sell in the domestic market is very, very small.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you.

Operator

Lucas Ferreira from JPMorgan. Mr. Ferreira?

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, everyone. Fábio, my first question has to do with the negotiations of the Puma pulp that you said. You mentioned the amounts that are already showed. What about the negotiations vis-à-vis your expectations regarding discounts and acceptance of the products and premiums of fluff vis-à-vis hardwood fiber pulp?

And the second question has to do with the market in Brazil. Do you see any adjustments in the supply? After almost two years of recession, we know that some companies are facing dire financial straits. And also talking about some coated board market, do you have any indication of the market abroad for coated board?

A - Fábio Schvartsman

Well, regarding Puma, we are reasonably in line with what we expected. And in fact, things are even a little bit better because we are selling products that we have not even produced one single tonne of fluff, for instance, in the dozens of thousands tonnes, and we have not produced one single tonne yet.

So if you consider this context, the percentage of sales that we achieved and that were mentioned were very significant and very positive. Regarding discounts, we are very well - we see no pressure whatsoever, quite the opposite. We are very much in line with the market practices and it is not Klabin's practice to destroy price anywhere and we don't like to do that and we go to new market very carefully. So I can guarantee to you that our prices are not lower than our competitors, in any regard. And we will have a product that we expect to be extremely competitive both in cost and quality, and many clients have already signed contracts with us based on this expectation.

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And understanding the specifications of - we are doing what we are doing and they are very pleased. I believe that the contract Fibria of course helped, because the hardwood volume is quite big, and undoubtedly it's very comfortable to count on the support of Fibria, a major part of this volume, because this guarantees that we can resist any kind of downward pressures. And because of that, our global prices remain as we have always done, doing the best possible.

With relation to the domestic market, the supply situation - that was the object of your second question. Okay, some manufacturers one here, another one there, are facing some degree of difficulty, but nothing very significant. And I believe that the packaging market continues to be very healthy with most of its players being able to operate with acceptable prices. In a moment, that is very difficult in Brazil, economically speaking. So this is a fact, and I think it stems mostly from Klabin's attitude as the biggest player in the market, and the way we tackle the market I think it helps the whole market to work with these standards.

Now, regarding coated board. Okay, our sales of coated board are going very well in the domestic and external market and based on factors that we repeat all the time to you, but I think figures are very illustrative. In similar conditions, there is a preference for Klabin's coated board in many different markets and this is the reason why Klabin, even in a moment of dropping prices and dropping volumes in Brazilian market, in spite of this, Klabin is able to expand its sales at group prices. And also for liquid packaging board, Klabin has a more resilient market than the other players - than the other coated boards. So we don't foresee any change in this regard for 2016, because we have cost and quality to continue to evolve in this market as it is considered good for the operations of the company. And as Sergio (28:04) always says, Klabin continues to operate 100% sold. We don't have practically one single tonne of capacity being left over and I think this is the living evidence that we are taking things ahead and with very sound numbers, with good margins, with an evolution in our EBITDA. So, I think, we are on the right track. Thank you.

Next question will be in English. Our next question will be in English. Jon Brandt, HSBC.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi, good morning, Fábio. Good morning, Sergio, congratulations on the results. My first question was related to the paper market. I think Argentina accounts for just under a third of your exports. I'm wondering what you're seeing there with the currency depreciation of the Argentine peso that must have made domestic sales within Argentina more expensive in dollar terms. Are you seeing a reduction in demand or a reduction in prices? Any impacts from what we're seeing in Argentina? And also on the paper market, I'm wondering if you can comment a little on some foreign competition that is coming from the packaging market. How do you see that - will that have an impact on prices or oversupply, or do you think that brings more rationalization to the market? Thank you.

A - Fábio Schvartsman

Jon, thank you very much for your questions. Let's talk about Argentina. Argentina went through a significant political change about a month ago, and the consequence is very strong. The first one was the liberation of the exchange rate market and the equalization

of the blue market or the parallel market to the official market and we sell a lot to Argentina, as you said yourself. And the good news is that the Argentinean demand is even stronger now.

My assessment is that the return of Argentina to the market is an outstanding news to Klabin, because if Klabin is competitive in prices, and if Klabin is competitive in qualities worldwide. It is also competitive in Argentina. Our product benefit a lot from the existence of a higher demand coming from the Argentinean domestic market. So our expectation is that we will see Argentina growing in Argentina in this regard, in 2016 in this regard.

