

## Q1 2014 Earnings Call

### Company Participants

- Antonio Sergio Alfano, CFO
- Fabio Schvartsman, CEO
- Unidentified Speaker, Unknown

### Other Participants

- Alex Sciacio, Analyst
- Carlos de Alba, Analyst
- Felipe Koh, Analyst
- Lucas Ferreira, Analyst
- Marcos Assumpcao, Analyst
- Paulo Valaci, Analyst
- Thiago Lofiego, Analyst
- Vincenzo Paternostro, Analyst

### Presentation

#### Operator

(interpreted) 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 and instructions will be given for you to participate at the time.

(Operator Instructions) As a reminder, the conference is being recorded and it is also being broadcast live via webcast and may be accessed at [webcall.riweb.com.br/klabin/english](http://webcall.riweb.com.br/klabin/english) where the presentation is also available.

Before proceeding, I would like to clarify that forward-looking statements that might be made during this conference 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 assumptions are highly dependent on market conditions, on Brazil's overall economic performance, on industry and international markets' behavior. They are therefore subject to change.

With us today in Sao Paulo we have Mr. Fabio Schvartsman, CEO; and Mr. Antonio Sergio Alfano, CFO. And Investor Relations Officer. Mr. Schvartsman and Mr. Alfano will be talking about the Company's performance during the First Quarter and afterwards they will answer any questions that you might have.

Now I would like to give the floor to Mr. Schvartsman. Mr. Schvartsman, you may proceed.

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

(interpreted) Good morning, everyone and thank you for participating in our First Quarter of 2014 results conference call. Once again, it is with great joy that we would like to highlight the main fact of the past quarter which was the fact that we reached a level of results that we expected to result in Q1 with the increase in the EBITDA of the Company by 11% in Q1 2014 on a year-on-year basis.

Now I would like to highlight some events that in my opinion were very important in this past quarter. And the first one has to do with the flexibility and agility of the Company in the increase of its exports [ph]. We have been able to increase our exports by 19% on a year-on-year basis thus benefiting the Company in a moment of more favorable exchange rate.

Of course, as we are operating with constraints in volume as you already know, there is a growth in our exports that corresponds necessarily to a reduction in our sales to the domestic market due to our lack of capacity. And in spite of that I believe that we should highlight the fact that our sales of converted products went up in the quarter 6% in volume.

The sale of converted products means those with a higher added value that produce a higher EBITDA per ton for the Company, therefore increasing its results and both our efforts in terms of increasing our exports and our efforts to increase our sales of converted products to the domestic market represent our endeavors to continue improving our results on a quarter-on-quarter basis.

I would also like to highlight the fact that in Q1 we had the annual maintenance stoppage of the Correia Pinto unit and the stoppage was not done last year. And as a consequence, this is an additional fact that was carried over to this quarter with no negative impact on our results. And also regarding Correia Pinto, I would like to mention the level of operation, machine number 23, the new machine that was inaugurated last year, at the end of last year and that operated in a year-to-date basis 80% of its capacity, nominal capacity, producing and selling 80% of its nominal capacity in the quarter.

And I believe this represents a very positive performance for a machine that we have just installed. And certainly, this was higher than our business plan, than our expectations, when we had this machine assembled.

Related to the other investments by the Company, the recycled paper machine in Goiana continues to be built at an accelerated pace and we expect to inaugurate it by the end of this year.

Even more important than this, next month, when we will have the general stoppage of the Monte Alegre plant, we will be carrying out a debottlenecking of the machine number

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9 of Monte Alegre, thereby increasing our coated board production capacity by 50,000 [ph] tons.

And this is an important fact for Klabin, a very important one in fact because we are operating with a lot of bottlenecking in the production of coated board and this additional amount of 50,000 tons will help us a lot in terms of improving our overall results and supplying our client with our products.

Regarding the Puma Project, we also have good news in my opinion, at least normal news. The project was almost fully contracted so far. And everything is in line so that it starts to operate in March 2016. And you also know that over this quarter we had the final negotiations with the BNDES. And which led to the approval and contracting of funding for the construction of the plant.

And besides, the BNDES has subscribed debentures or giving firm guarantees of subscription of debentures amounting to an additional BRL800 million. And with that we have the funding of the plant, of the new plant of the Puma Project totally streamlined right now.

