



Klabin Austria GmbH
(Incorporated in Austria)

U.S.\$700,000,000 7.000% Notes due 2049

Unconditionally Guaranteed by
Klabin S.A.

(Incorporated in the Federative Republic of Brazil)

Klabin Austria GmbH, or the issuer, organized and existing as a limited liability company (*Gesellschaft mit beschränkter Haftung*) under the laws of Austria, has offered a total of U.S.\$700,000,000 in aggregate principal amount of 7.000% senior notes due 2049, through (i) an offering on April 3, 2019 of U.S.\$500,000,000 in aggregate principal amount of 7.000% senior notes due 2049, or the initial notes, and (ii) an offering on January 15, 2020 of U.S.\$200,000,000 in aggregate principal amount of 7.000% senior notes due 2049, or the additional notes. The initial notes and the additional notes are collectively referred to as the notes.

The notes are unconditionally and irrevocably guaranteed by Klabin S.A., or the guarantor or Klabin, a corporation (*sociedade anônima*) organized and existing under the laws of the Federative Republic of Brazil.

The additional notes were offered as a further issuance of and are consolidated and form a single fungible series with the initial notes. The additional notes have terms identical to the initial notes, other than the issue date, issue price and first interest payment date. The additional notes became fully fungible with the initial notes following the termination of certain U.S. selling restrictions. See "Listing and General Information."

Interest on the notes accrues at a rate of 7.000% *per annum* and is payable semi-annually in arrears on April 3 and October 3, commencing on April 3, 2020. Unless previously redeemed or purchased and in each case cancelled, the notes will mature on April 3, 2049.

The issuer may, at its option, redeem the notes, in whole or in part, at any time, prior to October 3, 2048 (which is the date that is six months prior to the maturity of the notes), at the redemption prices set forth in this offering memorandum, *plus* accrued and unpaid interest and additional amounts, if any, to but excluding the redemption date. If the redemption date of the notes is on or after October 3, 2048, the redemption price will equal 100% of the principal amount of the notes, *plus* accrued and unpaid interest and additional amounts, if any, to, but excluding the redemption date.

The notes may also be redeemed by the issuer or Klabin, in whole but not in part, at 100% of the principal amount of the notes, *plus* accrued interest and additional amounts, if any, at any time upon the occurrence of specified tax events, as set forth in this offering memorandum. See "Description of the Notes—Redemption." If a specified change of control event as described in this offering memorandum occurs, unless the issuer or Klabin has exercised its option to redeem the notes, the issuer will be required to offer to purchase the notes at 101% of the principal amount of the notes, *plus* accrued and unpaid interest and additional amounts. The notes are senior unsecured obligations of the issuer, ranking equal in right of payment with all other existing and future senior unsecured debt of the issuer, subject to certain statutory preferences under applicable law. The guarantee is a senior unsecured obligation of Klabin, ranking equal in right of payment with all other existing and future senior unsecured debt of Klabin, subject to certain statutory preferences under applicable law.

The issuer has applied for the notes offered hereby to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. The Euro MTF Market is not a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). This offering memorandum may be used only for the purposes for which it has been published and does not constitute a prospectus for the purposes of the Prospectus Regulation. This offering memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectuses for securities dated July 16, 2019.

An investment in the notes involves risks. See "Risk Factors" beginning on page 21 of this offering memorandum for a discussion of certain risks that you should consider in connection with an investment in the notes.

The notes and the guarantee have not been registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or any state securities laws and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the Securities Act, or Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act, or Rule 144A, and outside the United States in accordance with Regulation S. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the notes, see "Transfer Restrictions."

Issue price for the initial notes: 98.460% plus accrued interest, if any, from April 3, 2019.
Issue price for the additional notes: 112.189% plus accrued interest from and including October 3, 2019.

Purchasers of the additional notes were required to pay accrued interest of U.S.\$21.00 per U.S.\$1,000 principal amount of additional notes, from and including October 3, 2019 up to but excluding January 21, 2020, which is the date of delivery of the additional notes.

The initial purchasers of the initial notes delivered the initial notes to purchasers in book-entry form through The Depository Trust Company, or DTC, for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream, on or about April 3, 2019. The initial purchasers of the additional notes delivered the additional notes to purchasers in book-entry form through The Depository Trust Company, or DTC, for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream, on or about January 21, 2020.

Joint Book-Running Managers for the initial notes

BofA	Bradesco BBI	Citigroup	HSBC	Itaú BBA	Santander	Mizuho Securities	Scotiabank	SMBC Nikko
Merrill Lynch								

Joint Book-Running Managers for the additional notes

BofA Securities	Bradesco BBI	HSBC	Itaú BBA	J.P. Morgan

Co-Managers for the initial notes

Banco Safra	XP Investments

The date of this offering memorandum is August 10, 2020.

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Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “Klabin,” the “Company,” “we,” “our,” “ours,” “us” or similar terms refer to Klabin S.A. together with its consolidated subsidiaries. All references to the “issuer” and “Klabin Austria” are to Klabin Austria GmbH, a wholly owned finance subsidiary of Klabin.

In this offering memorandum, references to the initial purchasers of the initial notes are to Banco Bradesco BBI S.A., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., Itau BBA USA Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Santander Investment Securities Inc., Mizuho Securities USA LLC, Scotia Capital (USA) Inc. and SMBC Nikko Securities America, Inc.

In this offering memorandum, references to the initial purchasers of the additional notes are to BofA Securities, Inc., Banco Bradesco BBI S.A., HSBC Securities (USA) Inc., Itau BBA USA Securities, Inc. and J.P. Morgan Securities LLC. Together, the initial purchasers of the initial notes and the initial purchasers of the additional notes are called the initial purchasers.

In addition, the term “Brazil” refers to the Federative Republic of Brazil and the phrase “Brazilian government” refers to the federal government of Brazil. The term “Central Bank” refers to the Central Bank of Brazil (*Banco Central do Brasil*).

Except where otherwise specified or the context otherwise requires, in this offering memorandum:

- all references to “IBÁ” are to the Brazilian Tree Industry (*Indústria Brasileira de Árvores*);
- all references to “ABPO” are to the Brazilian Corrugated Carton Board Association (*ABPO – Associação Brasileira do Papelão Ondulado*);
- all references to “IPCA” are to the Extended National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*);
- all references to “Pöyry” are to Jaakko Pöyry NLK Inc., an independent consulting firm;
- all references to “RISI” are to RISI, Inc., an independent consulting firm;
- all references to the “FSC” are to the Forest Stewardship Council®, an international not-for-profit, multi-stakeholder organization established in 1993 to promote responsible management of the world’s forests;
- all references to “OCC” are to old corrugated containers;
- all references to “coated board” are to a product resulting from joining various layers of paper and overlays, which may be the same or different and which are held together by compression. The layers may comprise virgin pulp and/or recycled paper and may include chemical products. Coated board is used in packaging for frozen foods, liquids, powdered soap, medicines, grains and cosmetics, among other uses;
- all references to “kraftliner” are to a paper made from virgin fiber that meets standards of mechanical resistance in order to form the cover or core of corrugated boxes, or to be made into industrial bags (in which case they are referred to as “sack kraft”);
- all references to “corrugated boxes” are to a product resulting from joining three basic layers of paper that are assembled such that the strength of the joined layers exceeds that of the sum of the strengths of each of the individual layers alone. Corrugated boxes are used in secondary packaging for food, hygiene and cleaning products, auto parts and electronics, among other uses;
- all references to “industrial bags” are to a product resulting from joining one or multiple basic layers of paper that is folded, glued and stitched so as to constitute a sack or bag for packaging. Industrial bags are used in the packaging of products for the civil construction industry (cement, lime and clay), food, grains and chemicals, among other uses;
- all references to “tonne” are to a metric ton, which is equal to 1,000 kilograms or 2,204.62 pounds;
- all references to “hectare” mean approximately 2.471 acres;

- all references to “kilogram” mean approximately 2.2 pounds;
- all references to “kilometer” mean approximately 0.621 miles;
- all references to “Angatuba Mill” are to the mill owned and operated by Klabin in the City of Angatuba, State of São Paulo;
- all references to “Betim Mill” are to the mill owned and operated by Klabin in the City of Betim, State of Minas Gerais;
- all references to “Correia Pinto Mill” are to the mill owned and operated by Klabin in the City of Correia Pinto, State of Santa Catarina;
- all references to “Feira de Santana Mill” are to the mill owned and operated by Klabin in the City of Feira de Santana, State of Bahia;
- all references to “Goiana Mill” are to the mill owned and operated by Klabin in the City of Goiana, State of Pernambuco;
- all references to “Itajaí Mill” are to the mill owned and operated by Klabin in the City of Itajaí, State of Santa Catarina;
- all references to “Jundiaí Mills” are to the two mills wholly owned and operated by Klabin in the City of Jundiaí, State of São Paulo;
- all references to “Lages Mills” are to the two mills owned and operated by Klabin in the City of Lages, State of Santa Catarina;
- all references to “Manaus Mill” are to the mill owned and operated by Klabin in the City of Manaus, State of Amazonas;
- all references to “Monte Alegre Mill” are to the mill owned and operated by Klabin in the City of Telêmaco Borba, State of Paraná;
- all references to “Ortigueira Mill” are to the mill owned and operated by Klabin in the City of Ortigueira, State of Paraná;
- all references to “Otacílio Costa Mill” are to the mill owned and operated by Klabin in the City of Otacílio Costa, State of Santa Catarina;
- all references to “Pílar Mill” are to the mill owned and operated by Klabin in the City of Pílar, Argentina;
- all references to “Piracicaba Mill” are to the mill owned and operated by Klabin in the City of Piracicaba, State of São Paulo;
- all references to “Rio Negro Mill” are to the mill owned and operated by Klabin in the City of Rio Negro, State of Paraná;
- all references to “Vale do Corisco” are to Florestal Vale do Corisco S.A., located in the City of Jaguariáiva, State of Paraná, jointly controlled by Klabin (51%) and Arauco Brasil (49%); and
- all references to “São Leopoldo Mill” are to the mill owned and operated by Klabin in the City of São Leopoldo, State of Rio Grande do Sul.

We and the issuer, having made all reasonable inquiries, confirm that the information contained in this offering memorandum with regard to us is true and accurate in all material respects, that the opinions and intentions

expressed in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. We and the issuer accept responsibility accordingly.

We and the issuer take responsibility for the correct reproduction and extraction of third-party information in this offering memorandum.

We, the issuer and the initial purchasers have not authorized anyone to provide any information other than that contained in this offering memorandum prepared by Klabin and the issuer or on Klabin and the issuer's behalf. We, the issuer and the initial purchasers take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. You should assume that the information in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of time of delivery of this offering memorandum or any sale of the notes. Our business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum. Neither we, the issuer nor the initial purchasers are making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted.

The issuer is relying on exemptions from registration under the Securities Act for offers and sales of securities that do not involve a public offering. The notes are subject to restrictions on transferability and resale and may not be transferred or resold in the United States, except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption from them. By purchasing the notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements described in the section "Transfer Restrictions." You should understand that you may be required to bear the financial risks of your investment in the notes for an indefinite period of time.

The issuer has applied for the notes offered hereby to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. The Euro MTF Market is not a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). This offering memorandum may be used only for the purposes for which it has been published and does not constitute a prospectus for the purposes of the Prospectus Regulation.

We and the issuer have prepared this offering memorandum for use solely in connection with the proposed offering of the notes outside of Brazil. This offering memorandum is personal to the offeree to whom it has been delivered and does not constitute an offer to any other person or to the public in general to acquire the notes. Distribution of this offering memorandum to any person other than the offeree and those persons, if any, retained to advise that offeree with respect thereto, is unauthorized. Each offeree, by accepting delivery of this offering memorandum, agrees to the foregoing.

Neither this offering memorandum nor any other information supplied in connection with the offering of the notes should be considered as a recommendation by us, the issuer or any of the initial purchasers that any recipient of this offering memorandum or of any other information supplied in connection with the notes should subscribe for or purchase any notes. Each investor contemplating purchasing any notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of Klabin and the issuer. This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, Klabin, the issuer, any initial purchaser or the trustee (as defined herein) to purchase any of the notes in any jurisdiction where such offer is not permitted. The distribution of this offering memorandum and the offering of the notes in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required by us, the issuer, each of the initial purchasers and the trustee to inform themselves about and to observe any such restrictions. None of us, the issuer, nor any initial purchaser represents that this offering memorandum may be lawfully distributed, or that any notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by us, the issuer or any initial purchaser that is intended to permit a public offering of any notes or distribution of this offering memorandum in any jurisdiction where action for that purpose is required. Accordingly, no notes may be offered or sold, directly or indirectly, and neither this

offering memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations.

We and the issuer have prepared this offering memorandum solely for use in connection with the proposed offering of the notes, and it may only be used for that purpose. The issuer and the initial purchasers reserved the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the notes offered by this offering memorandum.

This offering memorandum summarizes certain documents and other information and we and the issuer refer you to them for a more complete understanding of what we and the issuer discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of our company and the terms of this offering and the notes, including the merits and risks involved.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum, including, without limitation, the financial statements included elsewhere in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by us, the issuer or the initial purchasers as to the past or future.

We, the issuer and the initial purchasers are not making any representation to any purchaser of the notes regarding the legality of an investment in the notes under any investment law or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business, accounting or tax advice. You should consult your own attorney, accountant or other professional for any legal, business, accounting or tax advice regarding an investment in the notes.

Neither the U.S. Securities and Exchange Commission, or the SEC, nor any U.S. state or other securities commission has approved or disapproved of these securities or determined whether this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of us, the issuer, the initial purchasers or any affiliates will have any responsibility therefor.

