

Q1 2016 Earnings Call

Company Participants

- Antonio Sergio Alfano, Chief Financial & Investor Relations Officer
- Fábio Schvartsman, Chief Executive Officer
- Jose Gertrudes Soares, Commercial Director-Kraftliner

Other Participants

- Alan Glezer, Analyst
- Jonathan Brandt, Analyst
- Juan G. Tavaréz, Analyst
- Leonardo Correa, Analyst
- Lucas Ferreira, Analyst
- Marcio Farid, Analyst
- Marcos Assumpção, Analyst
- Vincenzo Paternostro, Analyst

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 instructions for you to participate will be given.

As a reminder, this call is being recorded and broadcast live via webcast and may be accessed at <http://cast.comunique-se.com.br/klabin/1Q16>, where the presentation is also available.

Before we proceed, we 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 mere assumptions based on the company management's expectations regarding the future of Klabin. Such assumptions are highly dependent on market conditions, on Brazil's overall economic performance, on the industry and international market 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 comment on the company's performance during the first quarter of 2016, after that they will answer questions that you might wish to ask.

Now, I would like to turn the call over to Mr. Schvartsman. You may begin.

Fábio Schvartsman

Good morning, ladies and gentlemen. Thank you for participating once again in our earnings conference call. We have just finished the first quarter of 2016, and once again we were able to grow the company's EBITDA already in a very long sequence of growth. We produced more during the quarter and we sold more during the quarter, approximately 4% more in volume. We exported more, approximately 13% more in volume. We were able to keep our volumes in the domestic market constant on a year-on-year basis and which can be considered as a good result, taking into account the conditions of the Brazilian domestic market. And as a consequence, we are closing the quarter as expected.

And with that, we closed the cycle, the last quarter of Klabin, before Puma. Many of you have been following us for quite a few years. And you know that five years ago, we were showing as the path our intention to make the company's EBITDA grow consistently until the beginning of the Puma startup that happened at the beginning of March this year. And of course, it is with great pleasure that we have been able to deliver this very long sequence of positive results, delivering the growth that we expected.

And now, with Puma, a new cycle begins with many different paths for value creation for the company, be it an kraftliner or in coated board or boxes, in the domestic market, in the external market, in pulp, in fluff. Klabin will try to deliver another long cycle of positive results over the next few years, such as we did in the last few years. And now, facilitated by the Puma startup.

Now saying a few words about Puma startup. So far, we are very happy with Puma startup. The curve is even better than the one that we had expected and scheduled. In the second quarter of 2016, we will see the positive impact on the company's results coming from Puma startup, and of course still with partial sales. We estimate selling something around 50% of the plant's capacity during the quarter, due to the ramp up and also during (04:29) the fact that we need to build inventory in the chain. And notwithstanding, there is still limited volume. We will be able to deliver healthy margins that will be adding value to our results.

And such as we have been doing consistently, we will continue to increase the company's EBITDA coming from the other businesses of the company such as - the paper businesses will continue to grow in delivering result with consistent results and growth, as we have achieved so far. So we expect that the second quarter will represent a major evolution vis-à-vis the first quarter of this year.

As you know, we are very much focused on cost control and it's not because of the company's new plant startup that we have changed our set (5:34) of mind, quite the opposite, costs continued to be our concern every day and every night. And because of that, we are starting a new round of reduction in these expenses. Together with Professor

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Falconi, we have a project in order to achieve a major reduction in our cost from paper manufacturing.

Of course, it's not the right time still to do this at Puma, but this moment will come after production stabilizes and then will reduce something similar to that regarding the stability. We expect the third quarter of this year to reach the monthly nominal production capacity of the project.

And lastly, I would like to mention that we are very producty (06:27) with stability and with quality, both hardwood and softwood, and we will start the fluff production and the next step will be to seek quality and stability in the production of fluff, which should be achieved over the next week. And with that, we will be completing all the procedures regarding the company.

And with that, I would like to close my remarks giving the floor to Sergio and he will get into more details about the company's performance. Thank you. Sergio?

Antonio Sergio Alfano {BIO 4337533 <GO>}

Good morning. This is Sergio. Thank you participating once again in a conference call of the company. And I would like to talk about the performance and the sales volume of the company. In the first quarter, the total volumes sold by Klabin was 455,000 tons, 4% growth vis-à-vis the first quarter of 2015.