Now let's talk about our expectations for the future regarding the Second Quarter. And I would like to mention that in spite of the fact that during Q4 we will have the general stoppage of Monte Alegre and also we have many different holidays and also the exchange rate is more unfavorable than it was before and also in spite of the uncertainties regarding the World Cup, in spite of all that, our expectation is to continue to deliver the same kind of evolution in our earnings as we have delivered in Q1.

I think this is the major quality of Klabin I would say which is the capacity to adapt to the different pictures that we have, the different scenarios, sometimes selling more in the domestic markets, sometimes selling more converted products or sometimes selling more paper or sometimes selling more to the export market always aiming at increasing the overall earnings of the Company.

I would like to remind you that in our strategy in the last few years we have been able to improve our results by means of a combination of improvement in our product mix and especially cost reduction. We know that this is a process in which the gains become more and more marginal so to say over the same installed capacity gain [ph].

This is the reason why we have many investments under construction and that will be adding 300,000 tons of production capacity for Klabin for 2015 which means that Klabin right now has everything going smoothly to operate with 2 million tons of capacity in 2015 vis-a-vis 1.7 million tons that we had for so many years. And this will be the first significant leap in terms of capacity ramp-up.

And during the board meeting that we held yesterday, April 22nd, the Board approved the two debottlenecking's that we still had, the Angatuba and the Piracicaba unit. And both right now being contracted.

And they should be operating by the end of 2014, beginning of 2015, thereby complying with the target that we have of 2 million tons available and making it possible for the Company to continue to deliver an ongoing evolution in its results which is our ultimate objective very well.

Now I would like to give the floor to Sergio Alfano and he will get into more details about the results achieved in Q1 and afterwards we will be opening to receive questions from you.

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

(interpreted) Good morning, everyone. And thank you once again for participating in Klabin's results conference call. I would like to start by talking about the total volume sold and the revenues of the Company. And as Fabio mentioned, in Q1, the total volume sold by Klabin grew by 3% on a year-on-year basis, amounting to 443,000 tons.

I would like to remind you that with all the increases of capacity that were mentioned, we should be growing our volume to 2 million tons over the year, increasing our capacity by 17% as of the beginning of next year. And the highlight this quarter was the export volume that grew by 19% reaching 154,000 tons and with a 35% participation of the total volume sold by the Company vis-a-vis 30% in the same period in 2013.

And I would like to remind you that exports were favorably impacted by the better exchange rate. The average dollar in the quarter was better vis-a-vis the same quarter last year.

Net revenues in Q1 2014 including wood were BRL1,203 million, a 13% growth on a year-on-year basis. And during this period, the export revenue went up by 33% vis-a-vis 19% in volume. Unit cash cost net of cost with maintenance stoppages was BRL1,759 per ton, 9% up on Q1 2013.

And this cost can be explained mainly by the increase in our sales of converted products, a higher participation in Klabin's overall volume. And I would like to remind you that we had the end of the tax benefit of the Reintegra program, which was a tax benefit by means of which Klabin had 3% on -- benefit on export revenues and this came to an end this year. And this represented more or less BRL8 million per quarter and a higher provision for our profit-sharing program due to the higher than expected performance of the Company.

And with the better exchange rate for exports and Brazilian consumption of converted products of Klabin in the domestic market, the adjusted EBITDA amounted to BRL424 million this quarter, an 11% growth on a year-on-year basis with a 35% margin.

And with this result, with this EBITDA, we reached the 11th consecutive quarter of continued evolution of our EBITDA.

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Now talking about Klabin's debt; with the capitalization that occurred in January by means of the issuance of the debentures mandatorily convertible into units, the consolidated net debt was BRL2.7 billion in March and the net debt/EBITDA ratio at 1.7 times at the end of March vis-a-vis 2.6 in December.

Now talking about investments, Klabin invested in this quarter BRL503 million with the Puma Project being the highlight here with an investment of BRL347 million spent during this period and BRL71 million in special projects and also capacity ramp-up. Still in 2014, two important projects will come on-stream, the de-bottlenecking of the coated board machine, the new one, adding 50,000 tons per year to our capacity as of June.

This investment will be made during the general scheduled maintenance stoppage of Monte Alegre in May and the other one will be the new recycled paper machine in Goiana, close to Recife, with a 110,000 tons capacity of high-quality recycled paper.

