

## Q1 2017 Earnings Call

### Company Participants

- Cristiano Cardoso Teixeira, Chief Executive Officer
- Eduardo de Toledo, Chief Financial Officer
- Fabio Schvartsman, Chief Executive Officer
- Francisco Cesar Razzolini, Executive Officer
- Unidentified Speaker

### Other Participants

- Bruno Giardino, Analyst
- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Jon Brandt, Analyst
- Karel Luketic, Analyst
- Lucas Ferreira, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning and welcome to Klabin's Conference Call. At this time, all participants are connected in listen-only mode. Afterwards, we will have a question-and-answer session, when further instructions for you to participate will be given. (Operator Instructions) I would like to remind you that this call is being recorded and also broadcast simultaneously on the Internet via webcast.

You may access it at <http://cast.comunique-se.com.br/klabin/2017> where you find the presentation as well. Before proceeding, we would like to clarify that forward-looking statements that might be made during this call related to the business perspectives of the Company, projections, operating and financial targets relating to the growth potential of the Company are just forecasts and assumptions based on the expectations of management in relation to the future of Klabin.

These expectations are highly dependent on market conditions, on the general economic performance of the country, of the industry and the international markets, and therefore, they are subject to change. Today with us in Sao Paulo, we have Mr. Fabio Schvartsman; Mr. Cristiano Teixeira; Mr. Eduardo de Toledo, and Mr. Francisco Razzolini. Fabio and

Eduardo will make presentations and afterwards, they will be answering questions that you might wish to formulate. Mr. Fabio Schvartsman, you have the floor.

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

Thank you very much. Good morning, good morning, everyone, and thank you for participating in this new Klabin conference call about the first quarter of 2017. This quarter was a tough year in general, I believed, and especially due to the fact that we have to work against the exchange rate. Because we saw an appreciation of the real vis-a-vis the first quarter of 2016 of BRL0.77 or 19% of the whole export revenue.

And in spite of all that, and despite of the fact that our announcements regarding the price increases as are occurring, in fact, they impacted the performance of the Company more ahead. And in spite of all that the Company was able to -- a very important effort regarding improvement in our mix and quality, were able to offset the EBITDA and particularly, I was very happy for the fact that we were able to do that in such an adverse scenario, such as the one that we had.

And I would like to say a few words about Puma. Puma, as we have already mentioned in the last call, with 90% of its capacity, and this happened until the stoppage that occurred in March and after the stoppage, we had a regular ramp up in the last few days and in the last 15 days, Puma is already operating at 100% of its capacity and everything shows the fact that from now on, we'll be able to deliver all the volume that it can deliver in nominal terms.

Of course, the endeavors of the Company will be focused on working days [ph] expand that is to say, so that we may work beyond this capacity and in the next few quarters, this could be the case, and of course we'll be communicating this to you. I would like to mention especially the endeavors made by the Company in order to reduce its indebtedness according to the public commitment that we have taken on. In spite of all the difficulties, you can see that we had a major reduction in our indebtedness of 5.2 times to 4.9 times -- in the quarter of 5.9 times if we take as a reference, the fourth quarter of 2016 to 4.2 times now -- 4.9 times.

This represents our effort to be very careful and prove that the all the investments that we make with a very strong management of our working capital at a huge concern in terms of working with the lowest possible level of inventories. And all those translating into a reduction in our indebtedness as you could expect.

Regarding our mix, I would like to mention the improvement in the sales of LPB of the Company that was very good, very strong in this quarter, as well as the sale of corrugated boxes and other converted products that grew by 13% on a year-on-year basis. In spite of this scenario (inaudible) we do see a modest evolution in the ABPO members and civil constructions with no signs whatsoever [ph] of improvement rather going down an additional 5% in this quarter compared to the same quarter last year. And as we always do, very quickly, I would like to mention our expectations regarding the next quarter.

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First of all, due to the successful ramp up of Puma, we could see an important increase in our sales volume and production of pulp as of now. And of course, it will be translated into lower production costs, because we will have a higher stability in the whole operation. Together with that, we will have the fact that the prices of pulp sold by Klabin both hardwood and softwood as well as fluff, we have been seeing major increases in prices and that gradually will start to be shown in our results as of the second quarter this year and the same will be occurring with kraftliner especially in the export markets where these price increases will also start to appear.