Notice to Investors within Brazil

THE NOTES (AND THE RELATED GUARANTEE) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE BRAZILIAN SECURITIES COMMISSION (*COMISSÃO DE VALORES MOBILIÁRIOS*), OR THE CVM. THE NOTES (AND THE RELATED GUARANTEE) ARE NOT BEING OFFERED IN BRAZIL. DOCUMENTS RELATING TO THE OFFERING OF THE NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED IN BRAZIL, NOR BE USED IN CONNECTION WITH ANY OFFER OF THE NOTES IN BRAZIL.

Notice to Investors in Austria

THE NOTES (AND THE RELATED GUARANTEE) MAY NOT BE OFFERED IN AUSTRIA. THIS OFFERING MEMORANDUM HAS NOT BEEN AND WILL NOT BE (I) APPROVED (*GEBILLIGT*) BY THE AUSTRIAN FINANCIAL MARKETS AUTHORITY, OR THE FMA OR (II) DEPOSITED (*HINTERLEGT*) WITH THE *OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT*. THE OFFER OF THE NOTES IS NOT A PUBLIC OFFERING IN ACCORDANCE WITH THE AUSTRIAN CAPITAL MARKETS ACT (*KAPITALMARKTGESETZ*), AS AMENDED. THIS OFFERING MEMORANDUM WILL NOT BE PASSPORTED AS A PROSPECTUS INTO AUSTRIA VIA THE COMPETENT AUTHORITY OF ANOTHER MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, OR THE EEA. THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ANY OFFER OF THE NOTES IN AUSTRIA WILL BE MADE ON THE BASIS OF AN EXEMPTION OF THE

OBLIGATION TO PUBLISH A PROSPECTUS IN ACCORDANCE WITH SECTION 3 OF THE AUSTRIAN CAPITAL MARKETS ACT, AS AMENDED. DOCUMENTS RELATING TO THE OFFERING OF THE NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE DISTRIBUTED WITHIN AUSTRIA OR TO ANY RECIPIENT IN AUSTRIA, NOR BE USED IN CONNECTION WITH ANY OFFER OR SOLICITATION OF OFFERS OF THE NOTES TO AUSTRIA OR ANY RECIPIENT IN AUSTRIA. NO PUBLIC ADVERTISEMENT FOR AN OFFER OF THE NOTES MAY BE MADE OR CARRIED OUT IN AUSTRIA.

Notice to Investors within the European Economic Area

This offering memorandum has been prepared on the basis that any offer of notes in any Member State of the EEA, each a Relevant Member State, will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us, the issuer or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, in each case, in relation to such offer. Neither we, the issuer nor the initial purchasers authorize or have authorized the making of any offer of notes in circumstances in which an obligation arises for us, the issuer or the initial purchasers to publish a prospectus for such offer. The expression “Prospectus Regulation” means Regulation (EU) 2017/1129.

The notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II), or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the PRIIPs Regulation) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This offering memorandum has been prepared on the basis that all offers of the notes will be made pursuant to an exemption under the Prospectus Regulation, from the requirement to produce a prospectus for offers of the notes. Accordingly, any person making or intending to make any offer within the EEA of the notes should only do so under circumstances in which no obligation arises for us, the issuer or the initial purchasers to produce a prospectus for such offer.

Additional Information

While any notes remain outstanding, we and the issuer will make available, upon request, to any holder and any prospective purchaser of notes the information required pursuant to Rule 144A(d)(4)(i) under the Securities Act, during any period in which we or the issuer (1) are not subject to, and in compliance with, Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, or (2) become exempt from such reporting requirements pursuant to, and in compliance with, Rule 12g3-2(b) of the Exchange Act, as amended from time to time and including any successor provision.

Documents Incorporated by Reference

The following documents shall be deemed to be incorporated in, and form part of, this offering memorandum:

- the published audited individual and consolidated financial statements of Klabin S.A. for year ended December 31, 2019, dated February 5, 2020, which comprise the statement of financial position as at December 31, 2019 and the statements of profit and loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of accounting policies. These financial statements are prepared in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB).
- the published unaudited financial statements of Klabin S.A. for the three-month period ended March 31, 2020, dated May 5, 2020, which comprise the statement of financial position as at March 31, 2020 and the statements of profit and loss, of comprehensive income, of changes in equity and cash flows for the three-month period ended March 31, 2020 compared to the same period in 2019, and notes to the financial statements.

Klabin S.A. will, at the specified offices of the trustee and any of the other paying agents, provide a copy of this offering memorandum and a copy of any or all of the documents incorporated herein by reference, where such documents will be available free of charge to any interested person. Klabin S.A. has agreed to furnish to the Luxembourg Stock Exchange all such information as required by the rules of the Luxembourg Stock Exchange in connection with the listing on the Luxembourg Stock Exchange of the Notes. The documents incorporated by reference in this offering memorandum shall be published and displayed on the website of the Luxembourg Stock Exchange. Our other audited consolidated financial statements and unaudited financial information are also available at our website at <http://ir.klabin.com.br/>. None of the information on Klabin S.A.'s website is part of, or incorporated by reference in, this offering memorandum, except for the documents mentioned above.

Enforceability of Civil Liabilities

Austria

The issuer is organized as a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Austria. The Austrian rules of civil procedure materially differ from those applicable in the United States (including, but not limited to, court fees dependent on the amounts claimed and payable upon filing of a claim, or compensation of the prevailing party's attorney's fees, no discovery procedure). Compensation for damages may not be claimed under Austrian law on the same merits or in the same amount as compared to damages claimed under U.S. law. All of the issuer's respective directors and officers are nationals and/or residents of countries other than the United States, and all or most of the issuer's or such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce against the issuer or such persons judgments obtained in the U.S. courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

Austrian companies, such as the issuer, may enter into agreements and contracts, such as the notes or the indenture, governed by foreign law, including the laws of the State of New York. The choice of New York law to govern the notes and the indenture will be recognized and upheld by the Austrian courts in accordance with and subject to the limitations of Regulation (EC) No. 593/2008 of June 17, 2008 (Rome I Regulation). An Austrian court would, however, not apply, observe, uphold and give effect to the choice of New York law as the governing law of the respective notes and indenture (i) if and to the extent this would lead to a result which violates Austrian public policy (*ordre public*) and (ii) if such choice conflicts with the mandatory law of another jurisdiction, in particular:

- certain mandatory rules of Austrian conflicts law such as, e.g., the *lex rei sitae* principle with respect to rights in real property, as well as mandatory rules of another jurisdiction;
- potential violations of Austrian public policy (*ordre public*);
- the principle that insolvency proceedings, the prerequisites for their inception, and their legal effects are, generally (subject to a number of exceptions) governed by the law of the country where such proceedings are commenced; and
- effect may be given to the overriding mandatory provisions of the law of the forum or the country where the obligations arising out of the contract have to be or have been performed, in so far as those overriding mandatory provisions render the performance of the contract unlawful.

Despite the choice of New York law by the parties, an Austrian court may apply Austrian law if it cannot ascertain the content of New York law within reasonable time. What "reasonable time" means depends on the urgency of the matter (e.g., in case of a preliminary injunction it will be relatively short). Austrian courts may grant judgments in U.S. dollars if the obligation for which the judgement is granted is expressed to be paid U.S. dollars.

In addition, according to section 406 of the Austrian Enforcement Act (*Exekutionsordnung*), enforcement of foreign court decisions by Austrian courts requires, inter alia and outside applicable European regulations, reciprocity (*Gegenseitigkeit*) for such enforcement by means of multilateral or bilateral treaties, ordinances or agreements securing the mutual recognition and enforcement of foreign judgments in Austria. As of the date of this offering memorandum, no such treaty, ordinance or agreement exists between Austria and the United States, other than for arbitration awards. Consequently, judgments by courts of New York would not be enforceable in Austria. Also, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Austria. Accordingly, the subject matter upon which a judgment has been obtained in a U.S. court must be re-litigated before Austrian courts in accordance with applicable Austrian Civil Procedure Laws (*Zivilprozessgesetzen*). Only after having obtained a final judgment before Austrian courts can enforcement procedures be initiated under the Austrian Enforcement Act (*Exekutionsordnung*).

Brazil

Klabin S.A. is incorporated under the laws of Brazil. The majority of our directors and all our officers and certain advisors named herein reside in Brazil. Substantially all of our assets and those of our directors, all our officers

and certain advisors named herein are located outside the United States. As a result, it may not be possible (or it may be difficult) for investors to effect service of process within the United States or other jurisdiction outside Brazil upon such persons or to enforce judgments against them or us in United States courts, including those predicated upon the civil liability provisions of the federal securities laws of the United States or other jurisdiction outside Brazil.

We have been advised by our Brazilian counsel, Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, that judgments of non-Brazilian courts for civil liabilities predicated upon the securities laws of countries other than Brazil, including the U.S. securities laws, subject to certain requirements described below, may be enforced in Brazil (to the extent that Brazilian courts may have jurisdiction). A judgment against either us or any of our directors, officers, or advisors obtained outside Brazil would be enforceable in Brazil against us or any such person without reconsideration of the merits, upon recognition (*homologação*) of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*), or the STJ. That confirmation, generally, will occur if the foreign judgment:

- is issued by a competent court and/or authority in the jurisdiction where it was awarded;
- complies with all formalities necessary for its enforcement under the laws of the place where it was awarded;
- proper service of process is made on the defending party(ies) – and, when made in Brazil, such service of process must be made in accordance with Brazilian law – or after sufficient evidence of the defendant’s absence has been given, as required under applicable law;
- is not rendered in an action upon which Brazilian courts have exclusive jurisdiction, pursuant to the provisions of article 23 of Law No. 13,105/2015, as amended, or the Brazilian Code of Civil Procedure;
- is final and conclusive and therefore not subject to appeal (*res judicata*) in the jurisdiction in which it was rendered;
- there is no conflict between the foreign judgment and a previous final and binding (*res judicata*) domestic judgment on the same subject matter and involving the same parties;
- is authenticated by the Brazilian consulate with jurisdiction over the place the judgment is rendered, and is accompanied by a sworn translation into Portuguese in Brazil, except when such decision was authenticated in a country that is a signatory of the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents dated as of October 5, 1961, or the Apostille Convention, in which case the authentication by a Brazilian Diplomatic Office or Consulate is not required; and
- is not against Brazilian national sovereignty, public policy, good morals or human dignity, in which case such confirmation will occur without the reexamination of the merits of such judgment.

The recognition process may be time-consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, we cannot assure you that confirmation will be obtained, that the process described above will be conducted in a timely manner or that the Brazilian courts will enforce a monetary judgment for violation of the securities laws of countries other than Brazil, including U.S. securities laws.

We have also been advised that:

- civil actions may be brought before Brazilian courts based on the federal securities laws of the United States or other jurisdiction outside Brazil and that, subject to applicable law, Brazilian courts may enforce liability arising from such actions against us or our directors and officers (provided that provisions of the federal securities laws of the United States or other jurisdiction outside Brazil do not contravene Brazilian public policy or national sovereignty, good morals or human dignity, and provided further that Brazilian courts can assert jurisdiction over the particular action); and
- the ability of a judgment creditor to satisfy a judgment by attaching certain assets of the defendant in Brazil is governed and limited by provisions of Brazilian law to the extent that assets are located in Brazil.

A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil and who does not own real estate property in Brazil must post a bond to guarantee the payment of the defendant's legal fees and court expenses, including attorney's fees, except in the case (1) an exemption is provided by an international agreement or treaty to which Brazil is signatory; (2) of an action for enforcement of a negotiable instrument (*título executivo extrajudicial*), which may be enforced in Brazilian courts without review on the merits or enforcement of a judgment, including foreign judgments that have been duly recognized by the STJ and (3) counterclaims, as established under Article 83 of the Brazilian Code of Civil Procedure.

If proceedings are brought before the Brazilian courts seeking to enforce obligations against us, payment shall be made in *reais*. Any judgment rendered in Brazilian courts in respect of any payment obligations would be expressed in *reais*.

Certain Insolvency Law and Other Considerations

Insolvency Law Considerations in European Union

The issuer is organized under the laws of Austria, a European Union member state, or EU member state. Pursuant to Regulation (EU) No 2015/848 of the European Parliament and of the Council of May 20, 2015 on insolvency proceedings (recast), or the EU Insolvency Regulation, in respect of insolvency proceedings commenced after June 26, 2017 (and subject to certain exceptions), the court that shall have jurisdiction to open insolvency proceedings in relation to a company in the court of the EU member state (other than Denmark) where the company concerned has its “centre of main interests” (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where any such company has its “centre of main interests” is a question of fact on which the courts of the different EU member states may have differing and even conflicting views.

The term “centre of main interests” is not a static concept and may change from time to time. Although there is a rebuttable presumption under Article 3(1) of the EU Insolvency Regulation that any such company has its “centre of main interests” in the EU member state in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the “centre of main interests” of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and “is therefore ascertainable by third parties.” In that respect, the courts have taken into consideration a number of factors in determining the “centre of main interests” of a company, including where board meetings are held, the location where the company conducts the majority of its business and the location where the large majority of the company’s creditors are established may all be relevant in the determination of the place where the company has its “centre of main interests.”

If the “centre of main interests” of a company at the time an insolvency application is made is located in the state in which it has its registered office, the main insolvency proceedings in respect of the company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one EU member state under the EU Insolvency Regulation are to be recognized in the other EU member state (other than Denmark), although “secondary proceedings” may be opened in another EU member state after the main proceedings have been commenced. If the “centre of main interests” of a debtor is in one EU member state (other than Denmark), under Article 3(2) of the EU Insolvency Regulation, the courts of another EU member state (other than Denmark) have jurisdiction to open “secondary proceedings” only in the event that such debtor has an “establishment” in the territory of such other EU member state. The effects of those secondary proceedings are restricted to the assets of the debtor situated in the territory of such other EU member state. If the company does not have an establishment in any other EU member state, no court of any other EU member state has jurisdiction to open secondary proceedings in respect of such company under the EU Insolvency Regulation. “Territorial proceedings” may also be commenced prior to the opening of main insolvency proceedings, if the debtor has an establishment in the territory of a different EU member state from that in which the debtor’s “centre of main interests” is situated. As with secondary proceedings, the effects of territorial proceedings are restricted to the assets situated in the EU member state in which such proceedings are opened.