As Fabio mentioned, during the Board meeting that was held yesterday, two debottlenecking's of Piracicaba and Angatuba machines were approved and with investment of BRL65 million in these two project, we will have an addition of 50,000 tons of recycled and kraftliner paper to our capacity.

The start-up of the project will be the end of 2014 or beginning of 2015. In the Puma Project, with the funding practically concluded, the Company finalized the hiring of 95% of equipment for industrial equipment and civil construction. And the earthmoving works are very much advanced. They have already reached almost 70% of the total area and the critical areas are already being released for the installation of the machines. And in May we will have the beginning of the civil works.

Now Fabio and I would like to stay at your disposal to answer any questions that you might have.

## Questions And Answers

### Operator

(interpreted) (Operator Instructions) Alex Sciacio, Santander.

### Q - Alex Sciacio {BIO 16118415 <GO>}

(interpreted) Fabio, I would like to ask you a first question regarding cost. We saw an increase in the unit cost of Klabin in Q1. And I understand it's very much due to the mix that you sold this quarter because of more converted products and the margin is stable.

However, I would like to know the evolution of cost pressures that you expect and the visibility that you have, for instance, the price of OCC and the price of energy. And also how this could be translated into new price increases for the industry as a whole?

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## **A - Fabio Svartsman** {BIO 2067677 <GO>}

(interpreted) Well there are cost pressures. We have the ones that you mentioned. OCC is real. The price of OCC is quite high and the electric power cost is very high and also the effect of the exchange rate is very real on some raw materials that are indexed to international prices such as chemicals.

So these pressures already existed and they continue the same. Some negotiations are being carried out with client and these prices and these cost increases are normally negotiated and they are transferred to our clients. And of course always in a moderate fashion due to the fact that the market is not exactly at its peak.

And it is certainly not our intention to overdo in terms of price increases anywhere. We have been behaving with moderation in this regard and we have been able to transfer totally this price increase. And we believe that this situation will continue for the foreseeable future. And we see a perspective of continuous evolution in our EBITDA.

I would like to draw your attention to the fact that as you mentioned yourself, we had an apparent cost increase because of the change in our mix. And in fact this means the sale of higher value-added products that represent ultimately a higher absolute gain for the Company.

Very often I have repeated to you and I'd like to emphasize this that I have no concern whatsoever regarding the Company's EBITDA margin. My focus is with the evolution of our EBITDA per ton and the total EBITDA for the Company. This is what we are working on.

So margin ends up being a consequence of many different factors. Right now we are very much focused on the evaluation of our absolute EBITDA, total EBITDA. And so far with appropriate results regarding the target that we were seeking to achieve.

## **Q - Alex Sciacio** {BIO 16118415 <GO>}

(interpreted) My second question, Fabio, has to do with the mix of volumes by Klabin. We saw an appreciation of the real in the last few months. And this could lead us to believe that in Q2, or maybe the Third Quarter, if the exchange rate is kept at these levels, maybe you would be channeling more volume to the domestic market.

So is this correct and could you give us an idea today at the current level of exchange rate between BRL2.20 and BRL2.25, what about the profitability of your exports vis-a-vis prices in the domestic market?

## **A - Fabio Svartsman** {BIO 2067677 <GO>}

(interpreted) Q2, Alex, for us has a very specific characteristic which is the stoppage of our main plant, Monte Alegre, which reduces our capacity during the quarter. As a consequence, almost mandatorily we have less exports possible in Q2 because of the stoppage.

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So exports will naturally go down because of this stoppage. And this has no relationship whatsoever with the exchange rate, it has to do with our internal production situation.

What we will do will become more clear so to say in Q3 because we will have our whole production capacity back on track, plus 50,000 tons additional coated board capacity allowing the Company to increase its sales in a major fashion.

And we will sell more to the domestic market or to the export market depending on where profitability is. At BRL2.30-something that was the exchange rate in Q1, profitability in exports was higher than now at BRL2.2-something. And in spite of that, it's very unfair [ph] to say that at BRL2.20-something exports are not profitable.

They are still very profitable at this level of exchange rate and it's very convenient because of the uncertainties that we have in the domestic scenario. So our focus continues to be a consistent -- we still have a consistent focus on a higher sale of converted products to the domestic market and growing exports. So overall, this is what we intend to do this year.

## Operator

Thiago Lofiego, Merrill Lynch.