I would like to highlight once again the company's flexibility and its expertise in the export markets and also the quality of the products. In the first quarter, Klabin exported more of its volume - to export and in the first quarter, the growth in exports of Klabin was 13%, reaching 164,000 tons of packaging papers and coated board. And sales to the domestic market were stable vis-à-vis the first quarter of last year.

Once again, this stems from the ability of the company in terms of positioning itself in different markets and resorting to this flexibility that is an important factor to maintain the company's production. We work at 100% of our capacity. And in the quarter, the volume exported started to represent 36% of the total volume of the company vis-à-vis 33% in the first quarter of 2015.

Net revenue in the quarter including wood was BRL 1.5 billion, 12% growth year-on-year. The unit cash cost, excluding the non-recurrent effects coming from other operating expenses and revenues was BRL 2,120 per ton, 8.5% higher on a year-on-year basis. And excluding the additional costs referring to stoppages that occurred exclusively in the first quarter of last year, so that we may draw a comparison without the stoppages, the cash cost variation was 11.6%. And this increase reflects mainly the increase in OCC cost, with the production of the new recycled machine in Goiana that started production in February 2015, also the increase in the dollar-effect (09:50) input besides the higher freight expenditures due to the higher volume export. The EBITDA of the company in the first quarter reached BRL 512 million, 12% higher than the first quarter of 2015, completing 19 consecutive growth quarters.

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Consolidated net debt at the end of March reached BRL 12 billion, a BRL 402 million reduction compared to the end of December. And this reduction is due to the effect on our dollar-denominated debt of the lower exchange rate that we saw at the end of the quarter and the company's cash generation that more than offset investments of BRL 853 million in the quarter, and the payment of BRL 120 million in dividend that were also paid in the first quarter. Thus, at the end of March, the net debt/adjusted EBITDA ratio was 5.9 times vis-à-vis 6.3 times at the end of December 2015.

I would like to mention now with the Puma Project coming online - in line, the new cash generation of the company will accelerate our de-leveraging for the next quarters. And I would also like to mention that Klabin has no financial covenants being linked to its debt entering this quarter. The exchange rate variation that was positive for the company with the reduction of its debt has no cash effect in the short run. And regarding our investment, we invested BRL 853 million in the quarter and BRL 734 million were exclusively in the Puma Project on March 4, exactly on time and on budget. As defined in the approval of the project in 2013, the company produced the first pulp bales in the Puma Unit in Ortigueira.

Now, Fábio and I will be available to answer your questions. Thank you very much.

Q&A

Operator

Ladies and gentlemen, now we will start the Q&A session. Our first question comes from (12:28) from Bank of America.

Good morning, everyone. Thank you for the question. I have two questions. The first one regarding the price list in the domestic market. We see that the OCC prices has been going up quite steeply in the last year and more intensely in the last few months. So, could you tell us about the outlook for price increases in the domestic market and what is the potential? And the second has to do with growth and Puma. Is there anything new regarding the coated board machine and what is the potential timing for the production coming from this machine? Thank you.

Your second question was not very clear, so could you please repeat it?

In relation to the coated board machine, what about the studies, what is the progress of the studies and what is the timing for the approval or non-approval of the machine now that Puma is already starting?

Yes. The cost of OCC has been going up in the country. April against April, we had more than 40% increase in the cost of OCC, and this places a lot of pressure on the manufacturers that use recycled paper because the cost of the recycled paper goes up steeply and squeezing the margin of corrugated boxes producers. And this has translated into a price increase, of course, and the price increases are being driven - are being defined mainly by these companies that depend more on recycled paper, which is not the

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case of Klabin. Klabin basically in this case is waiting and sanctioning (14:24) the movement that is being done by the market and the direction. In this specific case, we are not the big players. The big players are the ones that are really suffering more the pressure on their cost. And of course, this is good news because this means that Klabin that not necessarily has the same cost structure. We'll also be able to transfer the increases that are factored by the market.

Regarding the coated board machine, we continue to be on track and the studies are going on at full steam (15:00). They should be delivered to the company next month, and we are negotiating with our clients, and these negotiations are reaching the final phase and they should be coming to an end very soon, and we should be submitting this to our board for approval, the approval for the machine at the end of this half year. And when this happens, of course, we will be informing the market. Thank you.

Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good morning, Fábio and Sergio. My question is about other growth project. I remember that you said that Klabin was not limited to Puma and coated board machine and that you could study other possibilities. And now that the project is already running, beside the machine, is there anything you could talk about in terms of debottlenecking or something that makes sense with the lower CapEx, but with higher returns?

