

## Q1 2012 Earnings Call

### Company Participants

- Antonio Sergio Alfano, Chief Financial Officer and Investor Relations Officer
- Fabio Schvartsman, Chief Executive Officer

### Other Participants

- Carlos de Alba
- Marcos Assumpção
- Thiago Lofiego

### Presentation

#### Operator

Good morning, and welcome to Klabin's Audio Conference. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions]. As a reminder, this conference is being recorded.

Before we proceed, I should like to clarify that any statements eventually made during this audio conference, 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 management in relation to the future of Klabin.

Such expectations are highly dependent on market conditions, on Brazil's overall economic performance and on industry and international market behavior, they are therefore subject to change.

With us today in São Paulo are Mr. Fabio Schvartsman, Chief Executive Officer and Mr. Antonio Sergio Alfano, Chief Financial Officer and Investor Relations Director. Mr. Fabio and Mr. Sergio Alfano will comment on the company's performance during the first quarter and the perspective for 2012. After that, Mr. Fabio and Mr. Sergio Alfano will answer any questions that you may wish to formulate.

Now, I'll pass the call over to him. Mr. Fabio, please begin.

#### **Fabio Schvartsman** {BIO 2067677 <GO>}

Thank you. Good Morning to all and welcome to our conference call. Well, the objective here is to give you an overview of the results of Klabin in the first quarter of 2012.

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I would like to start saying that this time Klabin had no help whatsoever from the economy neither the Brazilian one nor the international economy. Therefore, the performance that Klabin has delivered is delivering I would say in this quarter or delivered in this quarter was basically because of the internal movements that helped the company to improve in a major way the performance in this quarter in comparison to the first quarter of 2011.

I would say to delivered a 25% growth in EBITDA terms in the comparison of the quarters it's something very a meaningful in this weak economic conditions.

Well, I would like to start mentioning that the first thing that that should call the attention is the fact that our cash cost breakdown was reduced in nominal terms by 2% in this quarter in comparison to the first quarter of last year.

Nevertheless, we had in the meantime, the increase in salaries by 8.5% and we had inflation in all items that influenced the cost of Klabin. Therefore, Klabin delivered a very important cost situation that is the base of what this group performance, the company is showing.

In the market side, we had a lot of work. We took full advantage of the flexibility of the product lines of Klabin and we accelerated where it was possible to accelerate and we reduced volumes where the prices were too low. Therefore, we made a combination in a way to deliver the best possible result.

So to give you some examples, I would like to start with Kraftliner. Kraftliner prices were dropping during this period, actually the first quarter European prices of Kraftliner per tonne reduced 10% in reais in comparison to this -- to the same quarter of last year. Because of that, Klabin decided to reduce export volumes, becoming much more selective. And as a consequence, we were able to reduce volumes by 15%, but to reduce sales at the same level, meaning that we had no cost -- no price reduction in Kraftliner for Klabin.

Second example in the domestic market, we have a very weak quarter regarding milk volumes and therefore the sales volume of LPB was weak during this period. And Klabin used its flexible and good quality line in order to deliver other boards in the Brazilian market, more than compensating -- actually becoming able to deliver a 5% growth in volume in boards even losing ground in LPB during this quarter.

Third example I would call the attention in the industrial bags that you notice that we changed strategically during last year, focusing in more clients and more margins becoming much more selective, but now the strategy is clearly paying back, because this quarter we are showing a 12% growth in volume in comparison to the first quarter of last year, therefore before the new strategy. And a very impressive 14% growth in sales in the same period. Therefore, a very important improvement in profitability for Klabin.

Finally, I would like to call your attention in the packaging. The packaging area is the one that shows better the separation of the economy, because it is penetrating everywhere in the marketplace in Brazil and this market was very weak. And once more Klabin operated

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in such a way not to jeopardize prices and margins. And as a consequence, Klabin accommodated a 2% volume reduction against a market growth for just 2% but was able to show the same level of sales meaning that we had a small price increase in average during the period. Now we followed that we were able to produce the kind of result that we are now showing to the market.

Now a little bit about what's going to happen in the next quarter, first of all next quarter is the quarter we are going to have a stoppage of our plants, our natural stoppage that happens every year.