In the event that the issuer experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the issuer.

Where main proceedings have been opened in the Member State in which the company has its “centre of main interests,” any proceedings opened subsequently in another Member State in which the company has an establishment (secondary proceedings) are limited to “winding-up proceedings” listed in Annex B of the EU Insolvency Regulation. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other Member State. Where main proceedings in the Member State in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can only be opened in another Member State where the company has an establishment where either: (a) insolvency proceedings cannot be opened in the Member State in which the company’s “centre of main interests” is situated under that Member State’s law; or (b) the territorial insolvency proceedings are opened at the request of a creditor that is domiciled, habitually resident or has its registered office in the other Member State or whose claim arises from the operation of the establishment. Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, such proceedings

will always, subject to certain exemptions, be governed by the *lex fori concursus* (i.e., the local insolvency law of the court that has assumed jurisdiction for the insolvency proceedings of the debtor).

The courts of all Member States (other than Denmark) must recognize the judgment of the court opening main proceedings that will be given the same effect in the other Member States so long as no secondary proceedings have been opened there. The liquidator appointed by a court in a Member State that has jurisdiction to open main proceedings (because the company's centre of main interests is there) may exercise the powers conferred on him by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State), subject to certain limitations, so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

Insolvency Law Considerations in Austria

The issuer is organized under the laws of Austria and has its registered office in Austria. In the event of insolvency, insolvency proceedings may, therefore, be initiated in Austria if the issuer was held to have its "center of its main interests" (Art 3 of the EU Insolvency Regulation) within the territory of Austria at the time the application for the opening of insolvency (*Insolvenzeröffnungsantrag*) is filed. Austrian law would then govern those proceedings.

Under Austrian insolvency law, insolvency proceedings must be opened by a court upon application by the debtor or a creditor whenever it has been established that a company is illiquid (*zahlungsunfähig*), i.e. in principle unable to pay its debts in due time (*Zahlungsunfähigkeit*), or is over-indebted in terms of insolvency law (*insolvenzrechtlich überschuldet*), i.e. in principle that the liabilities exceed its assets at liquidation values and there is a negative forecast on the company's future survival (negative going-concern prognosis, or *negative Fortbestehensprognose*), provided that either (i) the insolvency estate's value is sufficient to cover at least the costs of the insolvency proceedings, or (ii) the advance on costs to commence the insolvency proceedings are paid by the management or the majority shareholder holding more than fifty percent (50%) of the shares of the insolvent company (whereby the management and the majority shareholder are legally obliged to make such advance on costs from their own funds), (iii) or the respective creditor applying for insolvency proceedings pays the advance on costs. In case the company is illiquid (*zahlungsunfähig*) or over-indebted in terms of insolvency law (*insolvenzrechtlich überschuldet*), management is obliged to file for the opening of insolvency proceedings promptly and in any event within 60 days after establishing that the company is insolvent. Restructuring proceedings (*Sanierungsverfahren*), upon application by the debtor, may also be initiated, if the risk of the debtor's inability to pay its debts is at least imminent (*drohende Zahlungsunfähigkeit*) and the debtor files an application for the opening of such proceedings.

Depending on whether a permissible restructuring plan (*Sanierungsplan*) is presented together with the application for the opening of insolvency proceedings the insolvency proceedings will be designated as restructuring proceedings (*Sanierungsverfahren*) or bankruptcy proceedings (*Konkursverfahren*). Whenever the debtor applies for the opening of insolvency proceedings as restructuring proceedings and presents a permissible restructuring plan (*Sanierungsplan*) offering to pay off at least 20% to the unsecured creditors payable within a maximum of two years, the insolvency proceeding is called restructuring proceeding (*Sanierungsverfahren*). A debtor may present such a restructuring plan also in the course of a bankruptcy proceeding whereby, if the restructuring plan were presented after the bankruptcy proceedings were opened, the proceeding would be continued to be designated as bankruptcy proceedings (*Konkursverfahren*).

Restructuring plans generally intend to discharge the debtor from a part of its debts (up to 80%) and to enable the debtor to continue its business activities. A creditors' meeting is to take place within 60 to 90 days after the opening of the proceedings. A qualified simple majority of unsecured creditors must approve the restructuring plan. Qualified simple majority means that the simple majority of unsecured creditors in number present at the hearing must vote in favor of the restructuring plan and that the total sum of these unsecured creditors' claims must amount to more than 50% of the unsecured claims present at the hearing. If the restructuring plan is accepted by the creditors, confirmed by the court and fulfilled by the debtor, the latter is released from the rest of its debts. If the restructuring fails (for example, if the restructuring plan is not approved) the proceeding automatically turns into a bankruptcy proceeding (*Konkursverfahren*).

If the debtor applies for the opening of insolvency proceedings and presents qualified documents together with a restructuring plan offering to pay off at least 30% to the unsecured creditors payable within a maximum of two

years, it is entitled to self-administration (*Sanierungsverfahren mit Eigenverwaltung unter Aufsicht eines Verwalters*) which may be withdrawn, if, for example, negative effects on the creditors' positions can be expected. If the realization of a restructuring plan fails, the insolvency proceeding will be continued as bankruptcy proceeding.

Unless the debtor meets the requirements for self-administration, the debtor is not any longer in the position to dispose of the assets subject to insolvency, i.e. the insolvent's estate (*Insolvenzmasse*), as from the opening of insolvency proceedings. The opening takes effect as of 0:00 a.m. of the day following the publication of the receiving order (*Insolvenzdekret*) in the official insolvency data base (www.edikte.justiz.gv.at). After the initiation of insolvency proceedings, legal acts of the debtor in relation to the debtor's estate take no effect towards the creditors. The court appoints an insolvency administrator (*Insolvenzverwalter*) along with its decision on the opening of insolvency proceedings, and, if it deems this necessary in view of the specifics or size of the debtor's business or in case certain legal requirements are met (e.g. intended sale of the entire business of the debtor), a creditors' committee (*Gläubigerausschuss*) to assist the insolvency administrator. After the opening of insolvency proceedings without self-administration (i.e. bankruptcy proceedings or restructuring proceedings without self-administration) only the insolvency administrator is entitled to act on behalf of the debtor's estate.

The insolvency administrator's main task is to administer and realize the assets of the insolvent's estate. According to Austrian insolvency law, the insolvency administrator generally shall continue the debtor's business in order to enable a potential reorganization of the debtor's business either by implementing the debtor's restructuring plan (which he may also apply for during the bankruptcy proceedings) or by a sale of the debtor's business or assets. If neither a restructuring plan nor the sale of the debtor's business or assets is possible, the insolvency administrator will break up the company and the bankruptcy proceedings will ultimately lead to the sale and distribution of the debtor's assets, the debtor remaining liable for its residual debts.

If the debtor meets the requirements for self-administration, the debtor is monitored by a court appointed restructuring administrator (*Sanierungsverwalter*) to whom certain transactions are reserved.

Creditors (*Insolvenzgläubiger*) shall file their claims with the competent court within the time period set out in the court order on the opening of insolvency proceedings. At the so-called examination hearing (*Prüfungstagsatzung*), which is held at the competent court, the insolvency administrator has to declare whether he acknowledges or contests a claim filed. If the insolvency administrator acknowledges a creditor's claim and such claim is not contested by another authorized creditor (i.e. a creditor, whose claim has already been acknowledged), this creditor is entitled to participate in the insolvency proceeding, which means that he will finally receive the quota that is distributed to the unsecured creditors. If a creditor's claim is contested by the insolvency administrator or another authorized creditor, the creditor has to assert its claim in civil proceedings in order to maintain its right to participate in the insolvency proceedings.

Claims of unsecured creditors in insolvency proceedings, which were created before the opening of these proceedings, rank *pari passu*. Taxes, social security contributions, wages and salaries are not, as such, privileged or preferential claims under Austrian insolvency law. Claims which lawfully arose against the debtor's estate after the opening of the proceedings, so-called privileged claims (*Masseforderungen*) or claims which are secured by collateral (such as by a mortgage, a pledge over bank accounts or shares, a pledge or an assignment of receivables for security purposes or a pledge or security transfer of moveable assets), so-called preferential claims (*Absonderungsrechte*), enjoy priority in insolvency proceedings. Creditors who have a right to preferential treatment may participate in the pro rata distribution only to the extent that the proceeds from the realization of the assets charged to them did not cover their claims or if they have waived their right to preferential treatment. Secured creditors do not have a voting right on the restructuring plan to the extent their claim is covered by security.

The costs of the insolvency proceedings and certain liabilities accrued during insolvency proceedings rank prior to all other claims. Creditors with a right of separation of assets (*Aussonderungsberechtigte*), such as creditors with retention of title, remain unaffected by the opening of insolvency proceedings though they may be barred from exercising their separation rights for a maximum period of six months following the opening of insolvency proceedings, if the exercise of such rights would endanger the carrying on of the debtor's business and the interdiction does not cause a severe personal or economic damage to the respective creditor. The same applies for secured creditors of preferential claims (*Absonderungsberechtigte*) (section 11 of the Austrian Insolvency Code).

Once formal proceedings have been opened it is not possible to obtain an execution lien anymore. All execution proceedings against the debtor are stayed (*Vollstreckungssperre*). In general, execution liens obtained within the last 60 days before formal proceedings were opened expire (other than for public law charges such as taxes, social security contributions etc.).

Section 21 of the Austrian Insolvency Code provides in relation to agreements which are not or only partially performed by both parties that the insolvency administrator has the option to either rescind or perform the contract. If the debtor's obligation consists of rendering services or the delivery of goods (*nicht in Geld bestehende Leistungen*), the insolvency administrator must declare promptly upon request of the debtor's counterparty, however at the latest within 5 business days of such request, whether he wishes to perform the contract or not; in case of no declaration the insolvency administrator is deemed to have withdrawn from the contract. In case the insolvency administrator rescinds the contract, the counterparty may be entitled to damages (to be filed as claim in the insolvency proceedings).

Section 25a paragraph 1 of the Austrian Insolvency Code provides that, for a period of six months from the opening of insolvency proceedings, contractual partners of the debtor may terminate contracts only for cause. In this context, the deterioration of the economic situation or the lack of timely performance by the debtor prior to the opening of insolvency proceedings is not considered a cause allowing a termination. This restriction only applies if a termination of a contract would jeopardize the continuation of the debtor's business. No restrictions apply if a termination of a contract is inevitable to prevent the contractual partner from incurring severe personal or economic damages or the debtor does not timely perform its contractual obligations after the opening of the insolvency proceedings. Section 25a paragraph 1 of the Austrian Insolvency Code in practice does not apply to financing arrangements.

Pursuant to section 25b paragraph 2 of the Austrian Insolvency Code, a contractual stipulation providing for the right to withdraw from an agreement or an automatic termination in the event of opening of insolvency proceedings against the other party is not enforceable (with the exception of close-out netting arrangements).

Powers of attorney granted by the insolvent debtor terminate automatically upon the opening of insolvency proceedings.

Pursuant to the Austrian Bonds Trustee Act (*Kuratorenengesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenenergänzungsgesetz*), a trustee (*Kurator*) could be appointed by an Austrian court upon the request of any interested party (e.g., a holder of the notes or the issuer) or upon the initiative of a competent court, for the purposes of representing the common interests of the holders of the notes in matters concerning their collective rights. In particular, this may occur if insolvency proceedings are initiated against Klabin Austria, in connection with any amendments to the terms and conditions of the notes or changes relating to the issuer, or under other similar circumstances, and in which case the ability of holders of the notes to pursue their rights under the notes individually may be limited.

The indenture provides for a clause to disapply the provisions of the Austrian Bonds Trustee Act (*Kuratorenengesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenenergänzungsgesetz*). There can be no assurance that such clause will be upheld by Austrian courts.

Austrian Capital Maintenance Rules

The issue and sale of the notes may be subject to Austrian capital maintenance rules (*Kapitalerhaltungsvorschriften*) pursuant to Austrian corporate law, in particular Section 82 of the Austrian Act on Limited Liability Companies (*Gesetz über Gesellschaften mit beschränkter Haftung*), or GmbHG, as an amount equal to the net proceeds from the sale of the notes by the issuer is intended to be forwarded and allocated by Klabin as described in the "Use of Proceeds" section.

The GmbHG prohibits an Austrian limited liability company from returning equity to its shareholders (*Verbot der Einlagenrückgewähr*) in circumstances other than as a distribution of balance sheet profits (if, to the extent and as long as available for distribution under Austrian law), by a reduction of share capital or as liquidation surplus on liquidation of that corporation. The provisions on the prohibition to repay capital also cover benefits granted by an Austrian limited liability company to its direct or indirect shareholders or other members of the group of companies (side-stream or up-stream) where no "adequate consideration" is received in return or no special corporate benefit of

the company from such transaction (*betriebliche Rechtfertigung*) exists. An adequate consideration must, as a minimum standard, not be less than a comparable consideration, which would have been received by an unrelated third party granting such benefit. Any agreement between an Austrian limited liability company and its shareholder and/or any third party granting an advantage to the shareholder which would not, or not in the same way, have been granted for the benefit of an unrelated third party or which does not provide for a special corporate benefit of the company is void and may not be entered into by such company. In addition, withholding tax may be imposed based on the benefits granted to the shareholder or its affiliates.

