



**Local Conference Call
Klabin S/A (KLBN11)
2Q22 Earnings Results
July 28th, 2022**

Operator: Good morning. Welcome to Klabin's audioconference. At this time, all participants are in listen-only mode. Later we will hold a Q&A session when further instructions will be given.

In benefit of time, we kindly ask analysts to limit questions to two. Should you require assistance during this call, please press start zero to reach the operator. As a reminder, this conference is being recorded and broadcast live via webcast and you may access it at Klabin's IR website, where you will find the presentation for download.

Forward-looking statements that might be made during this call in relation to Klabin's business outlooks, projections, operating, and financial targets regarding to potential growth should be understood as forecast based on the company's expectations in relation to Klabin's future. Such expectations are highly dependent on market conditions, on the overall economic performance of the country, of the industry, and international markets, therefore they are subject to change.

With us today, Mr. Cristiano Teixeira, CEO, Mr. Marcos Ivo, CFO and IR Officer, and officers of the company.

Mr. Teixeira and Mr. Ivo will comment on the company's performance on the second quarter of 2022. After that, the officers will be available to answer any questions that you might have.

Now I would like to turn the call over to Mr. Teixeira. Sir, you may begin.

Cristiano Teixeira: Welcome to Klabin's earning call for the second quarter of 2022.

Before returning to the quarter's results growth, I would like to talk about Project Figueira, the most recent step of Klabin's sustainable growth trajectory. Statistics for Empapel about the Brazilian corrugated boxes market show that in the last 16 years the market for corrugated boxes grew stronger than the Brazilian GDP annual average, 2.6% year on year vis-à-vis 1.8% for the GDP. Analyzing the last five years with the profile change in consumption, the corrugated boxes performance was even more significant when compared to the Brazilian GDP, an average annual growth of 4.1% vis-à-vis 1% of the GDP.

Therefore, based on the security of a resilient and defensive market, we announced Project Figueira in a material fact on July 20th. Project Figueira asserts how much we believe in the value of integration of this company. Thus, we stress that investment in a new modern corrugated box production plant we'll bring us total capacity of corrugated box conversion of 1.3 million tons a year, also results' stability in different economic cycles by integrating paper and corrugated boxes, which historically is resilient and also has slow volatility. Also, reassurance of our market leading position in corrugated boxes market, as well as high service level provided to clients. It will also bring us efficiency and operating productivity gains, reducing our conversion cost.

Project Figueira also provides a growth platform in the southeast region of Brazil for larger recycled paper and corrugated box site, allowing for more efficiency with logistic optimization, FX cost dilution. Klabin has a history of projects with high return and diligent capital allocation proving that the return on invested capital measured by ROIC doubled in the last ten years, reaching around 19% a year by the second quarter of 2022. In addition to that, we should deliver the 13th year of consecutive growth in the company's EBITDA.

About the second quarter of 2022, we had good results with an EBITDA of 1.84 billion and we also approved payment of around R\$ 400 million in dividends to shareholders. We trust in our capital allocation strategy always aiming at consistent value generation for shareholders.

I now turn the floor to Marcos Ivo, who will go into the financial details about the second quarter of 2022.

Marcos Ivo: Thank you, Cristiano, and good morning, everyone, thank you for being here with us in this call.

We delivered another quarter with growing results, showing once again the strength of Klabin's business model, as well as its results predictability. Among the highlights and the period, I should mention three of them: first, record sales volume totaling 1,000,000 and 9,000 tons; also, net revenue of R\$ 5 billion, up 24% in the annual comparison; and dividends and interest on equity of R\$1.5 billion in the last 12 months.

On page 4, the sales volume increased the 7% compared to the same quarter of 2021 driven by the production volume of machine 27. Thanks to its flexibility, exports accounted for 47% of sales volume in the quarter, 6 percentage points higher than the second quarter of 2021. Driven by higher sales volume and price increases in the last quarters, net revenue reached R\$ 5 billion in the quarter, 24% higher in the annual comparison. Adjusted EBITDA, net of nonrecurring effects, totaled R\$ 1.843 billion in the second quarter of 2022, up 2% vis-a-vis last year's second quarter. EBITDA was benefited by higher volume and sales and price adjustments, which more than offset the Brazilian currency appreciation vis-à-vis the dollar and cost increases.