And I would like to understand regarding what Fábio said at the beginning regarding (16:20) initiatives and more cost reductions in your paper activities, what are the main targets? And what could we expect in terms of cost reduction? And maybe give us some order of magnitude and what is exactly the focus of (16:38) work?

A - Fábio Schvartsman

Regarding other growth projects, Klabin has been showing over the execution of the many projects that we have carried out a discipline in capital investments, a very strong discipline, and this is very much necessary for a company that is as capital-intensive as Klabin. And of course, we try not to mix things in terms of not doing a lot simultaneously, so our main focus right now is the coated board machine.

We are analyzing other opportunities, the opportunities that are not mature yet in order for us to be able to talk about then. And when they materialize, of course, we will immediately inform the market. Regarding the Falconi project, we hired Falconi for all our paper plants and we expect major savings derived from the study.

This will be the first time that recycled paper mills will undergo this kind of treatment. So proportionately, a major part of the benefit will come from this area. From the value viewpoint, we expect to reach close to three digits in terms of annual cost savings that could be obtained by means of Falconi's work, once this is fully implemented. Thank you very much.

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Q - Marcio Farid {BIO 21017394 <GO>}

Marcio Farid, UBS. Good morning. Thank you for the questions. I would like to know the allocation of fluff and hardwood fiber, more specifically regarding the production of short softwood. How much do you intend to produce over 2016 in terms of softwood.

A - Fábio Schvartsman

Well, your question is very specific and we thought this could happen, so we asked our commercial officer of our (19:06) Jose Soares to join us. So he will be addressing your questions that are very specific.

A - Jose Gertrudes Soares {BIO 17576738 <GO>}

Good morning. This year, we intend to produce 50% fluff and 50% softwood in bales at the beginning because fluff needs a slower approval process that - than the bale pulp. At the beginning of the project that - which means in the next three months we will have a higher proportion of softwood pulp, around 60% in bales and the other 40% in fluff.

As the approval process evolves, we will be balancing this, coming to 50-50. And in the next year, of course depending on the performance of the product that we believe will be according to the best in the market we intend to have 70% fluff and 30% in bales. Thank you.

Q - Marcio Farid {BIO 21017394 <GO>}

And what about the allocation between the Brazilian market and Latin American market for hardwood and softwood?

A - Jose Gertrudes Soares {BIO 17576738 <GO>}

Softwood, of the 50% that I mentioned that we will be producing in bales, the proportion - well, it will be more to international markets, 70% for exports and 30% for the domestic market. In fluff, the opposite; 70% domestic and 30% exports. Thank you.

Operator

Marcos Assumpção, Itaú.

Q - Marcos Assumpção

Good morning. My first question is about the Kraftliner prices. If you could tell us about your outlook for the project - for this product looking ahead, and I believe there should be a correlation with the pulp price or not. And the second question, Fabio, if you could talk about the new exchange rate scenario that we see with little bit less volatility, around 3.5. How do you compare the profitability from your sales between domestic market and foreign markets?

A - Fábio Schvartsman

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Thank you, Marcos. With relation of Kraft prices, right now we see stability in these prices with some companies starting to make announcements of price increases for the next few months - abroad of course. And we believe that this is a real trend. We do not believe that there is a correlation between Kraft and pulp because the logic between supply and demand are rather different. And what really comes into play is the supply and demand of the product itself and the export of the united - by the United States, which determines the higher or lower price appetite for the same. So right now, we see stable prices and with some perspective for high prices ahead.

And regarding your second question, it's really different because right now it's equally profitable for us to export our product or sell them in the domestic market. The profitability is the same, which is a very pleasant position to be in because this prevents us from putting pressure on the wrong place. We place the product where the demand exists, accommodating the production of Klabin in the best way possible. And we continue to work at a 100% of our capacity and channeling our products, both to the domestic and the foreign markets with no problem whatsoever. Thank you.

Q - Marcos Assumpção

Fábio, just to add about the coated board machine, how do you see the external market for coated board today in terms of demand and the perspective for new plants beside your own plant - new machines, not new plants.

A - Fábio Schvartsman

The international market is going through a low-growth moment everywhere. So this is not different in terms of the demand for coated board, which grows globally, but modestly in the aggregate. As a consequence, there is no perspective for major additional demand for coated board. We don't know exactly how our competitors are thinking about new machines. I'm just sure that Klabin is doing what it has to do and we will come to a decision in a very short period. And we expect this to be contemplated by the other players as being parts of the market situation that requires these offers.