Together with that, we have the fact that conversions will continue to have a good performance with a major increase in volumes. Having said all that, what we can say is that the Company's expectation is to see an acceleration of the EBITDA increase on a comparable basis of one digit that we grew in the first quarter to two digits in the second quarter. And then after that we will have a major growth in the third and the fourth quarters of this year. And due to this reason we will be able to close the year in a much better condition than in 2016.

Overall, this is what I had to say to you. But before giving the floor to Eduardo who will be talking in detail about our performance in the first quarter, I would like to officially introduce to you my successor, Cristiano Cardoso who is here, and that as of the next call he'll be presenting the results so that he may introduce himself to you.

### **Cristiano Cardoso Teixeira** {BIO 17567319 <GO>}

Thank you very much for participating in the first quarter of 2017 conference call. First and foremost, I would like to express my thanks to those who placed their trust on me and following this last [ph] six months, that Fabio was able to carry out this transformation and to my great friend, I thank very much from the depth of my heart an unconditional support, it's a great a privilege for me to with being Klabin.

Klabin is positioned in the right direction in this sector of pulp and paper and the extremely important player in these markets and it is with this certainty that I take on this position at Klabin and our commitments to continue to generate value be it on the current platform or the next growth platform that will happen at the beginning of my administration. Thank you very much.

### **Eduardo de Toledo** {BIO 2067933 <GO>}

Good morning, everyone. It's my pleasure to be with you in this call. And I would like to use the presentation all the slides that we have prepared, starting with the sales item. Sales volume grew in the quarter 304,000 tons vis-a-vis the same quarter last year. And the very expressive growth of 67% was made possible due to the startup of Puma, and as Fabio mentioned, it had a good performance in the first quarter and even before first general stoppage, so it was a good volume.

We need to take into account the fact that we're talking about a quarter with the general stoppage of Puma. In terms of net revenues, it went from BRL1,464 million [ph] to BRL1,867

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million, in line with the evolution of the sales volume. And in terms of mix, now we have 40% of our revenues coming from exports and 60% from our domestic markets. I think, it's important to mention that balance of Klabin, because it's a very unique situation and the fact that it allows Klabin to be much more resilient from the viewpoint of results.

And going to the next page, where we have details about the Puma cash cost. As Fabio mentioned, we are achieving good progress there. And we went from a cash cost of BRL768 per ton to BRL733 per ton, a drop by 5%. And so again, before the general stoppage, before or the adjustments that were made in the first maintenance stoppage of Puma, we can see that there is an important progress in the consumption of chemicals and the consumption of woods, fiber, a very important evolution in energy generation awaiting in this quarter.

Energy generation, when the client is more stabilized, of course, you can further optimize it, and it is one of the largest site and further optimize and much to our joy, the better energy generation started already when the energy market was under pressure and the stock price with these changes and we believe this will have an important impact on our results in the next few quarters.

Now let's go to adjusted EBITDA slide. We achieved this 23rd consecutive growth in quarters. It's very impressive story and it has everything to do with Fabio's management of Klabin, Fabio's administration and we are sure that we will be able to continue on this path in the next quarters.

On the next slide, we talk about our debt. As Fabio mentioned, we were able to produce 4.9 times net debt EBITDA ratio in this quarter. Basically, this was possible because we were able to deliver a good EBITDA in spite of the appreciation of the exchange rate. And on in one hand, this helps us in regard to our net debt and also the delivery of a good EBITDA. On the other hand, it makes this indicator have this kind of evolution, which is rather positive for a quarter.

On the next slide, we talk about dividends. I would like to draw your attention to this because sometimes people do not really notice that. Klabin has been adopting paying out 20% of the EBITDA on a quarterly basis in such a way that if we look the last four quarters, the total of dividends paid out or BRL0.50 per unit. And if we take the current price of our stock, it would be a dividend yield of 3.33% and imagining the evolution of the EBITDA, as Fabio mentioned, which is what we expect.