In the next slide, pulp sales volume was of 424,000 tons in the quarter, the second highest volume since the beginning of Puma I, accounting for 6% growth when compared to the second quarter of 2022. Benefiting from higher prices in the annual comparison as well as the flexible sales mix among different geographies and the portfolio with three types of fibers (hardwood, softwood and fluff), average net price per ton was US\$ 859, 21% higher than the second quarter of 2021, driving up pulp's EBITDA, which reached R\$ 1 billion in the period. Confirming our last call's statement, the production cash cost for pulp was stable vis-à-vis the prior quarter, totaling R\$ 1,273 per ton considering all three fibers.

Now turning to slide number 6, adjusted free cash flow net of discretionary factors and expansion projects was positive in R\$ 784 million in the quarter. In the last 12 months. The adjusted free cash flow was of R\$ 3.8 billion, a free cash flow yield up 14.5%.

Now turning to page 7, at the end of June Klabin's net debt was of R\$ 20.5 billion, up 2.6 billion compared to March of 2022. This increase is explained by the negative impact of the FX variation on the dollar-denominated debt and also by the negative free cash flow in the period. Leverage measured by net debt over EBITDA indicator in dollars ended June at 2.7 times, stable vis-à-vis the prior quarter and close to the minimum level for the company's financial indebtedness policy.

I should remind you that Klabin has a financial indebtedness policy that clearly states its target capital structure. This policy is available at the company's IR website.

Moving now to the next slide, Klabin's liquidity remains robust and ended the quarter at R\$ 10 billion. This liquidity consists of R\$ 7.4 billion cash and the remainder in a revolving credit facility. The company's cash position is enough to amortize the debt maturing in the next 5 years. The average debt maturity at the end of the second quarter was 102 months, equivalent to approximately 8.5 years, the same level as in the previous quarter.

Klabin has contracted financing and has not yet been withdrawn, the amount is greater than the Capex that will still be dispersed until the completion of the Puma II Project, as detailed in the earnings release.

Turning to page 9, as shown in the notice to shareholders published yesterday, the company approved a dividend payout of R\$ 399 million to be paid on August 11th. On an accrual basis, the proceeds paid to shareholders over the last 12 months totaled R\$ 1.524 billion, a clear evidence of Klabin's ability to combine growth and dividend payout while maintaining financial discipline in its capital structure.

Klabin has a dividend and interest on equity policy which defines in a clear and straightforward manner the target amount to be paid to our investors through proceeds. This policy can also be found on our investor relations website.

On slide 10, we show our return on invested capital measured by ROIC, which totaled 18.6% in the last 12 months, in line with the same period of the previous year. In a

transparent, consistent manner, Klabin communicates to capital markets how it envisions its capital allocation through financial indebtedness and dividend policies in addition to its long-term growth strategic plan. This efficient and diligence allocation of capital is practice consistently and combined with its business model has transformed the companies ROIC over the last decade and will continue to shape Klabin's next steps.

On slide 11, the first stage of the Puma II Project, which started production on August 30th last year, is ramping up as planned. The second phase of the project, which will include a coded board machine, is still under construction on schedule, having reached 47% of the physical work according to the measurement performed on July 17th. Startup is scheduled for the second quarter of 2023. Since the beginning of the project, R\$ 9.4 billion have been dispersed, of which R\$ 882 million were disbursed in the second quarter of 2022.

Finally, on slide 12, I would like to mention a couple of initiatives and acknowledgements in the ESG arena that took place in the last few months. I highlight that we approved and implemented the new corporate life protection policy, a set of guidelines, criteria, and sanctions related to employee safety now unified for all plants and businesses. Safety is among the growth pillars and core values of the company and this initiative underscores our relentless quest for the well-being of those in charge of Klabin's growth on a daily basis. In June, we released the 2021 sustainability report and updated the ESG panel, which brings together all indicators on environment, social, and governance topics, and explains in a transparent manner the company's evolution along its sustainability journey.

In addition, this quarter Klabin was acknowledged for the third consecutive year one of the top performers of CDP's climate resilience index. By building a sustainable future and following the path of diligence allocation of capital with solid return to shareholders, Klabin will carry on its strategic plan towards long-term growth.

Now Cristiano, the other officers and I will be available for the Q&A session.

Question and Answer Session

Operator: We will now start the Q&A session. To ask a question, please choose star 1 on your dial pad. To remove your question from the queue, please press star 2.

Our first question is from Tiago Lofiego, from BBA.