Operator

Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning, everyone. Thank you for the question. My question is about leverage. We see many moving parts there in the exchange rate and the downward price of pulp and you're analyzing the conclusion of the engineering of the new machine.

So how do you see the evolution of your net debt-to-EBITDA ratio from now on? In the result obtained in the third quarter and the last one, it's clear that the peak is already past history. And with all these variables coming into play and with the project and higher disbursement, the higher CapEx next year, what about your de-leveraging to 2.5 times to 3 times net debt-to-EBITDA? When do you think you will reach this level?

And the second question - I know I have been insisting on this point for quite some time and there was quite a lot of things happening and being said about corrugated boxes, which is a segment that still has a very fragmented market. So I would like to know regarding M&A and a scenario of M&A and do you believe there should come new opportunities, because OCC going up 40% year-on-year. How do you see the opportunities that might arise on the side of the corrugated boxes.

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

Leonardo, good morning. This is Sergio. Regarding our leverage, as I said at the beginning of our call, there will be a natural deleveraging process. We are finalizing the disbursements related to the Puma Project and we will have a new cash generation for the company. Besides Klabin's current cash generation, we will have a strong cash generation that we will be growing quarter-on-quarter and this will lead to a natural deleveraging for the company.

Klabin last year generated BRL 2 billion in EBITDA and we expect to grow the company's EBITDA with the coming on-stream of Puma. We have already carried out internal studies and projections already considering the investment in the new coated board machine. And even with the new coated machine, we will continue to deleverage consistently.

And of course with the lower exchange rate, we will see an increase in the length of this deleveraging. We exported R\$600 million in paper, and with Puma we should as of next year double our exports and of course with a lower exchange rate. As was said, at R\$3.50 we will be receiving less reais than with a dollar at R\$4. So this decelerates a little bit our deleveraging, but we will continue to deleverage every single quarter.

And you asked the question about M&A. As you know, M&A is like when the government talked about max devaluation of the exchange rate, you remember that this is never talked about. You announce when it happens. We are not announcing anything as you know, and if we are not announcing anything, it is because we are not in a position to say anything about that right now. And if this does happen, you will be the first ones to know. And of course, we continue to examine all the opportunities in the market. Thank you very much.

Operator

Jon Brandt, HSBC.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good morning. Congratulations on the results and for the start-up of Puma. I wanted to ask you first about your outlook for pulp price, since we've seen - and I guess supply/demand, we've seen some of your competitors announce price increases and the general consensus seems to be that pulp prices on both the hardwood and softwood should start trending up for the rest of the year. I'm wondering if you share that view, or what your view is. And secondly, I wanted to ask you about OCC and oil prices, that's gone up about 40%. I'm assuming just given the issues that Brazil has from a macro standpoint that this is really a shortage of supply rather than an increase in demand. I'm

wondering if you could shed a little bit of light on exactly what's happening, why OCC prices have gone up so sharply, and is this a structural shortage in the market or do you think prices should come back down?

And then sort of related to that. In the first quarter, we saw Smurfit enter into Brazil, and I know you don't really comment on competitors. But at the time, you said that you've expected them to act in a rational way, that you expected it to be relatively good for Brazil paper industry. I'm wondering if you could provide us an update as to, is that (30:34) what you've seen through the first quarter of their operations? Thank you.

A - Fábio Schvartsman

Jon, thank you very much for your questions. Let's start with the pulp prices. Our expectation is similar to the expectation of the other players, who have already announced that in their opinion prices have already reached the rock bottom. And so, it would be more probable to see prices going up and staying stable. So, with this assumption that we're working right now besides Klabin, there is no significant entry of additional volume into the market that could affect the balance regarding OCC prices.

In our understanding, there is a double combination of factors here and that led to the price increase of OCC. The first factor was the increase in Brazilian exports of finished products and that are packaged in Brazil, and also the reduction in imports of the same. And as a consequence, Brazil instead of importing OCC as new boxes, in fact is exporting OCC in the form of boxes, and therefore decreasing the availability of OCC in the market. And ABPO sees a reduction of 5% in volume for the last period, which means a lower delivery of corrugated boxes in the market, and therefore a lower availability of OCC.

And when you go seasonally from a weaker period, January-February to a stronger period from March on, regardless of the economy, this happened seasonally. And when this happened, you have a whole array of factors that lead to a shortage of OCC. So the current price of OCC is going up because of the circumstances that I have described. And while the circumstances are still present and they are, so we see no sign of change in that. So, pressure will continue to exist on the OCC and certainly price will continue to go up.