Austrian courts have broadly interpreted the mandatory principle of Austrian law prohibiting the return of equity from a limited liability company to its shareholder. The prohibition potentially also encompasses cases where a limited liability company incurs indebtedness for the benefit of its direct or indirect shareholder (or for the benefit of another member of the group controlled by its direct or indirect shareholder) without an adequate consideration or a special corporate benefit for the company (*betriebliche Rechtfertigung*), particularly if the Austrian entity (the Issuer) would not enter into a similar transaction with a third party and in cases where doubts exist towards the reliability and solvency of the borrower (i.e. the shareholder) which could give reason to believe that potential recourse claims against the shareholder might fail or unreasonably risks are taken for the benefit of a shareholder. Accordingly, net proceeds from the issue and sale of the notes used as described in the “Use of Proceeds” section have to be assessed on the basis of such limitations imposed by Austrian law. In the matter at hand, the issuer believes it will receive adequate corporate benefit from the issue and sale of the notes because the issuer, as European export agent of Klabin, will benefit from the general enhancement of its business and will earn an additional margin on the related inter-company on-lending. In addition, Klabin has agreed to indemnify the issuer against substantially all risks relating to the offering.

Although third parties are not normally addressees of the prohibition to return equity, any transaction contravening Austrian capital maintenance rules would nevertheless be regarded void *vis-à-vis* the third party if such third party knew or should have known that such transaction was processed in violation of the grantor’s capital maintenance obligations. Details of the principle of forbidden return of equity to the shareholder are, however, highly controversial. Moreover, Austrian capital maintenance rules are subject to ongoing court decisions, which are generally made on a case-by-case basis in light of the specific facts of the relevant case, and it cannot be ruled out that future court rulings may not further limit the access of creditors and/or shareholders to assets of subsidiaries constituted in the form of a corporation.

Presentation of Financial and Other Information

General

All references to “*real*,” “*reais*” “BRL” or “R\$” are to the Brazilian *real*, the official currency of Brazil and all references to “U.S. dollar,” “U.S. dollars,” “USD” or “U.S.\$” are to U.S. dollars, the official currency of the United States of America. Unless otherwise stated, all numbers included in this offering memorandum are expressed in *reais*.

As of September 30, 2019, the exchange rate for *reais* into U.S. dollars was R\$4.1644 to U.S.\$1.00, based on the selling rate as reported by the Central Bank. The commercial selling rate, as reported by the Central Bank, was R\$3.8748 to U.S.\$1.00 as of December 31, 2018, R\$3.308 to U.S.\$1.00 as of December 31, 2017 and R\$3.2591 to U.S.\$1.00 as of December 31, 2016. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate as of December 31, 2019, may not be indicative of future exchange rates. See “Exchange Rates” for more information regarding exchange rates for the *real*.

Solely for the convenience of the reader, we have translated some amounts included in “Summary,” “Summary of Financial and Other Information,” “Capitalization,” “Selected Consolidated Financial Data and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results Operations” and elsewhere in this offering memorandum from *reais* into U.S. dollars using the selling rate as reported by the Central Bank as of September 30, 2019 of R\$4.1644 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Financial Statements

Klabin Financial Statements

We maintain our books and records in *reais*.

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standard Board, or IASB, and accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

- accounting pronouncements, standards, guidelines and interpretations issued by the Brazilian Accounting Pronouncements Committee, or CPC, in convergence with IFRS, as issued by the IASB and approved by the CVM and by the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*) or CFC;
- Brazilian Law No. 6,404/76, as amended, or Brazilian Corporation Law; and
- the rules and standards established by the CVM.

Our audited consolidated financial statements as of and for the years ended December 31, 2019, 2018, 2017 and 2016, incorporated by reference and included elsewhere in this offering memorandum, have been prepared in accordance with IFRS, as issued by IASB. Our unaudited consolidated interim financial information as of September 30, 2019 and 2018, which is included elsewhere in this offering memorandum and our unaudited interim individual and consolidated financial information as of and for the three-month period ended March 31, 2020, incorporated by reference in this offering memorandum, has been prepared in accordance with NBC TG 21 and IAS 34 – “Interim Financial Reporting,” as issued by IASB, and in accordance with the rules of the CVM applicable to the preparation of Quarterly Information (*Informações Trimestrais*) as of September 30, 2019 and March 31, 2020 and for the nine-month periods ended September 30, 2019 and 2018 and March 31, 2019 and 2018 respectively.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.2 of our consolidated financial statements.

Our financial statements included elsewhere in this offering memorandum present information on both a consolidated and individual basis. Despite the inclusion in this offering memorandum of individual financial information as part of our unaudited interim financial information and individual financial statements as part of our audited financial statements, unless otherwise indicated, the financial information included elsewhere in this offering memorandum is presented solely on a consolidated basis.

New Accounting Standard

IFRS 16 – Leasing Operations

Our unaudited consolidated interim financial information as of and for the nine-month period ended September 30, 2019 reflects the adoption of CPC 06 (R2)/IFRS 16 – Leasing Operations, or IFRS 16, in compliance with accounting practices adopted in Brazil and IFRS, as issued by IASB which are effective for reporting periods starting from January 1, 2019 onwards.

IFRS 16 replaces IAS 17 and related interpretations and determines that lessees are required to recognize a liability for future payments and the right to use a leased asset for most lease agreements.

Management assessed the impact of the new standard and elected to adopt the simplified retrospective approach. This approach does not impact retained earnings on the initial adoption date but does affect them thereafter. During the transition phase, lease liabilities are measured at the present value of the remaining lease payments, discounted at our incremental borrowing rate. Rights of use of an asset are measured at the amount equal to remaining lease liabilities, adjusted for any lease payments anticipated or accrued for the relevant lease that were recognized in the balance sheet immediately prior to the initial application date.

The main impact of the adoption of the new standard is related to the leasing of forest land, of approximately 80 thousand hectares, in addition to the leasing of industrial machinery, agricultural and administrative real estate and commercial warehouses, with a right of use of an asset and a lease liability of R\$372.9 million on our balance sheet as of January 1, 2019.

For more information about IFRS 16 and its impact on our unaudited interim financial information, see note 14 to our unaudited consolidated interim financial information as of September 30, 2019.

IFRIC 23 - Uncertainty on the Treatment of Taxes on Profit

Our unaudited consolidated interim financial information as of and for the nine-month period ended September 30, 2019 reflects the adoption of ICPC 22/IFRIC 23 – Uncertainty on the Treatment of Taxes on Profit, or IFRIC 23, in compliance with accounting practices adopted in Brazil and IFRS, as issued by IASB, which are effective for reporting periods starting from January 1, 2019 onwards

The new interpretation established requirements for recognition and measurement in situations where, during the process of calculating income taxes (income and social contribution taxes), we have identified the use of uncertain tax treatment that may be questioned by the tax authority. In such circumstances, we must define the likelihood of the tax authorities accepting such tax treatment and present these items separately and ascertain potential contingencies if it is concluded that the tax authority will not accept such treatment.

Our management is considered aspects of IFRIC 23 and has reviewed our judgments made in the determination of income tax and social contribution, concluding that there are no uncertain treatments used as all the procedures adopted for the collection of taxes on profit are addressed by applicable legislation and judicial precedents.

Klabin Austria Financial Statements

On the date of this offering memorandum, the financial statements of Klabin Austria are required to be published under the laws of Austria in the Austrian companies register (*Firmenbuch*) condensed, abbreviated and

unaudited form and will be made available at the office of the Paying Agent free of charge. If requested by the trustee, Klabin Austria will furnish to the holders of the notes any of its financial statements.

Special Note Regarding Non-GAAP Financial Measures

The body of generally accepted accounting principles is commonly referred to as GAAP. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. To be consistent with industry practice, we may disclose so-called non-GAAP financial measures which are not recognized under Brazilian GAAP or IFRS, including “Adjusted EBITDA,” “Adjusted EBITDA Ratio,” “Total Debt” and “Total Net Debt” and “cash cost”. However, these non-GAAP items do not have standardized meanings and may not be directly comparable to similarly titled items adopted by other companies. Potential investors should not rely on information not recognized under Brazilian GAAP or IFRS as a substitute for the GAAP measures of performance or liquidity in making an investment decision.

We define Adjusted EBITDA, as EBITDA calculated in accordance with CVM Instruction No. 527, as profit or loss for the period or year plus income taxes and social contribution, the net finance result, amortization, depreciation and depletion, costs and expenses, and further adjusted considering (as necessary) the effects of the equity in results of investees and joint ventures, variation in the fair value of biological assets, proportional Adjusted EBITDA from jointly owned subsidiaries (Vale do Corisco) and the realization of deemed costs following revaluations of sold lands.

Our management believes that disclosure of Adjusted EBITDA provides useful information to investors, financial analysts and the public in their review of our operating performance and their comparison of our operating performance to that of other companies in the same and other industries. However, not all companies use identical calculations and our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures or to free cash flow, as it does not consider certain of our cash requirements, such as interest payments, tax payments and debt service payments.

Adjusted EBITDA should not be considered as an alternative to net profit from continuing operations, as an indicator of our operating performance, or as an alternative to cash flow as an indicator of our liquidity. In certain instances, Adjusted EBITDA is presented considering the last twelve months.

Adjusted EBITDA Ratio is defined by us as Total Net Debt divided by Adjusted EBITDA.

Total Debt is also a non-GAAP financial measure defined by us as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability.

Total Net Debt is a non-GAAP financial measure defined by us as Total Debt, minus cash and cash equivalents and short-term investments. Total Net Debt is not a recognized measure under Brazilian GAAP or IFRS. Our definition of Total Net Debt in this offering memorandum is not necessarily the same as the definition of Total Net Debt that we use for purposes of establishing covenant compliance under our financing agreements. Total Net Debt does not have a standardized meaning and our definition of Total Net Debt may not be comparable to the definition of Total Net Debt used by other companies and is not a measure of liquidity, resources available for debt service or as an alternative to cash flow or other measure determined in accordance with Brazilian GAAP or IFRS.

Net sales revenue (including with respect to the “Paper,” “Conversion,” “Pulp” and “Forestry” business units) corresponds to sales revenues from third parties.

Cash cost is a non-GAAP measure defined by us as the cost per volume incurred for sales made by us during a period. Cash cost is calculated by dividing the sum of total cost of goods sold, selling, general and administrative expenses and other, net, excluding the effects of depreciation, amortization and depletion, by total volume in tonnes sold. Cash cost is not a recognized measure under Brazilian GAAP or IFRS. Cash cost does not have a standardized meaning and different companies may use different definitions to measure unit cash cost.

Market Share and Other Information

We make statements in this offering memorandum about our competitive position and market share in, and the market size of, the packaging paper industry. We have made these statements on the basis of statistics and other information obtained from third party sources that we believe are reliable. We derive information regarding our competitive position in the paper industry and other information from reports published by the IBÁ and ABPO; the independent consulting firms Hawkins Wright Ltd., or Hawkins Wright, Pöyry, and RISI among others. Although we have no reason to believe any of this information or these reports are inaccurate in any material respect, neither we nor the initial purchasers have independently verified the competitive position, market share, production and market size, market growth or similar data provided by third parties or derived from industry or general publications.

Unless otherwise indicated, all macroeconomic data were obtained from the Central Bank, the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*), or FGV, and the São Paulo Stock Exchange, B3 S.A. – Brasil, Bolsa, Balcão, or B3.

Rounding

We have made rounding adjustments to reach some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be an arithmetic sum of the figures that precede them.

Forward-Looking Statements and Associated Risks

This offering memorandum contains estimates and forward-looking statements, principally in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” Some of the matters discussed concerning our business, financial condition, results of operations, cash flow and prospects include estimates and forward-looking statements within the meaning of the Securities Act and the Exchange Act. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

It is possible that our future performance may differ materially from current assessments due to a number of factors, including factors discussed or identified under “Risk Factors” and the following:

- general economic, political and business conditions including stability and market confidence, both in Brazil and abroad and including demand and prices for packaging paper products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* versus the U.S. dollar and other currencies in which we sell a significant portion of our products or in which our assets and liabilities are denominated;
- our ability to obtain financing on satisfactory terms and any downgrade in our credit ratings;
- price and availability of pulp and other raw materials;
- changes in international trade;
- changes in laws and regulations;
- our ability to continue to expand our core business through organic growth;
- our ability to increase our packaging paper capacity and sell this additional capacity at attractive prices through our expansion projects;
- our ability to develop new products and add value for our customers;
- our ability to increase our operating efficiencies;
- the outcome of pending or threatened litigation, regulatory or arbitration proceedings;
- any uncertainty relating to political crises generally, particularly in Brazil;
- electric energy shortages and government responses to them;
- the performance of the Brazilian and the global packaging paper industries and markets;
- global, national and regional competition in the packaging paper market;
- adverse weather conditions in our areas of operations; and
- factors discussed in this offering memorandum relating to matters that are not historical.

Our forward-looking statements are not guarantees of future performance, and our actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for those forward-looking statements that relate to future financial results and other projections, actual results will be different

due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

Neither we nor the initial purchasers undertake any obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Summary

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering memorandum before investing, including “Risk Factors”, our audited consolidated financial statements and unaudited interim consolidated financial information including the notes thereto, included elsewhere in this offering memorandum, our unaudited interim individual and consolidated financial information as of and for the three-month period ended March 31, 2020 and our audited consolidated financial information as of and for the period ended December 31, 2019 dated February 6, 2020, incorporated by reference in this offering memorandum. See “Presentation of Financial and Other Information” for information regarding our audited consolidated financial statements and unaudited interim consolidated financial information, exchange rates, definitions of technical terms and other introductory matters.

The Issuer

Klabin Austria is a company incorporated under the laws of Austria. The issuer is a wholly-owned trading company of the Guarantor.

The Guarantor

We are the largest producer, exporter and recycler of packaging paper in Brazil according to IBÁ and internal estimates, and one of the largest integrated paper producers in Latin America according to internal estimates, based on our production capacity in 2018 of two million tonnes of packaging paper. We are also the only Brazilian company to simultaneously sell hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp. We recorded a profit of R\$84 million and a loss of R\$726 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$187 million, R\$532 million and R\$2,482 million for the years ended December 31, 2018, 2017 and 2016, respectively. Our Adjusted EBITDA was R\$3,358 million and R\$2,891 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$4,024 million, R\$2,738 million and R\$2,287 million for the years ended December 31, 2018, 2017 and 2016. We recorded cash flow from operating activities of R\$1,902 million and R\$2,125 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,787 million, R\$1,793 million and R\$1,203 million for the years ended December 31, 2018, 2017 and 2016.