Of course, we can imagine that the dividend yield will also have a great development if you consider the price of the stocks now and what we expect for the next few quarters. And this is the big highlight for Klabin in relation to other companies in general, other players (inaudible) the equity market as well.

And the last slide of the presentation reinforces the work that we have been carrying out in terms of delivery result on the short and the medium run and it has to do with our focusing on cost and the initiatives that we carried out in the industrial and in the forestry areas together with very good results being delivered, even higher results than our

expectation. It has been working very well and at the same time, we will continue to seek consistently, with the efforts from our engineering area, I have been talking to some of you, I said that during last year and two years ago, all our efforts were focused on delivering Puma, regarding the time frame and the price, et cetera, on-time and on-budget.

And now we are focusing our attention to improve our unit both in terms of engineering, production, costs, et cetera. So we have already been reaping results from all these efforts and we will be reaping additional results in the short and the medium run.

Now, I would like to open for questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we will start the Q&A session. (Operator Instructions) The first question comes from Ivano Westin from Credit Suisse.

#### Q - Ivano Westin {BIO 17552393 <GO>}

Good morning, Fabio, Cristiano and other officers. Thank you for the question. The first question is about the Puma project, about the utilization rate. After the stoppage you said that the client is ready to reach 100% of its nominal capacity. I would like to know this is going to be achieved in May and you said that you could even increase that to 1.65 [ph] with a small investment of \$20 million.

So when could this be done and could you talk about volume in terms of every quarter this year? One question about kraftliner, we saw in the first quarter a price increase and a strong demand for virgin fiber papers and some stoppages in the supply. And I would like to know what you expect for kraftliner in the international markets as of May. And also, maybe you could talk about the difference in terms of profitability between the domestic market and the export market. And lastly, Fabio, as the CEO of the Company, you did a wonderful job and you improved the Company, you improved the returns to shareholders and you went ahead with the Puma project. And now are going to have Cristiano replacing you, so which challenges do you expect Cristiano to face?

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

Thank you very much for all your questions. But starting a practice that I believe will be more common as of now. I followed your question about Puma to Francisco, kraftliner to Cristiano and I will be answering your remark about Cristiano, your question about Cristiano in fact.

#### A - Francisco Cesar Razzolini {BIO 16565930 <GO>}

This is Francisco Razzolini, good morning. This general stoppage came to an end at the end of March. And of course we made the necessary adjustments regarding the startup,

beginning of operation and we saw the results of that as of the second half of April, the operation at full capacity and this should continue over the years.

So, the quality is excellent. This operation (inaudible) on stream as well as the energy generation. Investments -- the investment that we expect is \$15 million and it should occur a part during 2017 and part of that during 2018 because it will depend on the general stoppages in order to implement the necessary changes. These are relatively small changes. They do not really interfere in our daily operations. However, we need to stop the plant in order to make the connection so that we do not lose production and this should happen as of the middle of next year, the (inaudible) operations.

**Q - Ivano Westin {BIO 17552393 <GO>}**

Just a follow-up. Could you talk about the cash cost for the quarters until the end of the year?

**A - Unidentified Speaker**

I can make a remark from the view point of cash cost, our view is just reached the target that we had already established when we talk about that in the second quarter of 2016. So we gave you a guidance regarding cost and we knew that we will be able even to exceed these targets over this year.

**A - Cristiano Cardoso Teixeira {BIO 17567319 <GO>}**

Thank you for the question about kraft. As of May, all the signs are positive will be orders and all the capacity for May is totally showed [ph] by Klabin in the international market. As of the United States, it continues to be very active, maybe due to cash consumption to the demand for paper and the inventories of kraftliner, and all of that have positive signs and we believe that the prices of kraftliner for this year will continue to be positive; the outlook is positive for prices, and domestic market vis-a-vis exports.

Exports, well, for the last few months, we have positive signs. I have already talked about the increase in demand from export markets and this brings us more flexibility and an additional alternative to start buying recycled paper in the domestic market and maintaining our export volumes as the prices are attractive.