And as I said in the previous call regarding your other question, we believe that (33:27) got into the market in the right way, not doing anything wrong. I mean, they've got into the market with correct operations and trying to add value to what they do, which is healthy and positive as far as the market is concerned.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Thank you

Operator

Juan Tavaréz from Citigroup.

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

Hi. Good morning, everyone. Just my first question. I wanted to touch a bit on just the underlying demand trends domestically. I know you've just mentioned that ABPO reported a 5% decline in boxes locally, but you're clearly doing much better than the overall industry. I'm curious how you're foreseeing just the industry going forward in boxes and boards domestically? And how much more market share gains do you foresee being able to capture and what's driving those market share gains? Is it a weak competitor or is it a specific pricing strategy or go-to-market strategy from Klabin?

And then my second question on just the pricing trend. If you can give us some details on your view for board and for industrial bags, just commenting on those two products? Thank you.

A - Fábio Schvartsman

Juan, good morning. Thank you for your questions. Regarding the domestic demand for boxes, it dropped 5% and Klabin had a better performance than the overall market and the trend should continue. And the reason is very clear; the manufacturers of recycled paper are facing problems both regarding availability of OCC and cost of the same. And because of that, prices tend to bridge this gap and Klabin one way or another becomes more attractive to clients with this kind of situation.

We believe that the market will continue to be weak, maybe a little bit less weak, and the expectation of ABPO itself is that the volume reduction in the market will decrease in the second half. It should be closer to flat than having dropped like we see now. And I have no way to create anything better than that, and it is with this kind of expectation that we work.

And regarding your question about board and bags, the market for bags has been a surprise to Klabin recently, because we are facing a very weak domestic market with drops in civil construction, very steep ones. And of course, this affects significantly the sale of Klabin's bags in the domestic market. So this was a bad surprise. But on the other hand, Klabin has been exporting more and more significant volumes of bags and with profitability equivalent to the domestic market.

So this is a new world that is opening up to Klabin regarding the size of the export market for our paper, evidencing the quality of Klabin's paper that can really fight for the market with the best producers in the world, especially in North America. As far as board is concerned, the market continues to be steady. Sales in the domestic market have a good performance as well as the export market.

Well, our production is totally sold and we will continue like that over the next quarter. So far, we do not foresee any change in this scenario. And I repeat, Klabin enjoys the benefit of having a top quality board resulting from the mix of fibers and the machine that is used for the production of the board, and because of that our product is highly competitive. The quality of our product is accepted in all markets in the world.

And given our cost competitiveness, the cost of Klabin's coated board is the lowest in the world and because of that we are able to get healthy margins in any market conditions. So in this scenario, we continue to have a very good performance, notwithstanding a very bad domestic market and a weak external market. And in spite of these situations, we continue to deliver good results. We are now facing a physical reality as Sergio said, which is the fact that Puma has already started up and this means almost 400,000 additional tonnes of sales per quarter, which will mean a very important leap in our cash generation. As a consequence, the company continues to be very well positioned and prepared to tap into the opportunity that arise in the market.

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

Okay. Thank you.

Operator

Alan Glezer, Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good morning, everyone. Two questions. Kraftliner, we saw this quarter that there was a significant increase in kraftliner sales in the domestic market and a drop in sales in the external market. So what was the rationale behind that? Was this a strategy because of the price of OCC that is going up? And was it because your sales to the domestic market are most profitable because of this hike in the OCC prices? And CapEx, how much CapEx has to be invested in the second quarter in Puma? And what about this drop in the sustained CapEx that we saw BRL 114 million going to BRL 80 million quarter-on-quarter? So, these are my two questions.

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

This is Sergio. Alan, good morning. Regarding kraftliner sales in the first quarter 2016 compared to the same quarter last year, in the domestic market, we had a drop of 4,000 tonnes, less sales in the first quarter of this year, year-on-year. In exports, growing 18,000 tonnes in the same comparison. There was a slight decrease vis-à-vis the fourth quarter in exports, and the domestic market is more resilient as far as we are concerned. So our sales were higher by 6,000 tonnes.

So, if you compare the first quarter to the first quarter last year, the exports grew in kraftliner, they dropped in the domestic market. And when you make a comparison with the fourth quarter, there was a slight decrease in exports and a slight increase in the domestic market, but nothing significant.