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

(interpreted) I have two questions, the first one to Fabio. Fabio, I would like to understand the expectation regarding results for Q2. You mentioned an evolution that is similar to the one that you delivered in Q1.

You mean 10% to 15% EBITDA evolution on a year-on-year basis, does this make sense? And still talking about Q2, could you talk about the domestic market, specifically your visibility for April and also for May. And what products are stronger or weaker for the next few months?

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

(interpreted) Thiago, we cannot give you a specific guidance. So I'm not saying exactly how much our results will go up. Honestly, we will only know this after we have the end of the quarter and then we know how much it grew or not. So our expectation is about an evolution similar to the one that we have been delivering and this is as far as I can go vis-a-vis the subject.

Regarding the domestic market for April and May, the Brazilian economy is a little bit weird. There were some strong months. January was a strong month, then came a weak February; March a little bit better; April a little bit worse. So the economy is a little bit strange, a little bit weird I would say. I think this would be a good way to refer to it (inaudible) very rightly.

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So perceiving this lack of consistency in the evolution of our domestic economy has been doing a consistent effort to increase exports because this is where you have a guarantee that you can really work because the market is much bigger than our domestic market. So we have more room so to say.

As far as May is concerned, it's a little bit too early. We cannot say anything about this. At each week, the economy seems to be a little bit different from the previous one with clients sometimes decreasing their orders, some other clients increasing their orders. And it's really a surprising scenario. And we have to play it by ear, we have to adapt to the circumstances. And tapping into the capacity that Klabin has to adapt through the line of products that we have.

So we will continue to deliver results in spite of this situation. So having said all that, plus all the uncertainties that are brought about by the World Cup, nobody knows if the World Cup will bring an acceleration or a slowdown to business. But in spite of all that, we will continue to deliver an evolution in our result as we have been doing consistently.

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

(interpreted) My second question is to you, Fabio. It has to do with the convertible debentures that were issued with the BNDES, BRL400 million. So we would like to know if this was planned before hand or whether it was a last minute decision?

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

(interpreted) The BNDES, since the inception of our negotiation requested that part of that could be done -- should be done in convertible debentures and this is what we have been doing. Not by chance the amount of convertible debentures requested by the BNDES is equivalent numerically to the shares that we have in our treasury. So you see a clear correlation between these two facts and it was part of our BNDES negotiations with the BNDES.

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

(interpreted) And what about the canceling the treasury --

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

(interpreted) Well they will be reserved for this specific purpose. They will be not used otherwise. They are just being used to back the conversion by the BNDES. And the conversion price and the parameters of this debenture 40-40 per share or per unit.

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

(interpreted) With restatement?

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

(interpreted) No, no, it was the same as a mandatory debenture that was 12.50 at the time by that time in January.



## Operator

Marcos Assumpcao, Itau BBA.

### Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) Fabio, in the Second Quarter, could Klabin's mix go back to what it was before focusing more on the domestic market because of a weaker exchange rate? I would like you to draw a comparison between the profitability of some of your exports, or marginal exports with sales to the domestic market if you consider a BRL2.2, BRL2.25 exchange rate?

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

(interpreted) Marcos, I had already answered a question by Alex. But I will go back to it. In Q2, the Second Quarter has a very specific characteristic because we have the maintenance stoppage of the Monte Alegre plant and because of that we have less output available and because of that we are obliged to cut our exports.

So with the Second Quarter, regardless of exchange rate or profitability of our exports, exports must drop because of this factor. Regarding what Klabin will do due to the volatility of the Brazilian economy, the fact is that nobody is very sure about the economic performance of the country overall.

And we have been consistently working on our exports and we have no intention whatsoever of changing this. We will continue to focus on exports up to the moment we have a more clear view of the situation of the domestic performance.

Of course if the domestic market rebounds, we will review this. But so far we are clearly working with a view on exports in a more intensive fashion that [ph] we have done in many years because of the more favorable real situation.

### Q - Marcos Assumpcao {BIO 7474402 <GO>}

(interpreted) And what about demand? Due to the increase in volume and debottlenecking and the new project, you will have a stronger volume of paper in the second half.

June has a low visibility so far as you said yourself. So when you have a higher volume, can you -- what can you say about this Fabio?