Tiago Lofiego: Thank you and good morning, everyone. I have a question about project Figueira. Cristiano, can you comment on the ROIC of the project in an isolated analysis? Because I understand that you acquired the land that is larger than what's needed for this specific project, and as you well said, this is a platform for future growth. So, you said that you have other projects for the same piece of land, so you also mentioned capacity for corrugated boxes of 100,000 tons, so I would like to have a better understanding there.

So, my question is: which items we can exclude to run an isolated analysis of the project? And in doing that, what will be the ROIC of the project in a stress scenario and in a base case?

And my second question, you know, now more towards an outlook and the global Kraftliner price, what is your mindset about this market? Especially if we consider a possible recession scenario in the USA, a deceleration in Europe. I would like to hear more from you there, please.

Cristiano Teixeira: Thank you, Tiago. OK, about the specific ROIC for Figueira, if we don't look at it considering the whole chain, which is what we highlighted that we wanted to double the ROIC of the company in the next years, but analyzing Figueira by itself, it will pay WACC, it's better than WACC, and also this project has a characteristic which is to allow a possibility of adding to the same site considering here we have 1 million square meters a third corrugated box machine and also a two large recycled paper machines. So, part of this investment, which is already considering part of the use of this future growth is already included in the return of the corrugated box return today.

So, in an isolated fashion, this is better than the company's WACC and in our vision, in the whole chain the vision, when we create this future growth platform it will also follow the same trajectory of improving the whole chain's ROIC. So, we are confident, we are sure about what we are doing and this only stress what we have been talking about, this additional 100,000 tons, and I mentioned the total capacity of 1.3 million tons, this 1.3 million tons is to represent the capacity and the resiliency that we have to be able to convert paper in Brazil if there is a volatility.

And then I already turn to your other question on the liner, but still talking about Figueira, we have additional 100,000 tons that will help us towards that capacity, but in addition to that capacity, as I said in the beginning, we will also have a possibility of diluting fixed costs in the site, we will have more technology, modern equipment, it will reduce our conversion cost, and we also have this platform that I mentioned for future growth.

So, we are very sure about what we have done.

About liner...

Tiago Lofiego: I'm sorry, I'm sorry to interrupt you before you turn to the next question. Is there a possibility of quantifying or giving us a range of this ROIC in a base case or a range or could we consider for an isolated analysis of the project, what is the efficiency gain, how many more percentage points in the margin you expect to have of this isolated business so that we can do the math here and be more realistic there?

Marcos Ivo: Well, Tiago, this is Marcos Ivo. I will add with some specific figures, but first let me remind you that we have R\$ 200 million in recoverable taxes, most of them will be recovering immediately, second, we also clearly that we have R\$ 90 million

within this Capex, which is to prepare the site for the future recycle paper machine, these R\$ 90 million will be spent now and they will allow us to have an important cost reduction and will also turn the future project much easier. Additional, within this Capex, and Cristiano mentioned, we have a land of 1 million square meters and in this stage of the project we will use a small share of it, around 10% of the land, and clearly that shows that we have another share of Capex that is related to future projects.

As far as ROIC is concerned, as usual in all Klabin's projects, we do not publish the specifics of the project, but this is what Cristiano said, that this project will generate value, it has an ROIC that is higher than capital cost of the company, and also it has a return, when analyzed in an isolated fashion, when you do not consider the integration and Klabin's chain and that's not how we like to look at it, but let me just add this disclaimer, if we were to analyze it isolated, it will generate value, but it has a return that is lower than the average ROIC of Klabin, but it's important to be part of the business model of Klabin, which is a business model that allows Klabin to deliver an ROIC of 20%, as we had last years.

Cristiano Teixeira: And Tiago, now turning into the operating side, I would like to say that this 100,000 tons that apparently don't seem much, in the monthly exports of Klabin of Kraftliners is 35,000, so it is obvious that when I bring in this additional capacity, that allows us to have more flexibility of something that we always mentioned, which is the characteristic of our operations.

Is that fine, Tiago?

Tiago Lofiego: Perfect, thank you!

Cristiano Teixeira: OK. Now about liner, let me start answering this question, but we have Flavio and Soares on it, but they are not here right now, so I will start the question, but if they believe my question was not complete, they might add to it. But the current situation, as we always mention, liner has a direct impact, especially the Kraftliner turns virgin, which has an impact coming from the American exports. American exports were coming down on a monthly basis and this was a historical reduction in the past years, in 12 years and more recently because there was a growth of boxes' shipment in the US more recently, so they were reducing these exports. So, this really helped the international prices for liner, and obviously we did see the positive effect here.