And Sergio mentioned that in the kraftliner market, they depend on import. And of course, Brazil - Klabin more specifically are important suppliers of this product to the Argentinean market. And you also asked about the coming on board of new entrant. I don't know whether you're talking about the Smurfit Kappa acquisition of the INPA (31:54) operations in Brazil?

Q - Jonathan Brandt {BIO 17988091 <GO>}

Yeah, yeah.

A - Fábio Schvartsman

If you're referring to this, I think it's healthy. Smurfit has had a longstanding relationship with Klabin. We have been suppliers of this company in the whole of South America, very good relationship with them. And we believe they are a top line company such as Klabin. They work focused on making money, making profits and maintaining an ongoing situation with no major oscillations, and they are more than welcome to the Brazilian market. So this is my personal opinion and I believe this is the gist of your question.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Yes. Perfect. Thank you.

Operator

Juan Tavarez, Citigroup.

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

Hi, good morning everyone. Just my first question is, to get your sense on just the domestic market dynamics. If you can give us your view on, do you see any bottom coming soon in domestic demand? And how are you doing in terms of market share? Is there any specific preference that you have about gaining market share versus sustaining prices?

And then second, if you can give us some visibility of what you're seeing your potential leverage by the end of the year, with the ramp-up of the Puma Project? Thanks.

A - Operator

Regarding domestic demand first. Share versus price, in fact Klabin has a major responsibility because it plays a very important role in all of these markets. Klabin's behavior determines most of what happens in the market. So I don't think we have the possibility of saying, well, I'm going to gain share and I'm going to lower prices. This would be nonsense because it would bring a wave of destruction to the market and Klabin would never work this way, so much so that we have been working in a balanced fashion maintaining our share and maintaining our price at the same time at competitive levels and transferring the inflation or passing through the inflation whenever possible. This is and will be the behavior of the company.

And you asked whether we have reached the rock bottom already, I can say that we have a very deep crisis. And you always think well, we have never reached the lowest limit, unfortunately, but we can tackle this situation in the domestic market and we also have the capacity to export any paper that is left over because of the reduction in the domestic market demand. So far, our operation is very well balanced, as I said, and we continue operating at full steam, 100% of our capacity which is not, say, little because if you consider the size of the crisis, you can imagine that.

And regarding - I cannot be very specific regarding numbers, but certainly the leveraging of Klabin will happen starting in about 30 days or a little more than 30 days when we start up Puma and the leveraging will be very steep. And by the end of the year, we expect to be at the level of leveraging that will be considered by all as being very comfortable. I'm sorry, but I cannot really talk about specific numbers regarding our deleveraging, I'm sorry.

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

Fair enough. Thank you.

Operator

Daniel Sasson, Itaú BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, Fábio and Sergio. Thank you for the presentation. My first question has to do with the complicated moment we are going through Fábio mentioned during his presentation, and also related to the perspective of sales in the packaging market. Could you identify the major risk that you see? Do you believe inflation will continue to grow? It was already 10% last year, 7% this year for products related to the consumer market, which is very important to you. The fact that consumers decide to buy let's say beef at home, not buying any longer a hamburger, which comes in a small coated board box, this kind of thing.

And my second question is more specific and it has to do with the result of the forestry business unit. We saw that the volume increased 44% but the revenue dropped slightly 5%. What explains this drop in wood prices? So these are my two questions. Thank you.

A - Fábio Schvartsman

Daniel, about the Brazilian crisis, this is a very major crisis indeed. But after more than one year in this crisis, in a way, you do have some lessons that you learned for how do you live in this kind of situation. And for most companies, the core of the market is reasonably adjusted already to this deterioration of the domestic economy of Brazil. This is no longer a surprise; everybody is prepared to tackle this. So I do not believe there will be many hiccups if this is the question.

Regarding prices, packaging is a small component, and it's like a final ingredient in the production line, and nobody is going to produce packaging with no remuneration. We are not going to do that of course. We have this gigantic investment and we have our forestry asset. And like other companies do - and I don't believe that there is the possibility or the major issues there, because the market understands that prices have to evolve, at least in line with inflation, as a way to keep the system working in a healthy manner.