And therefore, our main mill Monte Alegre we will stop in June. And Otacílio Costa we will stop in May. So as I anticipated to you in the last stoppage of Monte Alegre, this one will be a smaller one. Nevertheless, as the civil construction cost in Brazil increase a lot during the last months, the consequence is that the reduction in stoppage cost is not going to be as significant as it's going to be the physical size of the reduction. Therefore, we are expecting a 20% reduction in the cost of stoppage in Monte Alegre in comparison to last year.

So, with that and with some improvement in the market, we are -- for instance, we are witnessing an improvement in the Kraftline market, actually confirming that the strategy of Klabin of not pushing during the first quarter where the prices were too weak was the correct one because now we are coming back to the market with better volumes and our prices are clearly increasing. Therefore Klabin in the second quarter in Kraftliner will show better prices and better volumes.

So to give you an overall picture, we're expecting the second quarter that from today's point of view should be better than the comparison between first quarters of 2012 and '11 that we have already shown an improvement of 25% in EBITDA. Therefore, what I am implying is that the second quarter of this year will produce a growth in EBITDA that will be bigger than this one of the first quarter's. So not a bad one at all.

Finally, in the growth side and the strategy side, we are getting close to announce our new machine in Correia Pinto, it's not ready yet, that's the reason why we are not announcing. But I'm expecting to be able to make an announcement shortly about this machine when I will be able to deliver there the figures according to the investment that will be made.

The recycling machines that I mentioned in the last call, three months ago, this will follow in the sequence. Therefore, the next investment that will be announced will be the recycle machine in the next months.

Finally, and probably most important, our pulp project is following according the plan, we are preciously on schedule. For instance, yesterday we had approved in the city where this project will be installed, tax reduction for our new project and today we are starting the process, official process of demanding environment license for the start-up of the plant in the region.

So physically things are moving forward and I know that everybody is looking for the issue of the investors that we are negotiating with for the purpose of raising capital for this project and what I can tell you is that the process is following very well ahead. We have a number of investors interested and under negotiations with us, the negotiations are very advanced.

Nevertheless, I cannot give you a precise date when it's going to finish because this works more or less like an M&A transaction. It only finish when it comes to an end. There is no precise date for the closing of this. But I am very optimistic that shortly we will be able to announce the capital structure of these new project performance.

Now after this overview that I gave you, I am going to pass the word to Sergio, that will give you a full and detailed explanation about our operations in the last quarter. Thank you.

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

Good morning everyone and thank you for participating in our conference call. In the first quarter, the international scenario did not change with the volatility in Europe economies, the slowdown in China and in the emerging economies and weak performance of U.S. markets. In Brazil, the typical effect of the year-end holiday and the season of January and February holidays also -- lower pace of the economy.

International Kraftliner price continue to contract during the quarter and the box shipments in Brazil were only 2% over first quarter 2011. In this challenging scenario, Klabin continue to concentrate its efforts in its operational and the financial performance, focus on customer services and margins and return on capital employed.

Sales volume in the first quarter 2012 excluding wood, totaled 420,000 tonnes down 4% from first quarter 2011. In the domestic market, sales volume reduced 2% from first quarter 2011 and reached the 65% of the total volume. Net revenue, including wood sales totaled R\$969 million, 1% higher than first quarter 2011, despite the 4% reduction in sales volume which confirms that the company conducted its business in a proper way, in a scenario of lower global prices.

Net revenue in the domestic market was R\$737 million, 4% higher than the first quarter 2011. And represented a 76% of the total net revenues. Unit cash cost excluding -- unit cash cost including operating expenses and excluding non-recurring items was R\$1,566 per tonne, it's stable from first quarter 2011 and the integration of the first quarter of 2011. Unit cash cost fell 2%. Despite the impact of inflation on the cash cost components between periods and the increase in labor costs due to the wage increase in last October.

EBITDA in the quarter was R\$311 million, 25% more than the same period of last year. EBITDA margin stood at 32%, reflecting the improvement in performances resulting from the reduction of costing program.