Adding to that – and I'm giving you a brief history on the full side of the glass here. – we did have factory stoppages in the US, there were also climatic issues, also in the north hemisphere there were some fires event and manufacturers in the world, and more recently there was an energy crisis. So, there is a market situation here and I could say that in the short-term this is allowing us to sustain prices so far.

It is obvious that from now on we cannot overlook the higher interest rates in the world, and obviously in the US as well, and this is our main focus I believe, and that it will bring down the consumption of corrugated boxes in US, and this reduction

should be reverted to, you know, this exporting coming back, and that it is going to affect the market and I believe liner probably will have a lower price than what we have now.

We obviously can't have the exact timing of all of this, but this is the trend we foresee. The same situation also happens in Europe, and we will see their higher interest rates and therefore the reduction in consumption. Therefore, the global inflation will affect the price curve of liner and also other products that have that commodities' characteristic. Therefore, I can say that investment in corrugated boxes, which has a curve that is very close or higher than inflation in terms of price overtime and which is also very resilient, even in Brazil although we already see the inflection curve of inflation, we might see an income impact obviously. So, I will use corrugated boxes to convert paper, offsetting the drop in international prices and also corrugated boxes, because they are related to 70% of the food consumption, and we know that the food consumption is much more resilient than anything else.

So, even then, even if we have a loss in income in the next year – and we do not expect that –, but if that happens, what we see in practice is that we are going to have a change in tickets. I always explained the migration from red protein to white protein, but the volume of corrugated boxes is very resilient considering the figures that we presented to you.

So, Soares and Flavio, one of you, if you want to add to this, please feel free to do so.

Flávio Deganutti: Thank you, Cristiano. I think you talked about everything. We see that we have something that is very structural, and the markets are very strong, we have a price pressure, as you mentioned, and this possible accommodation of prices that might be slow.

Tiago Lofiego: Perfect, thank you very much Cristiano, Flavio, and Ivo.

Operator: Our next question comes from Caio Greiner, with BTG Pactual. Please, go ahead.

Caio Greiner: Hello, good afternoon, everyone. Cristiano, I'm sorry to insist on this point about the project, but I believe all analysts online here know this is a big discussion topic with investors and it has been so for the last few weeks and days, so I think it would be important to have a lot of information from you.

Actually, I have two questions, first, I would like you to clarify a little bit about the difference of Capex per ton in this project vis-à-vis others in the industry, the information that you disclose in the IP acquisition we also have to take into account inflation rates and the future expansion, so I believe this is clear. However, a second point and actually my question is the following: why should we do this project right now considering, well, I would say generating all this noise?

We really want to understand the company's timing and motivation. If we think about the approval process, independent stakeholders, sometimes some negative

scenarios or tight conditions, and despite of that, if we do the math, conclusion is very similar. So, my question is why should I approve the project under these conditions?

We understand this is part of the strategic road map of the company, but wouldn't it make sense to consider another alternative right now and maybe postpone the investment for the future? You have excellent projects in the South of Brazil. What about expanding Sack Kraft or Kraftliner or expand pulp, softwood? We know how the demand is scarce in the market.

So, I just want to understand the driving force and the timing behind this approval. Anything about maybe being positioned in order not to let competition come in. So, could you give us more color about this topic about the project because recent discussions have been very relevant.

And the second question, a brief question, Nico, could you give us an outlook in the short-term for pulp? I think the burning question from investors, not only for Klabin, but commodities in general, when will things go back to normal? We can see opposing trends and we'd like to hear from you how you envisage the short-term demand. Do you think there is still room for prices to remain at a slightly higher level for long? Thank you.

Cristiano Teixeira: Thank you, Caio, great question, it will give us an opportunity to talk about these points. Why don't we do the following: first, let us talk about pulp, and then I'll feel free to answer the first part that seems to be longer, but let us begin with Nico.

Alexandre Nicolini: Hello, Caio, good morning. Thank you for the question, Caio, if you think about the short-term this quarter's scenario, the expectation is very positive. As you can see, the market remains very resilient, we highlight geographies like Europe, the US, Asia Pacific, Middle East, Africa. All these countries and geographies have been performing very well when it comes to consumption of fiber in general, more specifically the three fibers, softwood, hardwood and fluff, and maybe more different is China, but this is more related to the macro scenario.