Of course, nobody should have a drastic reduction in prices, because that would be a short-term solution. And ultimately, it would lead to one or more companies going down the drain in the sector. And I cannot talk about the other players, okay? But of course we do have this possibility of exports at Klabin. So Klabin will not allow this price destruction in the market, if we have this alternative of exporting. And as I mentioned, when I answered one of your colleagues about the anti-dumping question, we already sell at higher prices in the export market than in the domestic market. So this is a very balanced situation for this crisis situation. And this allows us to continue to evolve. And you also talked about consumers and trading down.

Consumers trying to buy cheaper products because of the inflation. I think in a moment of crisis, all consumers really tend to trade down. And you mentioned a few things that could happen, some products where the consumer, for instance, cheaper protein in the form of milk, instead of buying meat. So instead of consuming less milk, maybe they will consume more milk. And what I see is that, the market as a whole continues to be resilient. You can see that our sales of coated board which is directly related to the milk or the dairy market in Brazil, they were very firm last year with or without the prices.

So our sales of coated board grew, and I think this illustrates what I am saying and I don't see why this should change, because I don't see what is worse this year than last year. The dynamics are more or less the same, regarding the sale of wood and lower prices, this has to do with the modality of the sale. When you sell the wood, when you deliver the wood to the clients' gate, it has a certain price because it includes the harvesting and the transportation, logistics, and there is a whole cost associated. And you can sell also the tree standing up and then your client will come and do all the work. So he is going to be pay less for the wood but we're going to spend less as well. So this explains what's happened.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you, Fábio. Perfect.

Operator

Caio Ribeiro, BTG Pactual.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Good morning. My first question has to do with the OCC market in Brazil. Could you talk about the price evolution, the recent one and what is your expectation regarding price evolution for OCC in 2016? This would help me a lot, and on the cost side, could you see the evolution of growth over this year? The intent to have this growing less than the inflation, does it make sense to expect a higher level? Thank you.

A - Operator

Thank you. Regarding our view about OCC, the expectation that we have or the way we read the market now, is that OCC is - having prices raised in Brazil as a whole, and this stems mainly from the drop in the corrugated box market last year. And then you have a less availability of OCC, less supply of OCC, supply and demand, then the price goes up and the trend for 2016 in our opinion is an upward pressure on OCC prices.

Regarding costs, costs in line with inflation, we continue to make our endeavors in terms of cost another round with our friend, FALCONI (44:42) and many of our industrial units, we'll continue with our ongoing process, which is the process that has been going on for a quite a few years, and we will continue to remove cost. Some cost that - bring pressure on our cost structure. However, we do not believe our cost will increase more than inflation. We believe that they will behave overall, reasonably in line with inflation at Klabin.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Very clear. Thank you.

Operator

Marcio Farid, UBS.

Q - Marcio Farid {BIO 19532258 <GO>}

Good morning. Thank you for the question. Congratulations. Regarding profitability of your export, you said that you're selling at higher prices in the international market than in the domestic market. Could you quantify this, please? And do you expect this gap to be bridged, because of an increase in domestic prices, because of inflation?

And the second question has to do with Puma. You said that you allocated a major part of the hardwood and fluff pulp. Could you talk about the regions? Is it Latin America that buys or what are the main regions that you will be selling fluff and softwood?

A - Operator

Thank you for your question. In fact, we have a higher profitability in our exports. And this is driven mainly because - driven by the exchange rate that has been raising our prices

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abroad, with advantages vis-à-vis the domestic prices. Now whether the prices will be leveled domestically and internationally, this is not dependent on whether we are going to charge more than inflation. It has to do a lot with the exchange rate. It depends on the evolution of the exchange rate going up or down.

So you may have a reduction in this gap, because of the exchange rate. And today, we have a circumstance, in which, in most of our contracts, while the contracts are reviewed once a year, and talking about the Brazilian domestic market, so they are adjusted according to inflation, so as a consequence, we should be seeing an increase in the domestic market, because of our yearly review of contracts and this will bring the prices closer to international ones.

And regarding Puma, our limitation has to do with hardwood only or short fiber. We are limited to South America only in hardwood because we can export softwood to any country in the world, because it has nothing to do with our contract with Fibria. So the bulk of what was sold in hardwood was in Brazil and most of what was sold in softwood and fluff was also this way.

We had never intended - well, this is an operation that has 400,000 tonnes of softwood or fluff and it was never our intention to hold a significant position in the international markets but only in the domestic market and this is already happening. Thank you.