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

Ivano your question about the challenges to be faced by Cristiano. Well, let's place it in two perspectives. Structurally speaking, Klabin in normal conditions should naturally deliver an EBITDA growth -- the consistent EBITDA growth. Consistent is a sense of always having growth, however, accelerating this growth over the next two quarters. And I think it should be reasonable to consider that we have at least an additional five quarters of EBITDA growth, and I mean major EBITDA growth. So, Cristiano's challenge is to prepare for what comes after these quarters because then we will have everything in hand, everything that was done during August time.

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EBITDA has to do with what I would like to call the (inaudible) the current operation where there is a very important room for us for improvement and we looking after that in all fronts and this should be translated gradually into and more and more results. But important growth for the Company will only happen with new investments.

After the several quarters that I mentioned, there is only one way to continue growing, either you have additional capacity or you end up staying at this levels that you have reached, and of course you have to prepare for the future expansion of Klabin and this is what Cristiano will be focusing on and always of course taking into account in a very careful and prudent manner; the reduction in the Company's indebtedness that comes first and to drive all of that this situation of the market.

If you have noticed, you can see that they published their results -- the quarterly results they informed that they decided not to go ahead with the project of a paper-machine that they estimated -- because of a very uncertain international scenario and it is not reasonable to invest in paper machines when you have uncertainty in the markets because the idea to create value, of course, everything we do is to create value.

So I believe focus on the current operations. The second point future investments for growth and the third trend [ph] as important as the two others. The internationalization of Klabin because of its size and because of all the markets it operates, it's too big for the Brazilian market. So Klabin really had to establish a process to become international gradually over the next few years. And Cristiano as well as the other members of the team are focused on building this plan -- this business plan that will lead Klabin to become more and more international. So I would say that these are the main challenges that will be faced by Cristiano.

**Q - Ivano Westin** {BIO 17552393 <GO>}

Fabio, thank you very much, very clear. Congratulations for the work done. And I wish the best to Cristiano in his new position.

**Operator**

Thiago Lofiego, Bradesco BBl.

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

Good morning, everyone. Fabio, first, I would like to congratulate you for everything that you have done at the Klabin. It was crucial for the turnaround of the Company and value generation. So congratulations, and I wish you the best of lucks at Vale. And I would like to wish the best of luck to Cristiano as well. Now let's go to my question. Fabio, if you allow me to, to ask Cristiano. Cristiano, what is the most probable tax towards growth, the growth that Fabio has just mentioned.

We know that you have on the table two very interesting projects, both coated board and kraftliner. So how do you see the Klabin's growth strategy from now on and what about the time frame for that? The second question is about fluff. I would like to better

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understand the approval, have you received all the approvals and what kind of volumes could we expect and what about exports of fluff? So could you give us some more color?

**A - Cristiano Cardoso Teixeira** {BIO 17567319 <GO>}

Thiago, thank you for the question. The most probable path, well, let's put everything in context. And also, following what Fabio has already said. First, the current platform of Klabin still has important opportunity for value generation. We have studied together with our engineering team about the opportunities to focus more on our own units as we have already delivered Puma on-time and on-budget. So engineering always focus on analyzing all our assets and checks where we still value and what important returns to be achieved based on what we already have in our current production base.

So I think we still have a lot to extract from them. Now, talking about the machines. In other calls, Fabio has already said that and this is a recurrent matter, the coated board, as you know, we are in the LPB market and it is the high end of the pulp and paper market and this is a very small sector in terms of worldwide volume. And because of that, we must have an alliance with a major account or with key accounts -- key clients and this is what we have been doing and this is what we are still doing, and as we and our clients believe that the time has come so the machine will be placed.

In terms of kraft, let's say, we want to choose (inaudible) three in a very small group, three candidates to place a packaging wood, let's say, Klabin is among the three. Always, Klabin ranks first or probably in the cost of total production the kraft is not different in terms of cash cost. And as we have the situation, we have other takes to the candidates for a new kraftliner machine with capacity to compete worldwide. Regarding fluff, I would like to ask Francisco to take the floor because he will answer your question about fluff.

**A - Francisco Cesar Razzolini** {BIO 16565930 <GO>}

About fluff, we have a very good performance, a very good quality. We get approval from all the clients to whom we have submitted our products, 88% of the Brazilian market with approval for fluff from potential clients -- the effective clients and we already export to over 20 countries.