We produce several types of paper, packaging products and pulp in 17 plants in Brazil and one plant in Argentina for the domestic and international markets.

Our coated boards are utilized in the production of cardboard packaging for consumer products in a wide range of sectors, including food (both natural and processed), electronic and electrical products, utensils, sanitation and cleaning products, footwear, personal hygiene and beauty products, canned and bottled beverages, equipment and clothing, among other products.

Our corrugated boxes are also utilized by a diverse range of international customers for the packaging of raw and processed foods, chemicals and related products, flowers, beverages, tobacco products, metallurgy, perfume and cosmetics. Certain domestic purchasers also utilize our corrugated boxes for the packaging of exports such as meat, poultry, fruit and tobacco. We produce industrial bags, primarily for use in the civil construction industry (for the packaging of raw materials such as cement, lime and clay) as well as for the packaging of seeds, chemical products, food, animal feed and minerals. Sales of industrial bags to the civil construction industry alone account for over 56% of sales volumes of this business unit in 2018.

In the first quarter of 2016, we began operating our new pulp plant, or the Puma Plant, located in Ortigueira, Paraná, with the first pulp produced on March 4, 2016, certified by FSC. The Puma Plant has an annual production capacity of 1.5 million tonnes of pulp per year, including bleached hardwood pulp (eucalyptus) and bleached softwood pulp (pine), a portion of which is converted into fluff pulp. The Puma Plant is the only industrial unit in the world designed to manufacture these three fibers and is the first softwood fluff production facility in Brazil, enabling our customers to economize on import and foreign exchange costs. Fluff is an important input used in the production of sanitary products (such as baby and adult diapers, as well as sanitary pads). In addition, we export softwood and fluff pulp to more than 28 countries, taking advantage of the growth of the global diaper and adult incontinence markets.

We believe that we are the only Brazilian producer of liquid packaging board, which is used for packaging liquids, and have supplied all of the liquid packaging board in Brazil for Tetra Pak International S.A., or Tetra Pak, which has been our largest client in this market segment. In 2015, we entered into an agreement to sell hardwood pulp to Fibria Celulose S.A., or Fibria. Tetra Pak and Fibria were responsible for approximately 23%, or R\$1,740 million, and 32%, or R\$2,333 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and 33%, or R\$3,261 million, and 30%, or R\$2,503 million, of our net sales revenue in 2018 and 2017, respectively. Tetra Pak was responsible for 13 %, or R\$959 million, and 11%, or R\$822 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$1,083 million, or 11%, and R\$1,261 million, or 15%, of our net sales revenue in 2018 and 2017, respectively. Fibria was responsible for 10%, or R\$780 million, and 21%, or R\$1,511 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,178 million, or 22%, and R\$1,241 million, or 15%, of our net sales revenue in 2018 and 2017, respectively. By mutual agreement with Fibria we have terminated our agreement with them and agreed on a transition period during which we will directly assume marketing activities, mostly in Europe, and which ended in 2019.

The balance of our clients is diversified, with no other single client individually representing a material portion (over 10%) of our net sales revenue.

We organize our business operations into the following four business units, which are our operational segments corresponding to our principal production processes and main products:

- *Papers Unit*, which manufactures coated boards, including liquid packaging board, kraftliner, sack kraft and recycled paper, which accounted for R\$2,542 million, or 34%, and R\$2,301 million, or 32%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$3,177 million, or 32%, R\$2,951 million, or 35%, and R\$3,090 million, or 44%, of our total net sales revenue in 2018, 2017 and 2016, respectively;
- *Conversion Unit*, which manufactures corrugated boxes and industrial bags, and accounted for R\$2,220 million, or 29%, and R\$2,118 million, or 29%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,852 million, or 28%, R\$2,675 million, or 32%, and R\$2,428 million, or 34%, of our total net sales revenue in 2018, 2017 and 2016, respectively;
- *Pulp Unit*, which manufactures hardwood, softwood and fluff pulp, which accounted for R\$2,613 million, or 35%, and R\$2,571 million, or 36%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$3,680 million, or 37% of our total net sales revenue in 2018; R\$2,422 million, or 29%, of our total net sales revenue in 2017 and R\$1,252 million, or 18%, of our total net sales revenue in 2016; and
- *Forestry Unit*, which produces both pine (softwood) and eucalyptus (hardwood) logs, and which accounted for R\$199 million, or 3%, and R\$246 million, or 3%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$316 million, or 3%, R\$330 million, or 4%, and R\$324 million, or 4%, of our total net sales revenue in 2018, 2017 and 2016, respectively.

For the nine-month period ended September 30, 2019 and for the year ended December 31, 2018, we sold 2,400 thousand tonnes and 3,189 thousand tonnes, respectively, of pulp, paper and packaging products (excluding wood, which has a distortive effect when measuring volume), operating at full capacity, and recorded net sales revenue of R\$7,568 million and R\$10,016 million, respectively. Approximately 46% of our production is exported to approximately 82 countries on five continents and, as of September 30, 2019, we and our subsidiaries had 14,297 employees and generated approximately 20,000 direct and indirect jobs.

History

We commenced our operations in 1899 when the Klabin and Lafer families founded Klabin Irmãos & Cia. in the State of São Paulo.

Today, we believe that we are a leader in Brazil in the manufacturing of paper and packaging products, operating through 17 plants in Brazil and one unit in Argentina, and are also the only Brazilian company to simultaneously sell hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp. Our line of products comprises pulp, papers and boards for packaging, corrugated boxes, industrial bags and wood logs.

Moreover, we benefit from the commitment, experience and insight of our founding controlling shareholders, the Klabin family, which has directed our growth throughout our 121 years of existence.

Our shares have been listed on the B3 since 1979 and were listed on the Level 2 segment of corporate governance of B3 in 2014, in connection with which we have adopted enhanced disclosure and corporate governance policies and procedures. We also maintain a Level I American Depositary Receipts program for trading of our American depositary receipts, or ADRs, over-the-counter in the United States.

Our Business Structure

In 2003, we centered our businesses on the manufacturing of paper and cardboard for packaging and paper packaging, the current focus of our business. In 2016, we also began operating the Puma Plant, located in the City of Ortigueira, Paraná. This plant has a production capacity of 1.5 million tonnes of pulp, including bleached hardwood pulp (eucalyptus) and bleached softwood pulp (pine), most of which is converted into fluff pulp. The Puma Plant is the only industrial unit in the world designated to manufacture these three kinds of fibers. Currently our products include pulp (hardwood, softwood and fluff); paper (kraftliner, coated boards, and recycled papers); corrugated cardboard; liquid packaging board and industrial bags. We are also active in the forestry sector through our sale of wood logs.

In addition, we developed the Klabin Pulp and Paper Logistic Unit for integration with the Puma Plant to allow for the use of both railroad and road transportation to the port of Paranaguá, which enables the transportation of the Puma Plant's total pulp production, reducing costs and enhancing vertical integration of the production value chain. Notably, our railways consist of seven GE diesel-powered locomotives that transport materials between our facilities. The locomotives have an estimated life span of 20 years and are able to haul an estimated 60,000 kfg, or 71 wagons, of cellulose at a maximum velocity of 65 km/h. Overall, the railway transports 900,000 tons/year from the Puma Plant. Finally, the Puma Plant is currently connected to the Parana Central Railroad Station via a 23.5 km-long railroad extension.

We believe that we are a pioneer and the leader in the production of kraftliner paper in Latin America, in addition to being one of the largest producers and exporters of packaging paper. We export our products to over 80 countries and use our production of kraftliner, together with recycled papers, to supply our corrugated cardboard plants.

Our coated boards are produced using a mix of hardwood (eucalyptus) and softwood (pine), lending strength and optimal printing and packaging quality. All our coated board plants are certified by the FSC.

We are also the Brazilian leader in the corrugated cardboard sector, and in 2018, we had the largest production capacity in the domestic market, according to ABPO. Our packaging serves all segments of the economy and provides protection to products during shipment.

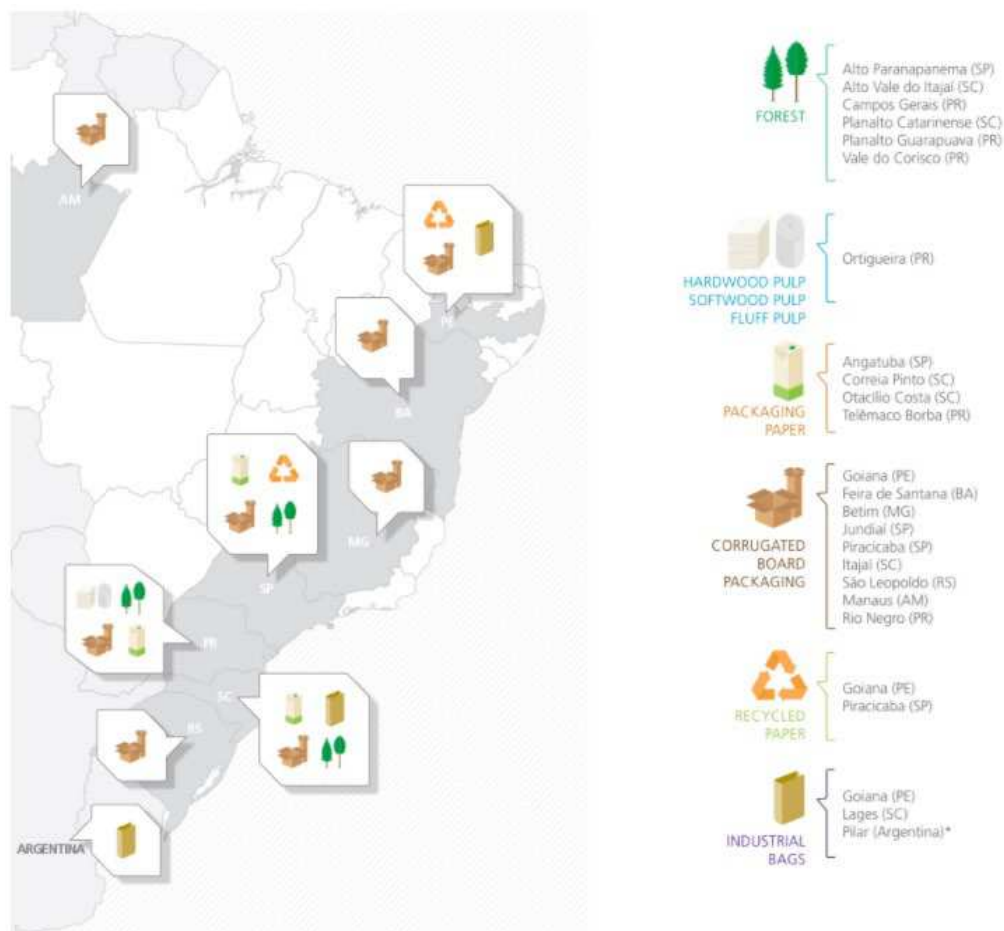
We believe that we are also a leader in the production of industrial bags, recognized for our quality and for serving our customers, and we have adapted our products to various market sectors, particularly civil construction, food, chemical products, and agri-business.

In addition to the paper sector, our Forestry Unit is active in the sale of wood logs from forests planted for sale to the plywood and sawmill industries. Our forests are certified by the FSC, and in 1998, we believe that we became the first pulp and paper company in the southern hemisphere to gain FSC certification, which we obtained for our forestry areas in the State of Paraná.

	For the nine-month period ended September 30,				For the year ended December 31,					
	2019	%	2018	%	2018	%	2017	%	2016	%
	<i>(in millions of reais, except percentages)</i>									
Segment net sales revenue	7,568	100%	7,231	100%	10,016	100%	8,373	100%	7,091	100%
Paper	2,542	34%	2,301	32%	3,177	32%	2,951	35%	3,090	44%
Conversion	2,220	29%	2,118	29%	2,852	28%	2,675	32%	2,428	34%
Pulp	2,613	35%	2,571	36%	3,680	37%	2,422	29%	1,252	18%
Forestry	199	3%	246	3%	316	3%	330	4%	324	4%
Corporate/Eliminations	(7)	0%	(5)	0%	(9)	0%	(5)	0%	(3)	0%

Our Industrial Plants

Our business currently comprises 17 industrial plants in Brazil and one industrial plant in Argentina, as shown on the map below:



The table below shows our industrial plants, their products and capacity:

Business Unit	Mill	Capacity (thousand tonnes)	Products
Pulp	Ortigueira (Paraná)	1,500	Hardwood Pulp/Softwood Pulp/Fluff Pulp
	Total	1,500	
Paper	Monte Alegre (Paraná)	1,000	Coated boards/ Kraftliner
Paper	Otacílio Costa (Santa Catarina)	364	Kraftliner
Paper	Correia Pinto (Santa Catarina)	190	Sack kraft
Paper	Angatuba (São Paulo)	128	Kraftliner
	Total	1,682	
Paper	Goiana (Pernambuco)	168	Recycled Paper
Paper	Piracicaba (São Paulo)	107	Recycled Paper
	Total	275	
Conversion	Betim (Minas Gerais)	62	Corrugated Boxes
Conversion	Manaus (Amazonas)	20	Corrugated Boxes
Conversion	Feira de Santana (Bahia)	60	Corrugated Boxes
Conversion	Goiana (Pernambuco)	140	Corrugated Boxes

Business Unit	Mill	Capacity (thousand tonnes)	Products
Conversion	Jundiaí TP (São Paulo)	75	Corrugated Boxes
Conversion	Jundiaí DI (São Paulo)	98	Corrugated Boxes
Conversion	Piracicaba (São Paulo)	104	Corrugated Boxes
Conversion	Rio Negro (Paraná)	47	Corrugated Boxes
Conversion	Itajaí (Santa Catarina)	101	Corrugated Boxes
Conversion	São Leopoldo (Rio Grande do Sul)	46	Corrugated Boxes
	Total	753	
Conversion	Lages I and II (Santa Catarina)	143	Industrial Bags
Conversion	Goiana (Pernambuco)	10	Industrial Bags
Conversion	Pilar (Argentina)	22	Industrial Bags
	Total	175	

Our Forests

Our principal source of wood is our own forests. Historically committed to sustainable development, we have reserved a portion of our lands for the preservation of native woodlands. We plant our own pine and eucalyptus trees to make our products. We also buy an average of approximately 35% of our total wood volume from third-party farmers located near our forests.