(48:54)

Good afternoon. I would like to know about the receivables days and inventory days that changed quite a lot and trade payables as well. So what is sustainable for your working capital and what (49:16) happens to have these receivables deteriorating?

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

Gabriella, this is Sergio. Receivables, it's because of the effect of the fourth quarter, the increase in exports, and the growth in volume. And the higher average dollar vis-à-vis the fourth quarter of 2014 led our receivables from our exports to increase significantly, so higher volume and the higher dollar rate generating more revenues in reals. So this is the explanation. And the average term was not changed.

Q - Operator

So what about trade payables?

Trade payables has to do with the performance of the Puma Project. So this is - this has to do with our investments. We see no significant change vis-à-vis coming right now.

Thank you.

Alan Glezer, Bradesco BBl.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning, everyone. I have two questions. The first one about the price dynamics for paper for the international markets. We saw a drop kraftliner in dollars per tonne, 5% drop quarter-on-quarter. And I would like to understand this drop is related to the pressure that we see in the market in Asia regarding pulp with the Chinese bringing downward pressure on pulp, and this changed the dynamics of your competitors and exporters of pulp. So how do you see this dynamic take into account this drop of 5% and the price in dollars per tonne? And my second question has to do with delinquency in the domestic market. As you said yourselves, this situation is very challenging in the Brazilian economy today. And I would like to know how this is impacting your delinquency variable? So these are my two questions. Thank you.

A - Fábio Schvartsman

You started with a question about kraft. We have always indicated that when we export lower volumes, of course, we concentrate on the higher price markets. Of course, the more you export, the more you include other markets in your portfolio. What I want to mention is that there was no price drop. Quite the opposite, the kraft prices improved. What happened was that our volume of exports grew extraordinarily. We sold 65% more kraft in the fourth quarter, vis-a-vis the fourth quarter of 2014. And thanks to this, we covered a bigger footprint, and our average price was a little bit lower. So this was - is what happened.

Regarding China and pulp prices, we think that everything that refers to the Chinese market is very difficult to read because on one hand, you have the Chinese situation. On the other hand, you have a very high competence on the part of Chinese, trying to play or to interfere in the price dynamics differently from other commodities that have been suffering because of China because of the change in the Chinese model because it has always been focused on exports, and it was very much based on the infrastructure because of that because this is what drove exports.

Now, they are much more focused on the domestic market on consumption. And because of that, when you have a model which is more focused on consumption, this leads to a higher demand for a tissue, for packaging, for papers in general, and as a consequence, a higher demand for pulp as well.

I attribute the drop in international prices much more to the Chinese competence to deal with crisis in general and tapping into crisis than the change in demand in the Chinese market. Should I be right, then prices have already undergone an adjustment, and they will no longer have an adjustment. But sometimes, people say while Klabin is bringing new volume and this brings pressure to the market, but this means that we - this has already happened. This will not happen again. So there are reasons to believe that the trend for prices is of stability in the Chinese market. And I apologize. What about your last question? Okay. Delinquency. Well, I think Sergio will have the pleasure to answer your question.

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

Delinquency in Klabin is very small. We do not face major problems with delinquency because we work with large companies, large consumer product companies. So you have some isolated facts although - of course, we always request guarantees. And we have a very strong credit area in the company that establishes the credit limit. And in the corrugated boxes area, we - for the first time, we made an insurance with an insurance company for all the sales of corrugated boxes for the whole year of 2016 as a - in addition to guarantee for the company and stability in our accounts receivables. So we don't really have major problems regarding delinquency at Klabin.

Q - Alan Glezer {BIO 17508681 <GO>}

Thank you for the answers.

Operator

Gabriela Cortez, Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Good afternoon, everyone. Thank you. About the international market for paper and your strategy, which lines will be growing 2016, kraft or coated board? And besides Argentina that you have already mentioned, do you have other markets where you expect growth from, and which lines do you expect to grow for these markets?

A - Operator

As we export more and more significant volumes, it's impossible to imagine our sales evolution as based on Argentina. Of course, it is much broader than this. We will be expanding in the whole of Latin America. In fact, end-to-end, we are selling much, much more in Latin America than in the past and then in the Asian market, higher and higher volumes.

And when I refer to the Asian market, I'm not referring to China only, Asia ex-China also where we sell even more than we sell to China. And we are talking about the coated board line, but not exclusively, and in fact, Klabin will be exploring all the market opportunities that might arise. With all the geopolitical changes that are happening, we are checking all the places in the world as a possibility to continue to expand healthily. You mean kraft and coated board and bags as well.