There was an interesting change in terms of fluff. Since the end of March and beginning of April, with a very strong worldwide demand, we have more orders in our portfolio -- in our order book than we can supply and we have to give priority to some markets and to some clients and the demand for fluff is excellent right now, prices pointing to an upward curve and we are converting more fluff now than the bales for softwood and the moment is very good for fluff. And we are achieving a very quick penetration in market group, domestic market and abroad.

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

Can you talk about the volume of fluff for this year and for next year?

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



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We expect 250,000 tons this year, total volume of fluff. And we will probably get to between 300,000 tons and 350,000 tons in next year depending on market variations. We have the flexibility of going to bales or to fluff depending on what happens in the market, depending on the one that brings more results to the Company, but this is our expectation.

It wasn't surprising about what Francisco said and that drove our attention was the change in the market. All of a sudden, the Klabin products has the demand internationally from many different places and places that we did not expect and what surprisingly good prices in all over the world. And because of that Klabin is considering how to address this point because we were expecting something much more focused on the Brazilian domestic market and with less alternatives in the international market.

And now we have a good problem, let's say, which is the fact that we have a strong demand in the domestic market and also very good demand coming from the international markets. And this is leaving us to (inaudible) and probably very quickly, we'll get to the total fluff that we can produce having this kind of demands remaining.

## Operator

Carlos de Alba, Morgan Stanley.

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

Good morning, everyone, and congratulations on a strong performance Fabio and all the best to Cristiano. So my first question is, have you see the evolution on kraftliner prices and given that some of the new supply in the US that we say at the beginning of the year starting to normalize slowly.

And do you expect prices to sustain the current levels, maybe come down, and also what is the new in terms of the spread between the local prices in Brazil for kraftliner and the export prices? And then also are there any specific variables or thresholds or metrics that the Company is looking at Cristiano in order to decide when to call for the investments of the new paper machine?

And then finally, on dividends, given the still very strong expectation for EBITDA growth going forward and the dividend policy of (inaudible) percentage of EBITDA indeed and every year, do you expect to see a threshold for the dividend payments and/or the dividend yield or it would continue to increase this together with EBITDA? Thank you.

## A - Unidentified Speaker

Thank you, Carlos. First of all, the prices of kraftliner, we continue to see announcements and some attempts on the part of our competitors in terms of prices and we are also going to (inaudible) price increases. So, the (inaudible) that we have are signs of increase in markets, so I see no negative signs at all regarding kraft prices. We still have a very good expectation for the whole year be it in terms of the increases that we will have now and also the others at the average for the year.

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So, our expectation is high. Regarding the time frame of investment in the machines, as I said before, and Fabio always repeat this, it will be one, when the investment -- when we are all sure about that, not on the long run because we already sure in the long run. But what I mean is that to be sure that in the next few years it will be generating value to the Company. So it will be done when we really see this value for the Company, and now about dividends, I would like to ask Eduardo de Toledo to answer.

### **A - Eduardo de Toledo** {BIO 2067933 <GO>}

Carlos, good morning, and thank you for the question. In terms of dividends, our policy has been consistent for many years already because at the end of a quarter, we pay out 20% of the EBITDA and this policy is reasonably healthy. I believe that by doing that we can have the necessary room for the Company CapEx and we were able to do even in a phase with extremely strong investments which was the Puma project, BRL8.5 billion.

So in spite of that, we were able to payout the dividends. So, our basic view is to maintain this policy of paying out 20% of the EBITDA at the end of each quarter for the foreseeable future.

### **A - Unidentified Speaker**

Carlos, I would like to add something to my answer because I forgot to answer a part of that about the metrics that we use and somebody reminded me for kraft exports vis-a-vis the product shows in the domestic market. As I said at the beginning of my presentation about kraft, as kraft had this positive expectation that I have already referred to, we have opportunities being identified in a very timely moment of acquiring recycled paper in the domestic market, which is very good for Klabin as well.

Because it is fiber that you can consumer, that is where you take it from the market, it generates expectations, generates demand and it support the price adjustments in the conversion unit, so the scenarios also positive whereas the metric that we use is the opportunity itself. So if the opportunity is to export, okay, we'll go after it; if the opportunity is in the domestic market, we go after that.

