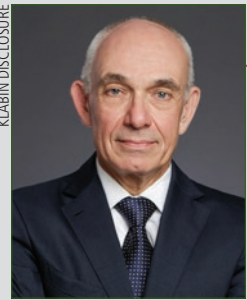


NEW COLUMN

KLABIN DISCLOSURE



BY FABIO SCHVARTSMAN,
MANAGING DIRECTOR OF KLABIN

RESILIENCE IN TIMES OF UNCERTAINTY

The closing numbers for Brazil's economy in 2016 explain the challenges faced during the year. An inflation rate above 6% and a Gross Domestic Product (GDP) that shrunk roughly 3.5% demonstrate the difficult scenario for Brazil's industry. Economic activity will resume at some point in time, but it is known that it will be a slow process, with GDP expected to grow just 0.5% in 2017 according to projections from the Central Bank's *Focus* research.

Industries in the pulp and paper sector benefit from exports in moments of domestic economic crises, but exchange-rate instability and the drop in pulp prices add more uncertainties to business.

While macro-economic measures to stimulate growth have not yet created the desired effect and the business community's optimism does not revert into concrete results, companies with a profile of resilience and flexibility stand out – in spite of the turbulent situation – for following their upward trajectories. Such is the case at Klabin, for which we can list at least three factors responsible for such characteristics.

First, we have the highest forest productivity rates in Brazil at our pine and eucalyptus forests, which factor when combined to short average distances between plantations and mills, produce major competitive advantages in any market we do business.

Another competitive advantage of the company is the diversification of markets. Klabin has a 50% market share in boards and has 40% of the installed capacity of kraftliner in the country, in addition to leading the pulverized domestic containerboard market with an 18% share, and being responsible for a 50% share of industrial bags. Considering our total supply of paper for packaging, we allocate 67% of production to the food industry, notoriously the most resilient sector of the economy.

With the start-up of Puma Unit's operations in Paraná, we added 1.5 million tons of pulp to our annual production capacity, that is, 1.1 million tons of hardwood

pulp and 400 thousand tons of softwood pulp. Part of this softwood pulp is converted into fluff pulp, a raw material that was previously 100% imported and is used in one of Brazil's fastest-growing consumer goods segments: diapers. In 2017, the first year that the new unit will be fully operational, we aim to become the leader in the segment with a 50% share of the domestic market.

Lastly, we can say that the third aspect that puts us in a leading position in the pulp and paper market is: predictability. In an industry where price volatility is a constant and exchange rates interfere significantly in the business, there are few companies that can declare being highly predictable like Klabin.

Since 2011, when we kicked off our 10-year growth cycle, we have been working to reduce both operational and administrative costs and invested to eliminate production-capacity bottlenecks and improve our mix of products and markets. We made the biggest investment in company history with the Puma Unit construction, which has one of the most competitive costs in the world to produce three types of fiber, and we are now focused on small high-return projects, such as the biomass boiler for the Angatuba unit (SP), a new line of industrial bags at the Lages unit (SC) and new printers for the containerboard packaging mills.

We are preparing for when Brazil's economy resumes growth, with recent acquisitions of operations to produce packaging in Manaus (AM) and Rio Negro (PR), where we still do not have this type of production. The initiative increases our paper production integration capacity and expands our portfolio of sectors and clients.

In the year that Klabin celebrates its 118th anniversary, our objective is not to present abrupt leaps in performance, but rather continue our trajectory of continuous, resilient and sustainable growth, such as the evolution we've posted over the last 21 consecutive quarters, overcoming the countless obstacles imposed by Brazil's economic scenario. ■

Considering our total supply of paper for packaging, we allocate 60% of production to the food industry, notoriously the most resilient sector of the economy