Regarding CapEx, in our previous conference call - the last conference call, we said that the balance of Puma related disbursements for 2016 would be of BRL 1.8 billion, which means that we still have to pay BRL 1 billion and this should occur between the second and the third quarters, basically setting all the payments regarding the Puma Project. And the reason for this late payment is that traditionally when you negotiate with your suppliers, you keep - you retain 5% of the price for the final delivery of the equipment. So,

only after everything is delivered and up and running, we pay these 5% that we hold, and this is the reason for this disbursement now. Thank you.

Operator

Vicenzo Paternostro, Credit Suisse.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Good morning, Fábio, Sergio, everyone. I would like to ask a question about the postponement in the decision about the board machine. And very clearly, with the change in the level of the exchange rate, the speed of your deleverage will be slower and you have always been very conservative. So this slower speed in your deleveraging, could it maybe postpone your decision regarding the coated board machine project?

A - Fábio Schvartsman

Vicenzo, I can only express one opinion, because the decision is made by the board of the company and not by me. So, having given you this disclaimer, what I can tell you is that I believe we will go ahead with the board machine regardless of the deleveraging that you mentioned to and the reason for that are deeper than deleveraging. These are issues related to the volatility in the pulp prices themselves. And that in fact drive the profitability of the board operations and also the fact that it is totally necessary and natural for Klabin, in its relationship with the clients to continue to meet their expectations. And there are some very strong coated board markets with very strong growth, and as a consequence they expect Klabin to cater to them.

Regarding what you said about indebtedness, my own personal view about that is the following: With Puma operating and reaching very quickly its nominal capacity, this means that the company's EBITDA has already given a leap. But if you look backwards, it doesn't show, it only shows if you look ahead. So in my opinion, this deleveraging has already happened. And as a consequence, we already find ourselves in a situation in which the company is already much more deleveraged than what the figures show, the past EBITDA that did not contemplate Puma and already contemplated the whole investment made in Puma.

Q - Vicenzo Paternostro {BIO 17670256 <GO>}

Yes, this was exactly my doubt, because on one hand the appreciation of the real and the drop in the pulp prices have a negative impact on your cash flow ahead. But on the other hand, it improves the return of the product because you don't sell some pulp, because you're selling more board - coated board. So, one plays in favor and the other one plays against. So, you have a better profitability, a better return, but you have the factor of the worsening in pulp prices that decelerate your deleveraging, but it's very clear; I have understood your explanation.

Operator

Lucas Ferreira from JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Just a follow up on the coated board machine. Are you comfortable with the availability of softwood fiber for this project? Do you have the necessary wood, or are you going to resort to the market in order to buy softwood?

A - Fábio Schvartsman

Well, we prefer to do things instead of talking about them. But what we have already done over the last few months was the following: we have already established with the board of the company a strategy regarding buying additional land in the proximity of our operation in Monte Alegre and Puma, and selling lands that are our own, but they are farther away. And this would correspond to, let's say, a swap of assets and we have been doing this consistently and this has been increasing significantly our availability, both of pine and eucalyptus in the region allowing us to cover very comfortably any capacity expansion that we might intend to carry out in the region. Thank you.

Operator

As there are no more questions, I would like to give the floor back to Mr. Fábio Schvartsman for his closing remarks.

A - Fábio Schvartsman

Thank you very much, once again, for participating in our conference call. And as I said at the beginning, this was the last conference call without Puma's important participation in the generation of our results. And in spite of living a very complicated moment in our country with many economic challenges and with volatility in almost all the factors, I would like to remind you that Klabin, given the nature of its activity, has a clear capacity of moving products between and among markets dealing very adequately with these difficulties, and this has already been evidenced continuously in the last few years when we had all kinds of scenarios here. So, our strategy and our behavior are not based or driven on short-term events.

Our view is always a long-term view that derives from the fact that this company has a very clear control and with a long-term view and a long-term concern. And this allows us to think very comfortably about the development of the company and building today the result of tomorrow. And this is the way we have always worked, and Puma was built according to this kind of thinking. And when the board machine is approved, it will be approved according to this frame of mind.

So I see Klabin very well prepared to face this new period that we have ahead of us. And as we said and repeated many times, when we expect to deliver still another long cycle of earnings for the company. In the next quarter, we will be available to you or at any moment when we have something to inform to the market as a consequence.

Thank you very much, and see you next quarter. Thank you.

FINAL

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Operator

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

FINAL

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