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

(interpreted) I'm sure of that because the main bottleneck with which we work has to do with coated board and the additional 50,000 tons capacity will help us because we have been having problems regarding delivering the necessary volume to our clients. And I'm not going to say that the problem will be totally solved because 50,000 tons will not be enough to solve the problem. But it will be something anyway. So we are sure that the second half will be better in terms of volume and in terms of results for the Company.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

(interpreted) One last question; with most of the equipment already contracted for the Puma Project, I would like to understand if the risk is a 100% in the hands of your suppliers, that is to say, you no longer have any risks regarding delays in the project?

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

(interpreted) Who bears the risk of these problems that we see in Brazil regarding problems in infrastructure and strikes and so on and so forth. To a certain extent, while most of the equipment has already been contracted and the risk is fundamentally of the other party, however, we believe that we are an integral part of the process and we will be working hand-in-hand with our suppliers in order to guarantee the best possible performance as we have done before.

We have brought forward the earthmoving part of the works and we have been taking other equivalent measures as well, always learning from previous experiences of the previous projects that were executed. And this way, we can anticipate problems so to say and we trust -- we have a situation that will allow us to work with a high degree of comfort during the next two years and deliver the plant in March 2015 -- in 2016.

**Operator**

(interpreted) Paulo Valaci [ph], Brasil Plural.

**Q - Paulo Valaci** {BIO 18268142 <GO>}

(interpreted) The first one has to do with leveraging. With the ramp-up of the Puma Project CapEx what do you expect in terms of leveraging by the end of the year?

And the second question has to do with maintenance CapEx. As you have a new capacity coming on-stream, what would be the sustainable level for the Company?

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

(interpreted) Maintenance CapEx is about BRL300 million annually and this is what it should be. Regarding leverage, our expectation is to reach the end of the year with 2.5 times leverage which is still a very comfortable level. And repeating what we have been saying to you at the peak before the beginning of the project our expectation was and continues to be maximum 4 times at the beginning of the project.

**Operator**

(interpreted) Lucas Ferreira, JPMorgan.

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

(interpreted) I would like to know about the coated board market. It seems to be the most difficult market for you because you have the debottlenecking coming now next

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month. And it will be practically two years or a little bit more counting on the possible approval of a new coated board machine in the future.

But it's a market that its growing demand is going up from Tetra, from SIG, et cetera, and you will be working at full-steam already. What about your paper machines, can they make coated boards during this period, during this bottlenecking and maybe a new coated board machine being built in order to cater to this market?

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

(interpreted) Your question is right and it shows a reality because Klabin even in spite of the addition of 50,000 tons Klabin will be working with a lower capacity than it will be necessary to meet the demand that we have today. As a consequence we have been making our best endeavors internally to find out how we are going to tackle this up to the moment a new coated board machine may be built related to the Puma Project.

And the good news that we can mention to you for the first time today is that we are studying the possibility of transforming the Angatuba plant into a coated board plant. And this would -- well, if we are able to conclude this project, this would allow us to substantially increase our production capacity of coated board.

Lucas and everybody that is listening to us, I would like to stress that this is a preliminary comment. This is not ready, this has not been approved. And this doesn't mean that it will materialize. This means that we are working on this and there is a chance for this to materialize.

We will know the answer in the next few months. And as soon as we have clear information, it will be immediately imparted to you. It's important for you to understand that the most important part is how long it takes.

It takes a very short time to do this. In a few months the Angatuba plant could be transformed into a coated board plant. And as a consequence this issue should be analyzed and concluded very quickly inside the Company. Over this quarter we will have to reach a conclusion regarding whether this is feasible or not and we will immediately inform the market.

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

(interpreted) What about the magnitude should this materialize, the Angatuba plant?

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

(interpreted) With the debottlenecking that we have just announced and that was approved yesterday by the Board, by the end of the year it will be producing 135,000 tons. Of this 135,000 tons, we could have everything to the limit being coated board.

Now, how much we would convert, this is another issue and it has to do with the need of paper that we produce and we use internally. But up to a 135,000 tons could be

channeled to the production of coated board.

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

(interpreted) Regarding Puma, the government recently decreased taxes for pulp and paper. Could this benefit the Puma Project?

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

(interpreted) Well it was already like that and the government only renewed the (inaudible) that were already this way. There is no change whatsoever, neither a minus nor a plus stemming from this renewal.

**Operator**

(interpreted) Felipe Koh, Citigroup.