Our production processes are customized based on the type of wood used and the final destination of the fiber, and the technological specifications for each of our mills exceed industry standards.

Our different lines of products, such as pulp, kraftliner, sack kraft paper and coated boards, are developed with: (1) softwood fiber from pine wood; (2) hardwood fiber from eucalyptus; or (3) a mix of both fibers, depending on the characteristics of each specific product, client and end use. We utilize eucalyptus in the production of hardwood, which we believe has better printability characteristics, while we utilize pine in the production of softwood, which provides strength and wet resistance (characteristics that are essential for our packaging business).

The tables below show the size of our land, including the size of our preserved native forests and planted forests, and the average distance from our production mills to our forests as of September 30, 2019. The proximity of our forests to our mills has an important impact in reducing our transportation costs.

Forests	Paraná	Santa Catarina	São Paulo	Total
		<i>(in thousands of hectares)</i>		
Planted Forests.....	180	64	5	248
Eucalyptus.....	80	8	5	92
Pine	100	56	—	156
Preserved native forests	155	72	4	231
Others	50	13	-	63
Total Lands	385	148	9	541

Average Hauling Distance to Mills	Km
Paraná.....	97.8
Santa Catarina	76.5
São Paulo.....	89.7

Sustainability

Both in the domestic and international markets, we have aligned our activities and the services we offer to comply with our sustainability policy. Our sustainability policy is based on operational and energy efficiency, responsible management of resources and long-term commitments to the environment and our stakeholders, acknowledging the United Nations' Sustainable Development Goals, or the SDG, as the primary framework for planning our sustainability-derived targets.

We were the first pulp and paper producer in the southern hemisphere to obtain FSC certification, which we obtained in 1998 and attests to our management practices that conserve natural resources, provide fair working conditions and encourage healthy relations with local communities. This certification covers sawed and treated pine and eucalyptus wood, as well as the custody chain for our production of coated boards, industrial bags, corrugated boxes and recycled paper.

Industry Overview

Wood pulp is one of the main raw materials used in the manufacture of paper and paperboard products and one of the most abundant raw materials in the world. Pulp can be manufactured from a number of raw materials (e.g. wood, bagasse and bamboo) and is classified according to the type of wood or fiber from which it is made, the manner in which the wood or fiber is processed, and whether it is bleached. Bleached pulp is used for a variety of purposes, including printing and writing papers, specialty papers and tissue, while unbleached pulp is used in the production of wrapping paper, corrugated containers and other paper and cardboard materials.

There are two main types of wood pulp that can be produced: (1) hardwood pulp, which is produced using hardwood trees (e.g. eucalyptus, aspen, birch and acacia) and are generally better suited to manufacturing coated and uncoated printing and writing papers, tissue and coated packaging boards; and (2) softwood pulp, which is produced using softwood trees (e.g. pines and fir) and is generally used in the manufacture of papers that require durability and strength, such as kraftliner, newsprint, catalogues, boards and lightweight coated paper. Fluff pulp is also produced from softwood, but with different bulk and water absorbency characteristics, enabling it to be used in applications such as napkins, diapers and hygiene products.

The pulp manufacturing process determines the suitability of pulp for particular end uses. Mechanical pulp refers to pulp processed to leave in some lignin and other organic materials holding the wood fibers together, whilst chemical pulp refers to pulp made using chemical processes to dissolve the lignin. The most common amongst the different chemical processes for chemical pulp is the kraft process, which is the one used by Klabin to produce its pulp.

The kraft process converts wood into pulp by treating wood chips with a mixture of hot water, sodium hydroxide and sodium sulfide. This initial treatment compound is known as white liquor. The production process also creates a significant amount of black liquor, a residual component from the initial process of pulp production which is used to produce steam and generate energy. This allows some pulp mills to be self-sufficient in terms of electricity.

According to IBÁ, Brazilian production of pulp increased to 21.1 million tonnes in 2018, up from 19.6 million in 2017. The Brazilian paper industry remained stable over this period, with production of 10.5 million tonnes from 2017 to 2018. Brazilian production of pulp decreased to 15.0 million tonnes in the first nine months of 2019, down from 15.8 million tonnes in the first nine months of 2018. Brazilian paper production increased 1% in the first nine months of 2019, with production of 7.8 million tonnes of paper.

Our Strengths

We believe that our competitive strengths are the following:

Vertically integrated, low-cost producer of paper and packaging products.

We are the largest producer of packaging paper in Brazil according to IBÁ and internal estimates, and one of the largest integrated paper producers in Latin America according to internal estimates, based on our production capacity in 2019 of two million tonnes of packaging papers. We are also the only Brazilian company to simultaneously sell hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp. Given our fully vertically integrated operations and the strategic location of our operating facilities in Brazil, we believe our production costs for our pulp, paper and packaging products are among the lowest in the world. More specifically, our low production costs are a result of the following:

- We have low raw material costs, primarily because of the relatively short growing cycles of our eucalyptus trees (seven years from seedlings to trees ready for harvest) and of our pine trees (15 years from seedlings to trees ready for harvest), which represent a significantly shorter growth cycle compared

to that of trees used by our competitors outside Brazil, according to Pöyry. In addition, the productivity of both our softwood and hardwood forestry assets is appreciably better than that of our competitors outside Brazil. Moreover, we satisfy our requirements for wood largely from our own forests, obtaining the remainder from third-party suppliers only when necessary.

- We have low operating costs, attributable to our commitment to consistently improve our technology, our efficient operations and our economies of scale.
- We are one of the largest recyclers of paper in Brazil, currently recycling approximately 275,000 tonnes per year, almost all of which is successfully integrated into our production capacity of approximately 755,000 tonnes per year of corrugated boxes.

Diverse product portfolio that mitigates the impact of the paper industry's cyclicalities.

Our vertically integrated operations provide us with the flexibility to adjust our production and sales in the event of changes in market conditions. In addition, by producing pulp and paper products for both the export and the domestic markets, we enjoy the benefits of diversification and are positioned to take advantage of growth in the Brazilian market, as well as the opportunities offered by international markets.

Within our product portfolio, which includes paper and coated boards used for primary packages and converted products used in both primary packages (which have direct contact with the product) and secondary packages (which enclose the primary packages), we have significant exposure to producers of non-durable goods such as food, liquid food, beverages, hygiene and cleaning products, as well as raw materials for the civil construction industry, such as cement and wood. As a result of this exposure, we believe that we are well positioned to take advantage of periods of increased consumer spending in Brazil.

In addition, our ability to develop new, and improve existing, product lines has helped us to maintain and grow our sales in the face of increasing competition. We are increasingly focused on high value-added products with the objective of increasing our operating profit while maintaining a leading position in the domestic market.

Producer of premium quality products suitable for a wide range of end uses.

The premium quality of our products is attributable to our use of advanced manufacturing processes and equipment and our utilization of an optimal mix of eucalyptus fiber (hardwood) and pine fiber (softwood). The mixture of fibers provides an optimal blend of the attributes of each type of fiber.

We believe that the quality of our paper exceeds that of our competitors, as evidenced by its printing quality, smoothness, rigidity and high performance in the cutting, printing, folding and forming processes, which are important characteristics for the production of packages. We have the technical ability to manufacture board that can be used for the different packaging and filling systems of our clients, and our products are therefore suitable for a wide range of end uses.

Solid export base.

We have an established track record of more than 31 years of exporting paper products to a broad range of customers in over 70 countries. In 2018, we were the largest Brazilian exporter of kraftliner and coated boards, according to IBÁ. Our export sales for the nine-month periods ended September 30, 2019 and 2018 totaled R\$3,056 million and R\$3,162 million, respectively, and for the years ended December 31, 2018, 2017 and 2016 totaled R\$4,483 million, R\$3,353 million and R\$2,861 million, respectively, accounting for 40%, 44%, 45%, 40% and 40% of our net sales revenue, respectively. We believe that our competitive advantage as a low-cost producer, our extensive contacts in the international pulp and paper market, and our reputation for quality and service among our customers worldwide will continue to generate international demand for our products. We intend to continue our focus on the export market for growth, competing through high-quality products, competitive costs and customer service. Our net sales from exports are mostly denominated in U.S. dollars.

Financial strength and consistent cash flows.

Our consistent cash flow generation has historically enabled us to obtain adequate financing to improve our operations. In addition to our history of consistent cash flow generation, as an exporter we have had access to both short- and long-term trade finance facilities at competitive rates. These facilities are naturally hedged through our U.S. dollar-denominated export sales.

We recorded a profit of R\$84 million and a loss of R\$726 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and profit of R\$187 million, R\$532 million and R\$2,482 million for 2018, 2017 and 2016, respectively. Our Adjusted EBITDA was R\$3,358 million and R\$2,891 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$4,024 million, R\$2,738 million and R\$2,287 million for 2018, 2017 and 2016, respectively. We recorded cash flow from operating activities of R\$1,902 million and R\$2,125 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,787 million, R\$1,793 million and R\$1,203 million for 2018, 2017 and 2016, respectively.

Experienced and professional management team.

Our management team has considerable industry experience and knowledge. Unlike certain of our competitors whose businesses are family-operated, our management comprises a mix of executives with extensive experience in the pulp, paper and packaging market as well as selected professionals from other industries. In addition, our compensation metrics are closely aligned with our results, focusing on value creation for shareholders in the short and long term. We have designed and implemented models of competencies to evaluate the performance of management, which has resulted in a succession plan process that is already in place.

The members of our board of directors have extensive experience in areas related to our business, and we have shown continuous improvement in our corporate governance practices, particularly our adherence to the ABRASCA Code of Self-Regulation and Good Practices for Public Companies, or ABRASCA Code, and the implementation of a code of conduct applicable to all of us.

High organic growth potential.

We have substantial forests near our mills, comprising a total of 541 thousand hectares, including 248 thousand hectares of planted forests and 231 thousand hectares of preserved native forests (as well as recently cut forests, forests waiting to be cleaned and other lands), as of September 30, 2019.

Through research and development, cloning, hybridization and separation of seeds, we are continuously enhancing the productivity of our forest areas, which we believe to be a significant advantage over our competitors.

High social and environmental standards.

Preserving biodiversity is one of our key environmental responsibilities under our sustainability policy. Since we began operating, we have undertaken extensive efforts to identify and monitor the biodiversity of our forests by identifying species considered rare or at risk of extinction on lists such as those of the International Union for Conservation of Nature, or the IUCN, and the Brazilian Environmental and Natural Resources Institute (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), or IBAMA.

We were recognized by the Rainforest Alliance as “Creator of Sustainable Development Trends,” for the management of our forests. Our sustainable management practices also led us to become the first company in the Americas paper and cellulose sector to obtain FSC certification (in 1998), for our forests in Paraná. In 2004, our forest areas in Santa Catarina also received FSC certification, meaning the FSC has certified that our chain of production, from forest management to the manufacture of paper and conversion, occurs in a correct, socially just and economically viable form. The certification also guarantees the traceability of raw materials throughout our production chain. Currently, all of our forest areas and components of our production chain have received FSC certification, supporting our understanding that our activities are in line with the highest social environmental standards.

In addition, with a view to contributing to a fairer society, we develop and support programs for the professional qualification of young persons and that raise environmental awareness in the communities where we operate.

Our Strategies

Our fundamental business objectives are to maximize shareholder value by continuing to achieve steady and sustained growth, keeping our operational costs competitive to maintain our position as a low-cost producer of pulp, paper and packaging products and building on our competitive strengths in order to expand our leadership in the Brazilian and international paper and packaging industries. We are also committed to operating our business in a socially and environmentally responsible manner. The key elements of our business strategy are:

Continue to expand our core business through organic growth.

We have taken several steps to create a solid base for our future growth. We have completed certain debottlenecking, conversion and modernization projects and expansions.

In November 2013, a new sack kraft machine with a capacity of 80,000 tonnes per year was installed in our Correia Pinto Mill. This machine, which was manufactured in Brazil and required a capital investment of R\$240 million, supplies the industrial bags market. We also installed a new machine for the production of recycled paper in our Goiana Mill. With a capacity of 110,000 tonnes per year, this equipment, which commenced operations in 2015, is one of the most modern recycled paper machines in Brazil and yields quality and efficiency gains.

In March 2016, we commenced operations at the Puma Plant, our new pulp mill, which has a production capacity of 1.5 million tonnes per year, including hardwood bleached pulp (eucalyptus) and softwood bleached pulp (pine), a portion of which is converted into fluff pulp. The Puma Plant is the only industrial plant in the world designed to manufacture these three fibers.

Total investment in the Puma Plant was approximately R\$8.5 billion, including infrastructure, taxes and inflation adjustments.

In 2015, we and Fibria announced an agreement for the supply of hardwood pulp produced at the Puma Plant. The agreement established a firm commitment for acquisition by Fibria or its subsidiaries of a minimum of 900,000 tonnes per year of hardwood pulp, for exclusive sale by Fibria or its subsidiaries in countries outside South America. In 2018, after evaluating the market and strategic benefits of, and alternatives to, the agreement with Fibria, and as a mutually agreeable remedy for European antitrust regulatory hurdles to Fibria's merger with Suzano S.A., or Suzano, (which is further discussed below) and as a mechanism for us to expand our own direct reach, mostly in Europe, we agreed to terminate the agreement early. The termination was approved by the European Union antitrust authorities on November 29, 2018. The agreement has been terminated and we have agreed on a transition period during which we will directly assume marketing activities, mostly in Europe, and which ended in 2019.