We will see a major leap in bags this year. This is a blessing because the civil construction market in Brazil is not exactly thriving. And as a consequence, it's great for us to be able to count on this capacity to export bags. Our figures are very significant. We are growing with a lot of profitability and very significantly in markets that we're really starting to explore now. We have never worked in these markets before.

Vicenzo Paternostro, Credit Suisse.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Good morning, everyone, Fábio, Sergio. My question has to do with energy. You gave us an update about the sale of pulp from Puma, and maybe you could us an update about the sale of energy? Are you going to sell energy in the spot market? Do you have contracts? And along the same lines, what about the equation of energy post-Puma because you buy energy? So after Puma, what about this equation? Will you be on the sell side or you already have some long-term contracts for the purchase of energy, and what will happen to these contracts after Puma?

And my second question has to do with competition with the Chinese packaging paper. In other kinds of paper, we see China starting to export. And with the recent currency in China, they're being forced to export, and this is also a concern regarding other commodities. We - they added a lot of capacity in other commodities, and they ended up having to export these other commodities to the international markets. And, of course, this had an impact on market and hitting the profitability of the company. So do you see this risk in a competition with China or not yet? Thank you.

A - Operator

Vicenzo, thank you for your questions. The first one about energy. Klabin acts in a very consistent fashion in all markets. And in this new energy market, we are trying to operate in the same way that we operate in the other markets. Having said so, during the first months of Puma's operation from March on, we will have a ramp up. So during a ramp up, it's convenient to start to commit yourself with volumes of energy. Of course, you cannot be 100% certain about how much energy you will be producing. So whatever is left during the ramp up will be sold under spot market.

In the second half of the year, when we will have operations at full steam, then we will have the option of selling 50% of the energy in the long-term market, which is already sold. And 50%, we will see month-by-month over the operation because nobody is 100% sure about the outcome of the situation. And especially during the first year, we have to be cautious.

Our probable action will be probably in 2017, already increasing the participation of contracts with a trend towards 75% in the long term and 25% spot, which seems to be sustainable in the long run. Regarding - well, Ortigueira should be producing 260 megawatts, 270 megawatts of power. Ortigueira will be consuming something like 150 megawatts, the plant itself. So the balance, 110 megawatts, 120 megawatts, will be available for sale. And for some time, we have a contract. We are a net buyer of 70 megawatts, 80 megawatts today. And these 70 megawatts, 80 megawatts, we will be net sellers of 30 megawatts, 40 megawatts. But for the first two years, we still have contract enforced that are reaching the final phase. And that will be complied with until they expire. And we will sell according to the availability of Ortigueira. So this means that besides what we have today, we will have something like a 120 megawatts per year as of 2017 in energy.

About Chinese competition, well, we are very pleased to be producers of virgin fiber packaging mainly. And what we export is only virgin fiber products. And the Chinese have a lot of capacity and excess capacity in recycled fiber packaging. And this in fact hedges

us to a certain extent against a fight with the Chinese of competition with the Chinese. They will never come to the virgin fiber market, which is ours. They might compete in the recycled fiber, which is not ours.

Q - Vincenzo Paternostro {BIO 17670256 <GO>}

Thank you.

Operator

Now, we close the Q&A session and we would like to get the floor back to Mr. Fábio Schvartsman for his closing remarks.

A - Fábio Schvartsman

Gentlemen, thank you very much for following our long call. Thank you, very much for all your questions. They are evidence of your interest in the company, and we thank you for that.

2016 is a fundamental year for us. And we are facing this year every single day, making the best delivery possible of Puma from the industrial view point, from the view point of selling its product. But on the other hand, we keep our eyes focused on our paper operations, 2 million tonnes available for both domestic and international markets. We are working to maximize our results as much as we can for the company with the objective of continuing, improving the results of the company gradually every, each quarter. With the coming online of Puma, we will see a leap in our cash generation, a leap in our EBITDA as well. But our intent is to continue to grow after this leap. And in our next contact with you, we will clarify from where we will be having new growth after Puma.

So thank you very much. It's with a huge satisfaction that we close a tough year in a very good situation. And we're ready to face an even more difficult year, however, with Klabin having even more resources to deal with this market. Thank you very much. Have a good day.

Operator

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

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