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

(interpreted) Could you update us regarding all the debottlenecking that you're carrying out? You want to reach a 135,000 tons. But what would be the additional production that you would get from this debottlenecking? And what about the other projects? And are you thinking about other new projects that could be implemented in the short run? This is my first question.

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

(interpreted) Felipe, as I said before, we had 300,000 tons in brownfield investments already under way, of which 80,000 tons with the sack kraft machine that was up and running at the end of last year. So it's already up and running. And it operated during Q1 delivering 80% of its nominal capacity already during the First Quarter which means that the ramp-up is going very smoothly.

And the second large project that we have under way has to do with the recycled paper machine in Goiana, Pernambuco, a 110,000 tons. It's the most modern recycled paper machine in the whole world of course and it will be built in Goiana. And this will give us a major competitive advantage in the northeast market. A 110,000 tons will come on-stream by the end of this year.

Also underway for May, we have the debottlenecking of 50,000 tons of the machine number 9 of Monte Alegre for coated board. And I would say that this is the most important investment that we have because of the bottlenecking of our production capacity of coated board.

We also have two smaller debottlenecking's, one in Angatuba that was approved yesterday of approximately 35,000 tons. And another one of 15,000 tons in the Piracicaba unit.

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The Angatuba one is kraftliner paper and Piracicaba is recycled paper. So if you add all these figures we are talking about 300,000 tons of additional capacity that is being acquired by Klabin and they will all be available for 2015.

For the whole of the year, we will be operating with 2 million tons. And this is the first time in many, many years that we see this major ramp-up in our capacity. And this is very timely because of the demand that we have today and that we cannot really meet the demand with the current output.

And regarding new projects, answering your previous question, or Lucas' question from JPMorgan, we are analyzing the possibility of converting the production capacity of Angatuba to coated board in order to help us bridge the gap, helping us get to the beginning of the operation of the Puma Project, really be able to meet the demand of our market.

And all the investments will be executed in 2014 besides others that are already underway and that I'm not mentioning. We have many, many other investments regarding cost reduction of our plants aiming at increasing our efficiency.

And all these investments, no exception, will come on-stream between the end of this year and right at the beginning of next year in order to produce a significant positive impact on the Company's EBITDA in 2015.

However, in 2015, we will be putting a foot on the brake of our investments because we will be focusing on the Puma Project and plus the regular investments in maintenance of our manufacturing unit. And we will go back -- we will resume brownfield investments in 2016 when the Puma Project is already operating and generating quite a lot of cash so that we can easily go back to executing our project.

In summary, in 2015, we will be reducing our investments and we will be only making investments that are necessary for maintenance purposes and the Puma Project of course.

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

(interpreted) Thank you, Fabio. Now going back to prices, we heard that at the end of last year the market announced an increase of prices for coated board, not the liquid packaging board. What about the implementation of this price increase? Are you negotiating with Tetra Pak already for the prices of liquid packaging board to be supplied to Tetra Pak?

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

(interpreted) Felipe, thank you for your question. But I apologize because we cannot deal with price increases due to confidentiality reasons and respect to our clients. So I apologize to you. But I really cannot answer your question.

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

(interpreted) Yes, I just want to know if you were able to implement because you announced this last year?

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

(interpreted) Felipe, everything that was announced is being done, this is what I can tell you.

**Operator**

(interpreted) Vincenzo Paternostro, Credit Suisse.

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

(interpreted) BRL65 million recently approved of CapEx for Angatuba and Piracicaba, is this included in the BRL430 million that you mentioned regarding the CapEx guidance that you gave in the APIMEC [ph] of special projects and expansion of ramp-up projects? This is my first question.

The second question is the following. I would like to understand if the debottlenecking of the Monte Alegre plant will impact the duration of the stoppage. What about the impact on the volume produced in the quarter, let's say the stoppage last fall, one or two or three days more, what kind of impact could this have?

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

(interpreted) Vincenzo, this is Sergio. Regarding CapEx we are following very strictly what we disclosed during the last APIMEC of Klabin to reach the total investment between maintenance and special investments would reach BRL800 million in Klabin plus the investments of the Puma Project as we mentioned at the time. So there is no change whatsoever in this figure. And could you repeat your other question?

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

(interpreted) The Monte Alegre stoppage.

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

(interpreted) Normally every single year we have to stop the plant for 10 days. However, due to the investment of coated board machine we have an additional seven days.