I think you haven't even better understanding than I do, but despite all of that, China when it comes to consumption and demand in general it goes well with no serious problems, so the outlook for the third quarter is very positive.

Cristiano Teixeira: OK, Caio? So, now maybe let's try to explore and tap into all the points you mentioned starting with Figueira. Look, the first point when it comes to Capex you probably know that when we're about to make an assessment of investments we make a comparison, we compare it with M&A, for instance, the cost of acquisition of a competitor per turn, for instance, just as we check investments compared to other corrugated box investment in Brazil and in the world. So, this number is absolutely in line with investment in equipment, absolutely in line with any other investment that we might have in the world today on a tonnage basis, cost, inflation rates that have been represented those by production costs, ferrous material, and all electronics that will make up or be part of a state-of-the-art plant.

So if we consider this context be it here or anywhere else – and by the way, I would like to say that not only considering cost, but also the delivery capacity, and I'm not disconsidering or disregarding any other project in the world –, but if you consider Klabin's project, we are proud to say that the delivery promised and the price achieved just to focus on the recent history of a company that is 123 years of age, the commitment and delivery of our projects in terms of cost and time increasingly underscore our expertise to deliver plants.

As for the recent moves, like IP and if we look backwards, we had another two companies, like a company in Manaus and another in Paraná states, these M&As obviously these are events that happened, many of these companies are family business, smaller Brazilian companies, we're always keeping our eyes open and very fortunate or happy whenever there is an opportunity to add these companies to Klabin's portfolio. Klabin focuses on a percentage market share considering consistent growth in the future, so we always had this vision.

So, if we decided, as we speak, to invest in plants compared to M&A or in contrast to M&A, obviously it was because the market was not available for a potential M&A or an M&A of the magnitude that we had in the past, but not only that, the Southeast of Brazil more specifically requires competitiveness. I don't want to talk too much about geography, but you know about our continental dimensions and Southeast has more fierce competition, so it's up to Klabin, which is the market leader, to own the best pieces of equipment, the lower costs, the best optimization and logistics in their plants, and deliver the best level of service to its customers considering we are suppliers of the most important global end-users in the Southeast of Brazil.

Therefore, this investment is consistent, we are walking the talk, it represents the purpose of integration and this is expected, by the way, once I increase the paper capacity for corrugated box and I decide to sell it worldwide, part of it will always be integrated and as we have an increase in the volume of paper, the same will happen with the level of integration in order to assure the number that we consider optimum within Klabin focusing on stable results and naturally dividend payout, which is the focus of the company.

So, we'll keep on growing also in conversion considering top priorities in order to assure stability in the company.

I think you used the word “noise” if I'm not mistaken. I have the following opinion: we had very important contributions, we're constantly addressing diversity in opinions, and they truly enrich the governance of the company. This company was transformed into governance in recent years, we have rich debates on strategy at the company represented by all directors of the board, and naturally, the board in recent years has a full group of people, the right group of people to assess investments and recommendations by the board, by the officers, at least since 2018, one year after my appointment.

So, this vision is a long-term vision, and it shouldn't be different in a company like this. And I have a question: think about a company that is 123 years of life, basically

a forest-based company which prepares fields and areas, so we may invest for the next 5 to 10 years, we have to think strategically in the long run. I know it could be just talking about this, but this is really represented by the constant increase and focus of the company and all officers of the company, the board, the management focusing on how to improve the company's return on invested capital.

As for better investments, I think that's how you put it, look, we truly have an investment pipeline that is very promising, they will all bring improvement, including improvement in the company's ROIC, we've been studying it thoroughly, studying how to improve and increase our capacity significantly in existing sites, so diluting fixed cost and also making use with the installed Capex because that's a brownfield. So, we are underscoring the ROIC that doubled in the previous years, and we'll keep on improving because we are sure about the investment for the future.

But why corrugated box now and not the others? Simply owing to the commitment to deliver to our customers. So, would it not have any mark on land, this is sheer mathematics, the move of the GDP in Brazil. These investments are mature, they have two years to be built and we consider that a given time we'll need more capacity because corrugated box... Well, think about this year, in the first half of the year, or the first quarter mostly, it was a poor delivery compared to the first quarter of last year, if I'm not mistaken at different of 10% and a whole install capacity was below. But, when you come back to the third quarter of the previous year, actually, at that time we reported... well, in the media there was a shortage of corrugated box. So, this is accurate mathematics in order to deliver the level of service to our customer.