### **Operator**

Jon Brandt, HSBC, in English.

### **Q - Jon Brandt** {BIO 5506998 <GO>}

Hi, good morning, thanks for taking my questions. Fabio, first, I wanted to ask you, I understand your contract -- you are not renewing your contract, which was very unexpected and certainly the next opportunity there that you're going to is a bigger one. But I'm wondering if you could elaborate a little bit on the reasons for deciding to leave and take over your next opportunity, and if you envision stay and involve in the Company in some form or other, sit on the Board, or some other way.

And secondly, I wanted to ask about your internationalization of fluff, could you elaborate a little bit on that and would you go outside of Latin America, would you do it through

M&A or organically. And what sort of leverage would we need to see before you start to embark on your next (inaudible) whether M&A or organically?. Thank you.

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

Jon, thank you for your questions. Well, first the reason for my change and I have already been mentioning this in the presentation -- the previous presentation is that it was really a big surprise to everybody and to me as well. I was very happy here at Klabin. I had no intention whatsoever of leaving the Company and I was negotiating the renewal of my contracts with Klabin. What happened is that, at this moment, I was approached by Vale to participate in the process that I was appointed to this process. And Vale is the biggest possible, possible challenge professionally in Brazil. So I cannot deny that this challenge is extremely attractive.

And I was really in doubt whether I should remain at Klabin and whether I should accept Vale and I decided to accept Vale and there was another reason as for Vale such as an important company in Brazil, so important for the country and that is if we are able to improve Vale, it will be very good for Brazil. So as a Brazilian citizen, it was an opportunity for me to be able to give back to this country in terms of everything I have received in this country and everything I received here in Klabin and try to make it successful.

And I would like to add that Klabin in the best company I have ever worked for in the pulp and paper sector. It is the most important, it's a benchmark worldwide. And I can say that because I traveled all over the world representing Klabin and this is something that I hear from everybody in every country and the quality of Klabin's asset is top.

It is placed -- it is present in fantastic market. And with the adequate management as it has said and will continue to have, it should be (inaudible) lot of value creation and a great joy to our shareholders of Klabin. Regarding international -- internationalization is as follows; Klabin today has a much more installed capacity than the domestic demand. So this is a reality up to a certain point. You can work on that, just exporting to international clients and that's it.

However, now Klabin has reached a point in which it is important to be, very sure of our penetration in all the markets that you have a presence in this, if you want to continue on the virtuous [ph] cycle. So, international expansion will happen whether it will be by means of an M&A or organic expansion, everything is under table. It you depend on the evolution of our negotiations and as the opportunities arise. One important focus of the Company is on that and Cristiano will continue to focus on this fact, because this is really unavoidable.

As Cristiano said, and Eduardo said as well, the situation of cash cost which is extremely competitive and that we have at Klabin, gives us a possibility of being anywhere with its combination of cost and quality. Of course, there is a difficulty in terms of having significant presence in significant markets and this is the reason why you need a local presence in order to occupy the state and this is what Klabin will be doing because this is really inevitable. I expect have -- I hope I have answered your question.

**Q - Jon Brandt** {BIO 5506998 <GO>}

Yeah. Thank you very much.

**Operator**

Karel Luketic, Merrill Lynch.

**Q - Karel Luketic** {BIO 16467278 <GO>}

Good morning, everyone. Thank you for the opportunity. I would like to start by congratulating Fabio and the whole team of Klabin for the work done in the last few years. Fabio, we are sad that you're leaving, but I'm very happy for you, because you will be heading Vale and I'm certain that Klabin will continue to be on this very successful track of the last few years.

Now, going to the questions, the first one is a follow-up about Puma. Now that Puma has reached a 100% capacity, can you give us the volume guidance for this year -- 1.4 [ph] as you had mentioned and (inaudible) and regarding cost reduction, you had many initiatives besides Puma in the paper area. So what is the potential benefit for 2017 in these areas?

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

I would like to answer these questions myself, if I may, also because I do not want my colleagues to be responsible or accountable for what I am going to say. Puma will exceed the guidance that you have. However, it will be more clear as quarters follow and I know that, my colleagues are very conservative and they do not want to make this kind of statement, and this is the reason why I decided to make the statement myself. This is the way I believe this process will continue.