With the commencement of operations of the Puma Plant we have begun a new stage in our history, moving into new markets and becoming the only Brazilian company to simultaneously produce bleached pulps from hardwood, softwood and fluff produced in a mill entirely designed for this purpose. The Puma Plant reinforces our commitment to the best global sustainability practices by combining high forestry productivity, low operating costs, efficient logistics and cutting-edge environmental technology to produce highly competitive end products.

In April 2018, our new industrial bag machine in Lages, in the State of Santa Catarina, commenced operations increasing our total production capacity for industrial bags to 175 million tonnes per year. Our capital expenditures in respect of our new industrial bag machine totaled approximately R\$65.0 million.

In April 2019, we announced our project for the expansion of capacity in packaging paper, or the Puma II Project, which is anticipated to involve the construction of two paper machines with integrated pulp production in Klabin's industrial unit in the municipality of Ortigueira, in the State of Paraná. The Puma II Project is anticipated to be divided into two phases: the first phase involves the construction of a main fiber line to manufacture non-bleached pulp, integrated with a kraftliner and white kraftliner paper machine. This product is anticipated to be sold using the brand name Eukaliner, with annual production capacity of 450,000 tons. In addition, this phase also includes the

construction of complimentary installations supporting the new lines and recovery and utilities plants. The second phase involves the construction of a complimentary fiber line for the manufacture of non-bleached pulp, integrated with a kraftliner paper machine with annual production capacity of 470,000 tons and the expansion of certain support installations.

The project schedule estimates that each construction stage of the Puma II Project may last up to 24 months and the beginning of the second phase may only occur after the completion of the first phase. Completion of the first phase is expected to occur in the second quarter of 2021, and the completion of the second phase is expected to occur in the second quarter of 2023. The total investment budgeted for the Puma II Project is R\$9.1 billion, subject to currency fluctuations and adjustments for inflation, which will be disbursed between 2019 and 2023. Approximately R\$900 million of the total investment is tax deductible.

Focus on product development and adding value to our customers.

We are focusing our development, production and sales efforts on high value-added products (such as liquid packaging boards, fluff, folding box boards and extensible paper for industrial bags) to meet the current and expected future needs of the domestic market, and to achieve a level of quality and services that will enable us to compete with imported products as well as access new export markets. Through the development of new technologies and improvements in the quality of our products, we believe we can reach more competitive markets and obtain higher sales margins.

Increase our operating efficiencies.

We continue to explore opportunities and implement steps to increase our operating efficiencies. Among other initiatives and projects, we are currently:

- reviewing all contracted services in order to increase third-party productivity and reduce our operating costs;
- improving logistics, through investments to improve the transportation of wood within and from our forests;
- enhancing our sales and marketing processes, by implementing new information systems and developing a new structured marketing team;
- commencing projects to optimize our consumption of chemicals, energy, water and steam in our main paper mills; and
- further developing our information technology, or IT, platform through investment in new equipment.

Conduct our business in a socially and environmentally responsible manner.

We are committed to producing pulp and paper in an environmentally responsible manner. Our environmental protection efforts include planting and harvesting trees in a manner that preserves biodiversity, using technology that is environmentally sound and using recycled paper on an industrial scale. We have obtained ISO 14001 international certification for our environmental protection efforts, and among other awards and honors, our entire custody chain (commercial plantation, aromatic and medicinal plants, and native forestry) has been certified by the FSC.

The chart below presents our corporate structure as of September 30, 2019:



Our founders strived for innovation and regularly traveled to Europe in search of new production techniques, resulting in the establishment in 1934 of Klabin do Paraná, which we believe to be the first integrated factory of pulp and paper in Brazil. In that same year, Indústrias Klabin de Papel e Celulose S.A. was incorporated for the purpose of purchasing a large araucaria reforestation area in the western part of the State of Paraná, known as Fazenda Monte Alegre.

In 2001, we repositioned our operations by ceasing production of market pulp, dissolving grade pulp, newsprint paper and disposable consumer items, and concentrating our business on papers and board for packaging, corrugated boxes, multiwall sacks and envelopes, in addition to wood. The Expansion Project MA-1100 in our Monte Alegre Mill was inaugurated in 2008, and in that same year, our plant capacity increased from 700,000 to 1.1 million tonnes per year.

In 2011, we acquired 51% of the equity of Vale do Corisco, a joint venture specialized in growing and selling wood that owns 107,000 hectares of land, of which 62,000 hectares are of pine and eucalyptus forests in the State of Paraná. With this acquisition, our planted forest area totaled 230,000 hectares, of which 107,000 hectares became available for new industrial projects.

In March 2016, we began operating the Puma Plant, a milestone in Klabin's history due to the scale of the project, which nearly doubled our production capacity. The Puma Plant was built in 24 months, within budget. Total investment was approximately R\$8.5 billion, including infrastructure, taxes and inflation adjustments. The implementation of this project, which commenced operations in 2016, represented an important step for Klabin, as it significantly increased production capacity to meet the expected demand from the pulp markets and enable expansion of packaging paper machines.

Recent Developments

Puma II Project Funding

On October 31, 2019, we entered into new credit facilities with the Inter-American Investment Corporation, or IDB Invest, International Finance Corporation, or IFC, and other banks to finance the Puma II Project for the total amount of up to U.S.\$800 million, as follows:

- *A-Loans and Co-Loans:* Total amount of U.S.\$450 million, with floating interest rate equivalent to Libor plus 1.75%, maturing in 10 years, with a 3-year grace period for the principal amount; and
- *B-Loans:* Total amount of U.S.\$350 million, with floating interest rate equivalent to Libor plus 1.45%, maturing in 7 years, with a 3-year grace period for the principal amount. Eight other commercial banks participated the transaction.

This credit facility has not been drawn upon, which Klabin may do within two years. The facility is fully secured by mortgages and liens on property, plant and equipment and requires an overcollateralization ratio equal to or greater than 130%.

On October 15, 2019, we also entered into a new credit facility with the Finnish Export Credit Agency, or Finnvera, to finance the Puma II Project, in the amount of U.S.\$245 million, with floating interest rate equivalent to Libor plus 0.55%, maturing in 12 years, and with a grace period of 2.5 years. This credit facility has not been drawn upon, which Klabin may do within two years.

On November 6, 2019, we opened a new credit line with the Brazilian Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, to finance the Puma II Project, in an amount up to R\$3 billion, with an interest rate equivalent to IPCA + 3.58% p.a., maturing in 20 years and with a grace period of 2.5 years. We have drawn R\$486,874 thousand from this facility, after the deduction of estimated expenses and commissions payable by us, and we have 2.5 years to draw upon the full balance.

Issuance of 13th Series of Debentures and CRAs

On January 14, 2020, we concluded our 13th issuance of simple debentures in an aggregate principal amount of approximately R\$966.3 million, which we launched on June 15, 2019 and which will mature in June 2029, accruing annual interest at IPCA + 3.5%. These debentures back the 30th issuance of agricultural receivables certificates (*Certificados de Recebíveis do Agronegócio*), or CRAs, of VERT Securitizadora.

Repayments of Debt

On September 27, 2019, we repaid the full U.S.\$96 million that was outstanding under our loan with the Inter-American Investment Bank, or IDB, and on November 18, 2019, we repaid the full R\$2,400 million that was outstanding under the main credit facility we had with BNDES, both loans originally used to finance our Puma I expansion.

On September 30, 2019, we repaid the full U.S.\$75 million that was outstanding under our export prepayment facility with Mizuho Bank, and on December 20, 2019, we repaid the full U.S.\$75 million that was outstanding under our export prepayment facility with Banco Santander.

Licensing Agreement

We are party to a Licensing Agreement with our controlling shareholder, Klabin Irmãos & Cia and Sociedade Geral de Marcas, or Sogemar, pursuant to which we are licensed to use the “Klabin” trademark and six other trademarks related to our paperboard and corrugated cardboard products, in exchange for certain royalty payments, or the Licensing Agreement. On February 4, 2019, we publicly disclosed that we intended to replace the Licensing Agreement by the acquisition of the trademarks from Sogemar in exchange for shares in Klabin delivered in connection with the incorporation of Sogemar into our Company. The proposed transaction was to be subject to the approval of our non-controlling shareholders at a March 14, 2019 shareholders meeting, however, based on certain non-controlling shareholder feedback, Sogemar revoked its authorization for the transaction, and Klabin cancelled the shareholders meeting, prior to it occurring. Accordingly, as of the date of this offering memorandum, the Licensing Agreement remains in effect and otherwise unaltered. However, certain shareholders have expressed their intention to call a new shareholders meeting to discuss the Licensing Agreement, including whether they feel it should be discontinued. We cannot assure you what will be the status of the Licensing Agreement following any such future shareholder meetings and/or votes. Discussions between management and stakeholders on this matter continue. For more information regarding the possible risks associated with any change or termination to our Licensing Agreement, see “Risk Factors—Risks Relating to Us and the Paper and Packaging Industry in General—We are party to a major licensing agreement pursuant to which we are permitted to use our main trademarks.”

Chief Financial Officer and Investor Relations Officer

As notified to the market on March 8, 2019, we appointed Cristiano Cardoso Teixeira (our current chief executive officer) as acting chief financial officer and investor relations officer following the resignation of our former chief financial officer and investor relations officer, Gustavo Henrique Santos de Sousa, pending appointment of a new permanent chief financial officer and investor relations officer. On October 23, 2019, Marcos Paulo Conde Ivo was appointed as permanent chief financial officer and investor relations officer.

Distribution of Dividends

On November 1, 2019, at an extraordinary meeting of our board of directors, our board of directors approved a payment of R\$194 million as dividends and R\$100 million as interest on capital in respect of 2019 interim results. This payment was made on November 14, 2019.

Additionally, on December 17, 2019, at an extraordinary meeting of our board of directors, our board of directors approved a payment of R\$200 million as Interest on capital in respect of 2019 interim results. This interest on capital payment will be made on February 20, 2020.

Wood Supply Agreement

As notified to the market on December 12, 2019, we entered into a wood supply agreement with Suzano S.A., whereby we Klabin acquired approximately 14 thousand hectares of eucalyptus planted forests, 100% FSC® certified (Forest Stewardship Council), in an area located in the southern region of the State of São Paulo, near the border with state of Paraná. This transaction, which does not involve initial cash disbursement, has an estimated value of R\$400 million, with payments to be made according to the amount of wood harvested, between the 2020 and 2026.

Company Information

Our central administrative headquarters are located at Avenida Brigadeiro Faria Lima, 3600, 3rd, 4th and 5th floors, in the City of São Paulo, State of São Paulo, Brazil. Our telephone number at this address is +55 (11) 3046 5800.

Our website address is www.klabin.com.br/ir and the e-mail address of our investor relations manager, Mr. Marcos Maciel, is mmcosta@klabin.com.br. Information on our website is not incorporated into this offering memorandum and should not be relied upon in determining whether to make an investment in the notes.

The headquarters of Klabin Austria is located at Albertgasse 35, 1080, Vienna, Austria. The telephone number at this address is +43 1 7172 8590.

The Offering

The following summary contains basic information about the notes and the guarantee and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the notes, please refer to the section of this offering memorandum entitled "Description of the Notes."

Issuer	Klabin Austria GmbH
Guarantor	Klabin S.A.
The Initial Notes Offered	U.S.\$500 million in aggregate principal amount of 7.000% senior notes due 2049.
The Additional Notes Offered	U.S.\$200 million in aggregate principal amount of 7.000% senior notes due 2049.
	The additional notes were offered as a further issuance of and are consolidated and form a single fungible series with the initial notes, which brings the total aggregate outstanding principal amount of the issuer's 7.000% notes due 2049 to U.S.\$700 million.
	The initial notes and the additional notes have identical terms, other than the issue date, issue price and first interest payment date. The additional notes became fully fungible with the initial notes following the termination of certain U.S. selling restrictions on February 29, 2020. The additional notes carry the same CUSIP and ISIN numbers as the initial notes.
Issue Price	For the initial notes, 98.460% of the principal amount plus accrued interest, if any, from April 3, 2019.
	For the additional notes, 112.189% of the principal amount <i>plus</i> accrued interest from and including October 3, 2019.
Issue Date	For the initial notes is April 3, 2019.
	For the additional notes is January 15, 2020.
Maturity Date	April 3, 2049.
Interest	Interest on the notes will accrue at a rate of 7.000% <i>per annum</i> and will be payable semi-annually in arrears on April 3 and October 3, commencing on April 3, 2019 for the initial notes and April 3, 2020 for the additional notes.
Ranking	The notes are senior unsecured obligations of the issuer.

Klabin's guarantee is a senior unsecured obligation of Klabin ranking:

- equal in right of payment with all other existing and future senior unsecured debt of Klabin, subject to certain statutory preferences under applicable law, including labor and tax claims;
- senior in right of payment to Klabin's subordinated debt;
- effectively subordinated to all existing and future secured obligations of Klabin and its subsidiaries (including the issuer), to the extent of the value of the assets securing such secured obligations; and
- effectively subordinated to debt and other liabilities (including subordinated debt and trade payables) of Klabin's subsidiaries (other than the issuer).

As of September 30, 2019, we had total debt (defined as short-term, long-term borrowings and debentures, not including other interest-bearing liabilities or any other liability) of R\$27,249 million (or U.S.\$6,543 million), of which R\$3,724 million (or U.S.\$894 million) was secured debt of Klabin.