So, that's the need right now. Other investments are going through engineering studies, they're being submitted to area studies so we can grow forests, and once this is mature, there is no doubt that we'll be submitting this to the board of directors for the necessary considerations.

Operator: Our next question is from Rafael Barcellos, Santander.

Rafael Barcellos: Good morning, everyone, thank you very much for taking my questions. My first one is about the spreads in fibers. Klabin in the past few years is special in these fibers mix, and especially in the last quarters, it has benefited from favorable spreads there, and I would like to know how you see it as dynamics of for the second half of the year now.

And the second question is a follow-up on Project Figueira, and I'm sorry about going back to it once again, but you talked a lot about efficiency gains that this project might bring, and also capacity that might be a replacement of 240,000 tons, but 100,000 of net capacity, but having said that I would like to understand your vision, how lower this cost would be for the operation or even margins in terms of current operations? It would be interesting to understand that. Thank you.

Cristiano Teixeira: Thank you, Rafael. So, let's start with the spread analysis and then Marcos Ivo will take over.

Alexandre Nicolini: OK, good morning, thank you. And I'm going to divide this question in two because we also have fluff and softwood and also base. This significant spread in fibers in the case of fluff, US\$ 400 per ton now, it has to do with the context that fluff, as we already said, is they segmented that is greatly dependent upon containers shipment and we know that the availability of containers freight also were significantly impacted, I should also say less capacity in the US, which had an impact of 280,000 tons among other problems, and production problems in Argentina, and the US, which ended up favoring the market in general.

Fluff, if we look at it in the long-term, is a product that should have a good performance and detached from other fibers considering we do not have any new capacities coming into the market. About hardwood and bales when compared to softwood, the history usually points to a gap of US\$ 80 to US\$ 100 per ton. This gap in the beginning of the year was over US\$ 200 per ton and the motivation for that is that the softwood had an acceleration in prices at the end of last year and the first quarter of this year, and eucalyptus took a little bit longer to go up. Today the gap in Europe is around... Well, there's no price increase for August, US\$ 40 per ton, so softwood is at the level of 1,520 and we will have a gap of US\$ 140 per ton between softwood and a bales and eucalyptus and we believe this is a gap that we'll see until the end of the year.

Marcos Ivo: Rafael, this is Marcos Ivo and I'm going to address your question in qualitative terms. It is clear that we will have an efficiency game with the new factory for project Figueira, we have gains both in fixed costs as well as in variable costs. Talking about fixed costs, the largest corrugated boxes factory of Klabin in Jundiaí has around 120,000 tons, therefore, we have several other plants that are smaller than that. This plant will have a capacity in this new stage of 240,000 tons, so clearly it will be a factory with a fixed cost per ton of corrugated box that is going to be lower because we'll have the dilution of fixed costs.

And remember, overtime when we carry out all our visions for this site with a strategic location, within the largest consuming market for corrugated boxes in Brazil, this dilution is going to be even greater.

Now talking about variable costs, this is a state-of-the-art plant in terms of equipment with the best technology available, and we also have a variable cost that is lower than Klabin's average because of less waste that we will have the same paper, but in practice we will have less waste, therefore, we will be using less paper per each ton of boxes that we manufacture. Therefore, we will have a significant gain in the margin per ton or in the EBITDA margin for boxes that are manufactured in Figueira Project site.

Rafael Barcellos: Great, thank you.

Operator: The next question will be in English, Carlos de Alba, Morgan Stanley.

Carlos de Alba: Thank you very much. Maybe another aspect on Figueira project. Could you elaborate a little bit – and sorry if I missed this earlier, but – could you

elaborate a little bit as to why the net capacity increases only 100,000 tons when the capacity of the plant is 240.000? If you could give us some color as to what explains the gap and if that in any way has an impact on these sort of discrepancies and differences of opinions that the management team and majority of the board members have versus the independent board members that voted against the project or at least express serious concerns about the returns?

And the second point is on the cost front. All the companies that have been discussing the second quarter results have been posting cost pressures or are seeing cost pressures and have been posing higher cost. What do you see going forward for the company? Do you see continuous increases, single digits, double digits or more of a stable performance from what we saw in the second quarter? Thank you very much.