Your second question is about cost initiatives. Well, this is another point where I can give you excellent views. The more recent evaluation of forestry will be delivering the cost reductions for the whole company and not to mention the cost reduction that is happening in each one of our businesses. If anything, we will exceed by far the cost reductions that we expected. And in fact, it is already reflected in part in the results of the first quarter, because in order to offset the huge appreciation of the currency, it has to be with a lot of initiatives regarding quality and mix, and this is where we're increasing our focus very rightly to and producing significant gains as well.

And I would like to reiterate that the figures for the next quarter will be of relevant growth vis-a-vis this current quarter that we're living now. Regardless of appreciation of the exchange rate or any other external help so to say, this will happen anyway in any scenario.

**Operator**

Lucas Ferreira, JPMorgan.

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

Good morning, everyone. I would like to wish the best of luck both to Cristiano and to Fabio in their new positions. Fabio, you said during the call that we would be having positive news. One would be the cost lower than expected and when you look at the budget that you drafted last year and you compare to the outlook that you have to today, both regarding (inaudible) prices, how do you see that?

Do you believe there is room -- well, do you believe that the budget was very conservative, the one that you closed last year -- at the end of last year? And the second question has to do with the growth plan for the medium and the long run. How does it fit into the plans of the control your shareholders -- the generations of the shareholding family? So how do you see this will develop?

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

Thank you for your questions, Lucas. Regarding the budget exception made to the exchange rate that we had no expectation whatsoever to have such a strong exchange rate such as it is today. So, exception made to that. We were by far exceeding our budget. And of course, the exchange rate will have certain weight on that, but anyway it means delivering a result which is better than expected and with the reasonable degree of certainty regarding that. Regarding the growth plan and the family, well, that one that really wants this growth are the shareholders -- the family and this is really the reason why these long-term investment plans at Klabin has been continue to pay. You see, Puma is a huge investment and the return will come in many, many years to come.

And the other investments in this sector be it in forest or be it investment in machines, they always have a very high CapEx and the return is not in the short-term. And the major advantage that you had overall these years was the fact that the controlling family -- the controlling shareholder -- the family, they have been giving us a consistent support and even much more than support. This is the way they see themselves in the business. So the transition from one generation to another and whatever happened regarding the changes in the family because of the force of nature do not have a (inaudible) on this evolution. Because this is in their DNA.

This thing of growing (inaudible) is something that they seek all the time and this is exactly the reason why we were able to do that. So there is no contradiction in terms there between one thing and the other

## **Operator**

Bruno Giardino, Santander.

## **Q - Bruno Giardino** {BIO 15974970 <GO>}

Good morning. Congratulations Fabio for the job done at Klabin. I have not been covering the sector for a long time, but everything said wonderful things about you and I do also wish Cristiano a big success. Recycled paper, how do you see the evolution of prices of recycled paper and does this bring more opportunity for M&A in the sector such

as you did last year, and how do you achieve profitability in the export of bags with this appreciation of the real?

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

Thank you, Bruno. Just putting things to context in recycled paper, Klabin is the largest producer of recycled paper in Brazil and it is all integrated in our own operations. How do we achieve this market? More from the tactic viewpoint for prices for this product, we see an upward trend for those who sell the paper, which is not our case. Once the seasonal curve (inaudible) the higher cost, which is OCC as of May already received signs, but as of May, the price of OCC starts to go up because of seasonality.

Could you please repeat your question regarding bags? Still talking about M&A, also clarifying another point, the M&A that we did last year, well, we made two acquisitions that I would call (inaudible) "surgical" the improved Klabin's footprint, they were acquisitions in states where we did not have operations before and they did not have recycled paper.

They were what we call non-integrated companies. They improved Klabin's footprint because we were able to integrate and be it in the (inaudible) supplying the North, be it in the Parana unit in Santa Catalina supplying the new conversion unit in Parana. So, they were surgical operations, so to say, and that improved our business footprint. And we are very pleased with the results of these acquisitions. Regarding new opportunities, there is nothing on the table right now.