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Consolidated net debt was 2.7 billion in the end of March and the net debt-to-EBITDA ratio was 2.3 times in the end of -- in the first quarter of 2012. Cash and financial investments stood at R\$2.9 billion and this amount exceeded the amortization of loans coming due in the next 39 months.

During the quarter the company continued its focus on high return investments in order to reduce its cash costs in the paper plants. And to increase production capacity, it's converting units. The biomass boiler in-- at Correia Pinto mill is in the final step -- testing phase and it's start up was anticipated to May. As a result, fuel oil consumption in that unit should begin to drop in the same month.

The bottlenecking at the Monte Alegre mill which will increase the bleached pulp production capacity should be concluded in the last quarter of the year and will reduce also billable costs.

The forest business unit is investing in mechanization soil preparation -- though they are -- through the acquisition of the large machines.

In the first quarter of 2012, the company invested a total of R\$94 million.

Now Fabio and I are available to take any questions you may have.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. Excuse me, our first question comes from Mr. Thiago Lofiego from Merrill Lynch.

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

Hi everyone. I have two follow-up questions here. First, on your mixed strategy. So basically for your -- margin in the first quarter with higher sales to the domestic market. So how do you see your average mix in 2012 and '13 and also in the longer-term? So basically does it make a sense to model all your product lines through the years of reaching a 100% of volumes in Brazil. As Brazil grows more than export markets or maybe not, because you are going to preserve part of the export market to -- as a hatch for eventual prices in Brazil. So how do you think about your mix strategy going forward.

### A - Fabio Schvartsman {BIO 2067677 <GO>}

Hi, Thiago. Our strategy is not exactly for protection but especially we have a long-term relationship with several customers, for instance Tetra Pak is the best example, with whom we will always export a part of our production for them. And on top of that, there are very good markets for our company outside Brazil as well. Therefore, for instance, Argentina

usually is a good market for Klabin and it should be preserved and it's not in Brazil. So, it is sure that we will never get to 100% of sales in Brazil.

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

Okay. Alright. And Fabio just if you could comment on how demand for your product is evolving in the second quarter in the domestic market? And what are your expectations for the second half of the year, given all of the environment of lower rates in Brazil, higher credit and the economy so -- are you more positive or you're on a neutral stance for the second half. What's your view?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Well, starting for the -- the view for the second half of the year. There were a lot of measures from the government in the monetary policy. That should improve consumption in the second half of the year. We are expecting, we are factoring in some improvement in consumption, but nothing very bright. Therefore, I think that we are looking at the economy that in average in the year will grow just by 3%, therefore, nothing extraordinary. But better than the first quarter, the first half of the year, where the economy is even slower than that.

In the second quarter, the second quarter and naturally we will be better than the first quarter. The market, you have less holidays, therefore usually it's -- in total you have more useful days, you sell more and therefore is given the seasonality, you can expect the second quarter is usually better than the first.

On top of that, we are seeing some recovery in the milk side, in the current -- for better sales of LPB as well. We are seeing improvement in Kraftliner, better sales. The packaging itself continues soft. We don't see a lot of improvement there.

Nevertheless, exports will continue to be strong and with better prices, and today the currency, the exchange rate is better than it used to be, therefore in this combination it helps a little bit as well.

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

Okay. So is the second quarter improvement, the seasonal improvement coming in line with your expectations or softer?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

In the low side of our expectation.

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

Okay. Alright. Thank you, Fabio.

**Operator**

Excuse me, our next question comes from Marcos Assumpção with Itaú BBA.

### Q - Marcos Assumpção

Hi. Good morning everybody. Fabio, if you could comment a little bit on the corrugated box market. Talking a little bit about your expectations for domestic demand growth in 2012, also the pricing strategy for Klabin in this segment and about the new investments that you just announced the last quarter. What markets are we going to tap something like that. And the second question is, if you have already seen any reduction in imports of finished products because of the stronger U.S. dollar.

### A - Fabio Schvartsman {BIO 2067677 <GO>}

Starting with the -- your last question. No, we haven't seen a reduction in imports because of a strong U.S dollar especially. We are in the packaging segment specially for food and this is basically I would say stable in the import level that it used to be last year. So what was again the rest of your question, the first part of it?