Cristiano Teixeira: Thank you, Carlos. I'll begin to answer your question and if Marcos finds it appropriate, he will add information on cost. Speaking of the net capacity of 100,000, the main purpose with the super site (that's how we call it) we could have a third corrugated box machine in the future, this super site allows us to turn off smaller machines that are found in other units. And should that happen in the future and therefore the assumption of the project is conservative in the sense that in the future if we feel the need of 100,000 only, we will be working on this additional amount and optimize it in a smaller machine.

We bought a lot of units lately and they're smaller machines distributed in all these units, so that's the business case. Assuming down the road the market is favorable or better than what we expected, maybe not even the smaller machines would be shut down. As you well know we planned the best way possible, so we are considering a conservative business case and that's a number to optimize cost. however, if the margin allows us in the future, well, by the way, this is going to be ongoing in Klabin in the future, that's important in our industry, we want to always optimize the super sites and always focusing on the level of service, which is increasing our footprints. So, it's just trying to do a little bit of everything, optimization, delivery, and decisions will be made in the future.

So, in the assumption, well, I can assure you that it's the most conservative model possible, as it happened in all our latest business case is introduced in the last decade.

Now, before I turn it over to costs, look, this debate was very, very disgust by the board and we thank the members, we know how much they contributed in this assessment, and this debate, personally speaking, focus a lot on this attitude of trusting this business model, this integrated business model in which we have to continue to invest to cater to our customers' needs and at the same time a vision that is absolutely favorable considering then a higher protection should we have another crisis, for instance, or more stringent crisis compared to what we already foresee for future years, and the assessment by the group, as all of us, we are a large group, we listen to other people's input and we build a solution together.

The board the management is just one thing and it is consistent in this debate, and at the end of the day the conclusion of the company's management was to keep on focusing on the company's business model delivering to our clients and confirming the improve ROIC that happened in the last decade, and we will continue as such because this corrugated box project, therefore integration project, brings integration or volatility of other markets, as you know, exposure to the international paper industry. So, it was a very positive rich debate.

As for costs, well, I talked a little bit about inflation and I think somehow, I answered part about the cost expectation, but Marcos Ivo definitely can tell you more about it.

Marcos Ivo: Carlos, about costs for the second-half of the year, if we consider maintenance – by the way, this is an assumption – if we consider maintenance or prices of raw materials that we use in our production process at the level they are today, and by the way, I'm specifically addressing oil and chemicals and byproducts, if this assumption becomes true, Klabin's expectation is that the cost of pulp and paper production net of scheduled downtime effects they should be in the same level in the second-half of the year compared to what we had in the first half of the year.

Cristiano Teixeira: Carlos, just adding to what he said, Marcos was very accurate in his answer, however, let me try also to share a structural viewpoint. We mentioned several times with all of you – and I apologize if I sound redundant – however, Klabin is going through a growth process, we trust the ability to grow organically in the region where we run our operations in the South of the country oriented to the products that showed us recent success, fluff for instance, it's a highly successful product at the company, even Eukaliner and others, and Sack Kraft was also mentioned here.

So, if you look at the company with potential organic growth just as we did with Puma II Project, this means that we'd rather be agile in the market and invest in machines and buy third party wood in a first cycle, so to speak, when it comes to eucalyptus, for instance, seven years, and this third party wood came from farther away, and obviously for these seven years we've been buying areas so then we can work on planting and a second crop or a second cycle so the structural cost of wood will go down.

So, this positive message that we want to convey to you is that the company anticipated growth benefiting from the wood that was farther away, however, doing a lot of structural work so we can come back pretty close to the average ratios that we recently had at Klabin. So, if we only consider the 10 years that we're speaking so much about with you we moved from 1.5 million tons to 4.7 million tons basically already using the machine 28 capacity, which is the last phase of Puma II Project.

So, considering this volume and this size of growth that we achieve with very little change in the structural average ratio, so I just wanted to show you a glimpse of the structural cause, but naturally your question was more focused on what Marcos showed us. Thank you.

Carlos de Alba: Thank you very much. Great discussion and congratulations on the transparency which you handled the discussions about Figueira with the board; it really shows commitment to transparency. Thank you.

Operator: Our next question is from Daniel Sasson, Itaú BBA. The floor is yours.