So it starts production in June with a higher capacity. But production in the Second Quarter regarding coated board will be lower because of this stoppage for the revamping of this machine. That will be offset in the next few quarters by a higher production.

And Vincenzo, I would like to reinforce this because in spite of this long stoppage we still expect to have a continuous evolution of our EBITDA in line with what we have been delivering every quarter.

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## Operator

(interpreted) Carlos de Alba, Morgan Stanley.

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

Just wondering if you could give us a little bit more detail how -- did you build inventory in anticipation of the stoppage so that the sales volumes may not decline in Q2 or may not decline as much as the production volumes are likely to fall? Could you give us some granularity there as well as how much is the CapEx or the increasing cost that you expect to see from the stoppage in Monte Alegre in the Second Quarter?

### A - Unidentified Speaker

(interpreted) Carlos, I will be answering in Portuguese because we only have simultaneous translation one way from Portuguese into English. So the interpreter will answer. Regarding the buildup of inventory, we have been doing everything we can to build up our inventories before the stoppages.

I don't know whether this is good or bad. But demand is so strong for our products that it has been very difficult for us to build the necessary levels and those clients that depend directly on that -- on us. And that could suffer from a shortage of products.

These are the clients that we can guarantee our deliveries and we build up our inventories for them. But as far as the others are concerned, we will have these production constraints during this period and this is why I mentioned that this stoppage is a moment of stress for the Company. And in this moment it is not easy for us to continue to deliver good results with the kind of scenario that I have just described.

On the other hand, we expect to get into the second half with a much better condition to deliver to the market and we expect very good results for the second half of the year.

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

All right. And --

### A - Unidentified Speaker

(interpreted) Regarding the CapEx for the stoppage we believe that the cost will not be different from last year, about BRL45 million such as we had last year with the stoppage of Monte Alegre.

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

Could you comment about the disbursement or the withdrawal of the credit from BNDES for the Puma Project? What is the evolution of this credit from BNDES in terms of your financials in the next few quarters? When do you see this money coming in to finance CapEx -- sorry to finance the Puma Project from BNDES?

## A - Unidentified Speaker

(interpreted) Carlos, typically -- well, the BNDES has already been contracted. And typically the disbursements by the BNDES for the Company occur with a one month gap vis-a-vis the disbursement that we make for our suppliers.

We pay our suppliers in one month and then we have the money from the BNDES in the following month. This is the normal process. And we are taking all the necessary measures so that this may be possible.

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

Any comments on working capital for the year?

## A - Unidentified Speaker

(interpreted) I have to speak Portuguese. Working capital is something that we track very closely and it should be maintained at the current levels for the Company. Probably if we have more exports, our operating capital -- working capital will go up slightly because of the higher term. And if Brazil performs better we will be maintaining the current working capital level for the Company.

It will depend on the market conditions and Klabin's product mix and the sales mix for the -- between the domestic and the export market.

## Operator

(interpreted) As there are no more questions I would like to give the floor back to Mr. Fabio Schvartsman for his closing remarks.

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

(interpreted) Once again we thank you for your presence in this call. The Company continues to deliver results in all the lines that we are involved in. And our focus on our investments is similar to the focus that we have on the overall operations of the Company, which means that we are 100% determined to deliver all our projects according to the schedule, to the deadlines. And the prices.

And our team is very much aligned in this regard. And what I can say is that some months have already gone by with all these things underway. And this is a fact so far. Everything has been negotiated according to our estimates, our budget. And we have been able to guarantee the deadlines. And the prices. And the quality of all project items in which we are involved.

Klabin in the initial cycle of improvement of our results will continue its endeavors. We will continue to improve our results. And we are in a growth cycle now. And as you know we are extremely careful in terms of having the adequate funding for our growth in order to avoid any kind of surprise during the execution of our project.



We believe that we have the adequate level of capital to carry out the project with no problem whatsoever for the Company. I would like to give the floor to Sergio who will say a few words about the Klabin unit.

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

(interpreted) I would like to mention to you that Bovespa made the decision to place in the Bovespa the KLB11 [ph], which is the Klabin unit removing the KLB4 [ph]. This was the objective of Klabin in order to avoid the split or this difference in the different shares.

So we have the window open already for the conversion into units for those who have not done so up to April 29th. Thank you very much. And have a very good day.

### **Operator**

(interpreted) Klabin's conference call is closed. We thank you for participating and wish you a very good day. Thank you.

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