### Q - Marcos Assumpção

First part, about the corrugated box market, domestic demand expectations for 2012, pricing strategy and talking about your -- the new investments as well?

### A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. The corrugated boxes, the market is soft and I think that it will remain soft by the whole year. I don't see any reasons for a pick-up in this market, specially because there is a lot of offer, the demand is not growing, there are imports, and for the market is tight. And I think that Klabin is doing a very good job for the market as a whole, because the behavior of Klabin is allowing pricing to keep in the right level and I think that will continue to be the case, nothing very good will come from it. Nevertheless, it's not going to cause any harm for the process at all.

Regarding our new investment, the new investment that I mentioned last quarter is the machine for sack kraft is basically for increase our capacity of production paper for producing more industrial bags in our division of industrial bags in the company. And this is moving very well, this has to do with the -- mainly with civil construction in Brazil. And others in this part will, will continue to be very strong. Therefore, I am pretty sure this will just add value to Klabin.

### Q - Marcos Assumpção

Perfect. Just as a follow-up Fabio. Regarding the new investment that you just announced this quarter, on the new machine for bags. What is the capacity of this new machine?

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

The capacity much will be 80,000 tonnes per year. For the sack kraft paper machine.

### Q - Marcos Assumpção

Okay. So it's basically the -- it's actually the same that you announced in last quarter, right?

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

I'm just -- we are talking about the investment in Correia Pinto in the sack kraft machine that's correct or are you asking about the -- okay.

**Q - Marcos Assumpção**

Yes. So you've increased your capacity by almost 50%?

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

Yeah, we today we have 165,000 tonnes and we have more 50% capacity.

**Q - Marcos Assumpção**

Alright. Perfect. Thank you very much Sergio. Thank you, Fabio.

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Okay.

**Operator**

Excuse me. Our next question comes from Mr. Carlos de Alba with Morgan Stanley.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Yes, good morning. Thank you very much. Just one, if you can give us an indication of the EBITDA improvement that you expect as you complete the investments in the environment, in the development in Monte Alegre? And also, with the acquisition of the bag, the bag machines. How much EBITDA -- how much incremental EBITDA do you think these initiatives could sort out?

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

With this, Carlos this is Sergio. Regarding these two new projects, one that's it's coming on stream now in May. The biomass boiler plus the sack kraft machine. We are expecting to increase our EBITDA in the biomass boiler in an annual basis around R\$30 million per year, reducing our billable cost at the plant. And we are studying, we have the levels, but we can't say, tell you.

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

For the sack kraft we will give you a better guidance, once we announce it officially.

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

Yes.



**Q - Carlos de Alba** {BIO 15072819 <GO>}

Alright. And what is the CapEx for the sack kraft, if you can remind me?

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

Between 115 to...

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Yes. And have your CapEx guidance for the year changed at all?

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

For the time being, no.

**Q - Carlos de Alba** {BIO 15072819 <GO>}

Alright. Thank you.

## Operator

[Operator Instructions]. Ladies and gentlemen, there being no further questions. I would like to pass the call to Mr. Fabio for the final consideration. Please Mr. Fabio, proceed.

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Well. Thank you all to join this conference call regarding our results for the first quarter. It is my pleasure to -- and we are as a executive team we are very proud of the results that we have been able to deliver this quarter. Actually this was the seventh consecutive month where our costs were reduced and maintained low. Therefore, we can guarantee that we are now in a new standard regarding costs in company.

And on top of that we proved in this quarter, the big flexibility that we have in our product lines. Allowing Klabin to deal with a very complex economic scenario, how we had in the first quarter. We told you that the second quarter will be even better in comparison to the second quarter of last year. This is specially a good news.

On top that, we are all committed and motivated to produce the best possible result in this -- for this company in the short-term and to deliver the growth strategy specially the pulp investment that we are getting very close to announce.

So, once more thank you very much for joining us. And I hope to have you back on this call by the second -- when we announce the results of the second quarter of this year. Thank you. Bye-bye.

## Operator

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This is the end of the teleconference promoted by Klabin SA. Thank you very much for your participation and have a nice day.

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