Daniel Sasson: Thank you, good afternoon, everyone. Thank you very much for taking my question. I would like to know more about realized price. I know you have a good performance vis-a-vis the competition in terms of discounts and prices and the benchmark. Can you comment on how do you explain that improvement, if that is because of your geographic mix or if you think that you had a lagging to invoice your Asian orders and that's a little bit lower or faster and therefore you have been able to seize this opportunity and realize this recent price increase in pulp?

If you can comment also how much of your sales are more exposed to a 100% spot market, if this is more connected to a few-months contracts with larger clients. I would like to better understand your mindset regarding possible long-term contracts with your clients in order to reduce volatility in pulp prices, or if this is something that doesn't make any difference for you. Thank you.

Daniel Sasson: Thank you, Daniel. Nico is going to answer your question.

Alexandre Nicolini: Hello, Daniel, thank you for your question and your comments. Well, revenue management is the flag of all discussions related to the business units of the company, like you said, the long-term contracts and the spot market, the spot market is not something that we are focusing on. We mentioned that in the first quarter, we have over 90% of our production now already contracted, these contracts are carried out from the beginning to the end, but we do have a greater exposure to Asian markets. As we said before, this was a strategic decision of the company to bring down the exposure to Asian market considering that at the time we realized that that market was going to have a hard time in terms of prices.

So, this is a combination of prices and contracts signed in the US, in Europe, you know that Klabin also has a strong footprint in Brazil, this is the largest pulp supplier in Brazil considering all production capacity of Klabin and Brazilian prices follow the reference prices of Europe, and considering all the context, our average price was higher in the period, and spot market is not a market that we are strong because we do not have the capacity for that market considering all the contracts already signed.

Daniel Sasson: Thank you very much, Nico.

Operator: Our next question comes from Caio Ribeiro, Bofa. Please go ahead.

Caio Ribeiro: Thank you, good afternoon, everyone. First of all, coming back to the Figueira project vis-a-vis future expansions, I would like to hear from you if you have any preliminary study on which Capex per ton would be necessary to unleash new expansions on this site, it could even be a ranged, just to have better understand what kind of economic improvement you might see for future projects on the site.

As for future assets, 140,000 tons, I'd just like to know if you give us some color on the margin, the average of these assets, the EBITDA margin, more specifically if some are running with a negative margin. Thank you.

Cristiano Teixeira: Thank you, Caio. Look, first of all, we cannot give you an estimate on Capex, not for lack of transparency, quite the opposite. Look, this map is arithmetic. If we look at recent investments in Brazil or worldwide dividing investment by the installed volume at the plant, if we consider this number then we have a ratio of steel, labor, etc., freights are very much affected. So, at the end of the day, this will come in quotations for new investments that we might consider.

So, I recommend that the best way – because I cannot give any guidance right now, but once again, not because I don't want to give any numbers, but simply because that's a number – if we consider instability in Brazil and in the world, these numbers doesn't make so much sense, so our engineering will dedicate to the scope of investments and then proposals have a very short time frame owing to instability. So, unfortunately, I cannot give you any figures, but I can at least share with you an our trust in being very efficient in these investments.

And Ivo is going to answer the last part of the question.

Marcos Ivo: Caio, like I answered Rafael, we have a qualitative response, gain will come from higher dilution of fixed costs, lower scrap, impact on variable cost. Cristiano already said that it comes from a potential shutdown of machines, spread over six sites in the region which are older machines, and we could also disconnect inefficient shifts. So, this is a list of items connected to efficiency, but naturally this site has an EBITDA margin or reals/per ton or metric ton that is higher at Klabin.

Caio Ribeiro: Perfect. Thank you, Cristiano, and Marcos.

Operator: If there are no further questions, I'll turn the floor to Mr. Cristiano Teixeira for his final remarks.

Cristiano Teixeira: Thank you. I know share the outlook for the third quarter, which actually has already started.

In the third quarter we will deliver even stronger results than in the second quarter. The quarter is seasonally good, specially for corrugated box, a segment in which we expect to increase our sales volume in the second half of the year compared to the same period of the previous year.

Still celebrating 123 years of Klabin's history, we remain confident to deliver EBITDA growth for the 13th consecutive year and committed to our vision of growth and generation of shared value in the long run.

Thank you all for joining us and we look forward to seeing you in Klabin's next earnings conference call.

Operator: This concludes Klabin's S/A earnings conference call. Thank you all for joining us today. Have a great day. Thank you.