We are not focusing on that in the corrugated box sector. It is a sector in which M&A deals have to be especially careful and today we have nothing on the table. Now going back a little bit, I would like to ask my friends to help me regarding bags. Competitiveness in the export of bags with a higher appreciation of the real whether you will continue to export.

Well, the good thing, I know that I'm repeating myself, there may be repetition is due to the fact that Klabin at every step reinforces flexibility -- the historical flexibility of the Company being it in the (inaudible) promo unit that brought fluff as a strong market and the new platform will (inaudible) or be it and the good news that we had two years ago, when strategically we focused on the international market and our bags were very well positioned in the markets that we targeted. And we have been very successful in this endeavor. And in fact, we have another alternative in our market, France and opportunity for future growth studies that are already an export reality for Klabin -- another export item for Klabin.

### **Operator**

(inaudible)

### **Q - Unidentified Participant**

A quick question, Fabio, what about the negotiation regarding you becoming a member of the Board of Klabin?

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

As far as I am concerned, regarding being a Board member of Klabin, I expressed the members of the controlling family and the other shareholders my willingness to help them by participating in the in Board in case they wish. So, it is not up to me. It's really up to them to evaluate the situation and they will reach a conclusion and when they reach the conclusion, I will be always willing to help whenever necessary.

### **Operator**

(inaudible)

### **Q - Unidentified Participant**

Good morning, thank you. Do you have an estimate for your free cash flow for 2017 that you can share with us?

### **A - Unidentified Speaker**

We do not give guidance about free cash flow. But we have been mentioning our EBITDA and I think it was very clear, what Fabio said about that in terms of CapEx, we have already said, BRL1 billion for the year. We are very close to that or in this range. So there is no big difference regarding the number that we have already published. And regarding dividends, our policy is very well known to all of you, dividend payout at the end of each quarter, and then we can take our own conclusions.

And on the financial side, the net debt is BRL11 billion. This net debt is basically dollar denominated and 4.5% a year on average. So I think with this information you can draw your own conclusions, but we do not have or we cannot give any guidance in this regard.

### **Operator**

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>}**

Gentlemen, my personal thanks for your presence in all these conference calls that we have held in the last few years. It was a very joyful path for me and that comes to an end now. So this is my official goodbye. In fact, today is my last day at Klabin. And I think nothing could be better than closing that with this conference call delivering the 23rd quarter of consecutive growth in the Company's EBITDA, which is a great target. And I tell my friend, Cristiano, that he will really have to make his best endeavors to beat that.

The challenges faced, and the Company has this kind of story of growing after performance and what is really great about this Company and that I would like to share with you right now, is the fact that now-a-days the Company is a true team, everybody works for the Company, everybody hand-in-hand, everybody seeking the best possible results.

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Over the years, we learned discipline in CapEx, we learned to deliver what we promise, we learned not to make investments not without being sure that the investments will create value. So in this (inaudible) this is already valuable and there is a culture in the Company regarding fulfillment and seeking results and reducing cost. Klabin is positioned to have a great future. So this is with a huge joy that I close my cycle here and giving the Company in the hands of -- the very competent hands of Cristiano.

Cristiano was brought to the Company by me. He worked with me for other companies. He had an outstanding performance and he has been in Klabin for almost six years. So he stays at Klabin's for almost the same time as I stayed and he was fundamental for the delivery of the results that we have the delivered in the last few years and he was fundamental in the change of culture in the construction of his team and spirit.

So I could not imagine a happier succession than Cristiano because he has everything that of good under my administration and knowing Cristiano as I know I am absolutely sure that he will bring even better contributions than the one I gave. I believe and I practice the fact that I like to have people better than I'm working with me.

So because these people who are better than me they push me up and they push me up so high that I will end up at Vale. So I thank the team, the Company for the support of the controlling shareholders that gave me all of the freedom to do what I had to do here. So my personal gratitude to the family and they are whole responsible for the performance of the last few years of Klabin and they will continue to be the trustees of this trust that will allow Cristiano to deliver the same quality of work.

Thank you all very much. I wish a very good day and in the next conference call I will be broadcasting from another place.

## Operator

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

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