As of September 30, 2019, the only indebtedness owed by our subsidiaries was (i) the 5.25% notes due 2024 and the 4.875% notes due 2027 issued by Klabin Finance and guaranteed by us, (ii) the 5.750% notes due 2029 and 7.000% notes due 2049 issued by the issuer and guaranteed by us and (iii) a syndicated loan (export prepayments) of R\$2,507 million (or U.S.\$602 million) entered into by both Klabin Finance and Klabin Austria.

As of September 30, 2019, R\$3,724 million of our Total Debt was secured.

As of December 31, 2019 and March 31, 2020, our total debt, including secured and unsecured debt was as is set forth in our audited individual and consolidated financial statements for the year ended December 31, 2019, dated February 5, 2020 and unaudited financial statements for the three-month period ended March 31, 2020, dated May 5, 2020, respectively, which are incorporated by reference in this offering memorandum.

Optional Redemption

The issuer may, at its option, redeem the notes, in whole or in part, at any time, before October 3, 2048 (which is the date that is six months prior to the maturity of the notes) at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed and (ii) the applicable "make-whole" amount, as described under "Description of the Notes—Redemption—Optional Redemption," plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date. If the redemption date of the notes is on or after October 3, 2048, the redemption price will equal 100% of

	the principal amount of the notes, plus accrued and unpaid interest and additional amounts, if any, to, but excluding the redemption date.
Tax Redemption	The issuer or Klabin may, at its option, redeem the notes, in whole, but not in part, at 100% of the principal amount of the notes, plus accrued interest and additional amounts, if any, to the redemption date, upon the occurrence of specified tax events. See “Description of the Notes—Redemption—Tax Redemption.”
Purchase of the Notes Upon Change of Control Event.....	If a specified Change of Control event occurs as described herein, unless the issuer or Klabin has exercised its option to redeem the notes, the issuer will be required to offer to purchase the notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the purchase date. See “Description of the Notes—Purchase of Notes Upon Change of Control Event.”
Additional Amounts	The issuer or Klabin, as the case may be, will pay additional amounts in respect of any payments of principal or interest on the notes so that the amount investors in the notes receive under the notes or the guarantee, after applicable withholding tax, if any, will equal the amount that investors would have received if no withholding tax had been applicable, as set forth in and subject to certain exceptions described under “Description of the Notes—Additional Amounts.”
Covenants of Klabin	The indenture governing the notes contains certain covenants that, among other things, limit Klabin’s and its subsidiaries’ ability to: • create liens; • enter into sale-leaseback transactions; and • consolidate, merge or transfer all or substantially all of Klabin’s assets on a consolidated basis. However, these covenants are subject to a number of important exceptions. See “Description of the Notes—Covenants.”
Substitution of Issuer	The issuer may, without the consent of the holders of the notes and subject to certain conditions, be replaced and substituted by Klabin or any wholly owned subsidiary of Klabin as principal debtor in respect of the notes. See “Description of the Notes—Substitution of the Issuer.” See also “Risk Factors—Risks Relating to the Notes and the Guarantee—Certain payments on notes may be subject to U.S. withholding tax under FATCA.”
Further Issuances	We may from time to time, without the consent of the holders of the notes, issue further notes on terms and conditions identical to those of the notes (potentially other than the issue price, issue date and first payment date), which further notes shall increase the aggregate principal amount of, and shall form

a single series and vote together with the initial notes and the additional notes.

Form and Denomination	The notes have been issued in fully registered form without interest coupons. The global notes are exchangeable or transferable, as the case may be, for definitive certificated notes in fully registered form without interest coupons only in limited circumstances. The notes are issued in registered form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. See “Description of the Notes—Form, Denomination and Title” and “Form of the Notes.”
Use of Proceeds	The aggregate net proceeds to the issuer from the sale of the notes was approximately U.S.\$489,900,300 in respect of the initial notes and approximately U.S.\$222,696,000 in respect of the additional notes (excluding accrued interest payable by purchasers of the additional notes), after deducting the fees and estimated expenses of the respective offerings payable by us. We intend to use the net proceeds from the offering of the notes to finance and/or refinance, in whole or in part, existing and new qualifying “Eligible Green Projects” described below. See “Use of Proceeds.”
Settlement	The notes were delivered in book-entry form only through the facilities of DTC for the accounts of its direct and indirect participants, including Euroclear and Clearstream.
Notice to Investors	The notes and the guarantee have not been, and will not be, registered under the Securities Act and are subject to limitations on transfers, as described under “Transfer Restrictions.”
Listing	The issuer has applied for the notes offered hereby to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. The initial notes are also listed on the Singapore Exchange Securities Trading Limited, or the SGX-ST, as of April 2019.
Governing Law	The indenture, the notes and related guarantee are governed by, and construed in accordance with, the laws of the State of New York.
Trustee, Registrar, Paying Agent and Transfer Agent	The Bank of New York Mellon.
Risk Factors	Prospective investors should carefully consider all of the information contained in this offering memorandum prior to investing in the notes. In particular, we urge prospective investors to carefully consider the information set forth under “Risk Factors” for a discussion of risks and uncertainties relating to us, our subsidiaries, our business, our equity holders and an investment in the notes.

Summary of Financial and Other Information

The summary financial and other information as of September 30, 2019 and for the nine-month periods ended September 30, 2019 and 2018 has been derived from our unaudited interim consolidated financial information included elsewhere in this offering memorandum and as of and for the years ended December 31, 2018, 2017 and 2016 has been derived from our audited consolidated financial statements included elsewhere in this offering memorandum.

This financial information should be read in conjunction with “Presentation of Financial and Other Information,” “Selected Consolidated Financial Data and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our consolidated financial statements or unaudited interim consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum and our audited consolidated financial information as of and for the period ended December 31, 2019 dated February 6, 2020, incorporated by reference in this offering memorandum.

Statement of Operations Data	For the nine-month period ended September 30,			For the year ended December 31,			
	2019	2019	2018	2018	2018	2017	2016
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of reais unless otherwise indicated)		(in thousands of U.S.\$) ⁽¹⁾	(in thousands of reais unless otherwise indicated)		
Gross sales revenue	2,104,994	8,766,037	8,329,478	2,765,404	11,516,247	9,727,021	8,204,424
Sales deductions ⁽²⁾	(287,783)	(1,198,444)	(1,098,320)	(360,145)	(1,499,786)	(1,353,643)	(1,113,626)
Net sales revenue	1,817,211	7,567,593	7,231,158	2,405,259	10,016,461	8,373,378	7,090,798
Domestic market	1,083,254	4,511,105	4,069,260	1,328,782	5,533,578	5,019,971	4,229,957
Export market	733,956	3,056,488	3,161,898	1,076,478	4,482,883	3,353,407	2,860,841
Variation in the fair value of biological assets	75,530	314,539	250,344	150,890	628,367	789,661	532,911
Cost of products sold	(1,271,169)	(5,293,655)	(4,621,775)	(1,523,006)	(6,342,406)	(6,427,492)	(5,227,023)
Gross profit	621,573	2,588,477	2,859,727	1,033,143	4,302,422	2,735,547	2,396,686
Operating expenses							
Sales	(151,111)	(629,288)	(549,891)	(183,543)	(764,348)	(656,844)	(586,075)
General and administrative	(106,360)	(442,926)	(397,264)	(134,042)	(558,205)	(528,398)	(466,493)
Other, net	155,087	645,845	(29,030)	(535)	(2,228)	(11,877)	4,707
	(102,384)	(426,369)	(976,185)	(318,120)	(1,324,781)	(1,197,119)	(1,047,861)
Equity in results of investees and joint ventures	1,484	6,182	4,716	1,432	5,964	13,624	49,321
Profit before finance result and taxes	520,673	2,168,290	1,888,258	716,455	2,983,605	1,552,052	1,398,146
Finance result							
Finance income	211,557	881,009	391,199	118,961	495,403	748,618	878,945
Finance costs	(505,108)	(2,103,472)	(1,017,682)	(371,912)	(1,548,790)	(1,287,854)	(1,231,088)
Foreign exchange	(195,546)	(814,332)	(2,403,837)	(479,973)	(1,998,799)	(174,148)	2,168,932
	(489,097)	(2,036,795)	(3,030,320)	(732,923)	(3,052,186)	(713,384)	1,816,789
Profit (loss) before taxes on income	31,576	131,495	(1,142,062)	(16,468)	(68,581)	838,668	3,214,935
Income tax and social contribution							
Current	33,221	138,347	(295,296)	(77,379)	(322,236)	(299,948)	(190,023)
Deferred	(44,743)	(186,329)	711,199	138,708	577,635	(6,551)	(542,966)
	(11,522)	(47,982)	415,903	61,329	255,399	(306,499)	(732,989)
Profit (loss) for the year/period	20,054	83,513	(726,159)	44,861	186,818	532,169	2,481,946

(1) Solely for the convenience of the reader, Brazilian *real* amounts have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00 as of September 30, 2019.

(2) Consists of discount and rebates and taxes on sales.

Balance Sheet Data

	As of September 30,		As of December 31,			
	2019	2019	2018	2018	2017	2016
	<i>(in thousands of R\$ unless otherwise indicated)</i>		<i>(in thousands of U.S.\$)⁽¹⁾</i>	<i>(in thousands of R\$ unless otherwise indicated)</i>		
	<i>(in thousands of U.S.\$)⁽¹⁾</i>					
Cash and cash equivalents and marketable securities.....	2,918,320	12,153,051	1,692,250	7,047,204	8,271,595	6,464,023
Accounts receivable.....	499,995	2,082,180	490,090	2,040,931	1,754,063	1,625,380
Inventory	339,676	1,414,545	289,682	1,206,353	933,161	876,915
Taxes recoverable	182,105	758,356	64,770	269,728	567,079	803,355
Other assets.....	66,588	277,297	71,491	297,718	277,691	190,362
Total current assets.....	4,006,683	16,685,429	2,608,283	10,861,934	11,803,589	9,960,035
Judicial deposits.....	27,073	112,741	20,809	86,658	83,381	85,704
Taxes recoverable	472,323	1,966,942	307,562	1,280,811	1,287,669	1,554,672
Other assets.....	59,826	249,139	72,221	300,757	344,233	385,706
Investments.....	43,758	182,224	41,605	173,259	173,446	555,345
Property, plant and equipment(2)	3,058,388	12,736,353	2,944,595	12,262,472	12,619,495	12,995,407
Biological assets	1,166,024	4,855,791	1,100,430	4,582,631	4,147,779	3,656,596
Right of use.....	97,317	405,268	-	-	-	-
Intangible assets(2)	19,566	81,480	20,464	85,221	89,949	120,264
Total non-current assets	4,944,275	20,589,938	4,507,686	18,771,809	18,745,952	19,353,694
Total assets	8,950,957	37,275,367	7,115,969	29,633,743	30,549,541	29,313,729
Borrowings	271,464	1,130,483	459,557	1,913,779	2,230,624	2,593,029
Debentures	113,704	473,511	14,813	61,686	239,276	245,080
Trade payables.....	234,852	978,019	217,019	903,752	713,612	634,856
Tax obligations	18,838	78,450	12,206	50,832	55,673	53,643
Social security and labor obligations.....	77,629	323,279	72,130	300,379	281,466	257,712
Dividends and interest on shareholders' equity ..	-	-	60,033	250,000	-	180,000
Enrollment in Tax Recovery Program (REFIS).....	-	-	17,737	73,862	71,467	66,884
Lease Liability	18,109	75,415	-	-	-	-
Other payables and provisions and related parties	49,503	206,149	36,986	154,026	155,215	112,560
Total current liabilities	784,100	3,265,306	890,480	3,708,316	3,747,333	4,143,664
Borrowings	5,808,687	24,189,695	4,050,816	16,869,217	16,444,917	14,765,982
Debentures	349,529	1,455,579	144,316	600,990	634,594	864,456
Deferred income tax and social contribution.....	275,675	1,148,023	230,503	959,906	1,544,578	1,476,866
Provisions for tax, social security, labor and civil contingencies	14,674	61,110	15,397	64,118	65,377	70,483
Payables – Investors in Special Partnership Companies (SPCs)	76,892	320,209	72,419	301,583	272,938	229,315
Enrollment in Tax Recovery Program (REFIS).....	-	-	63,776	265,587	307,476	340,364
Lease Liability	79,303	330,248	-	-	-	-
Other payables and provisions	70,026	291,616	79,434	330,796	298,177	322,263
Total non-current liabilities.....	6,674,786	27,796,480	4,656,661	19,392,197	19,568,057	18,069,729
Total liabilities.....	7,458,886	31,061,786	5,547,141	23,100,513	23,315,390	22,213,393
Share capital	978,781	4,076,035	978,781	4,076,035	2,516,753	2,384,484
Capital reserves.....	(84,195)	(350,622)	(86,743)	(361,231)	1,187,329	1,301,907
Revaluation reserve.....	11,696	48,705	11,696	48,705	48,705	48,705
Revenue reserves	419,801	1,748,219	419,801	1,748,219	2,699,577	2,543,084
Carrying value adjustments.....	232,190	966,932	234,637	977,122	987,916	1,028,238
Retained earnings	(78,868)	(328,436)	-	-	-	-
Treasury shares	(44,970)	(187,272)	(47,213)	(196,615)	(206,129)	(206,082)
Shareholders' equity of Klabin	1,434,435	5,973,561	1,510,958	6,292,235	7,234,151	7,100,336
Non-controlling interest.....	57,636	240,020	57,870	240,995	-	-
Consolidated shareholders' equity.....	1,492,071	6,213,581	1,568,829	6,533,230	7,234,151	7,100,336
Total liabilities and equity	8,950,957	37,275,367	7,115,969	29,633,743	30,549,541	29,313,729

(1) Solely for the convenience of the reader amounts in Brazilian *real* as of September 30, 2019 and as of December 31, 2018 have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00 as of September 30, 2019.

(2) Amounts shown as of December 31, 2016 reflect a preliminary allocation of the purchase price relating to the acquisition of Embalplan Indústria e Comércio de Embalagens S.A., or Embalplan, (on December 1, 2016) to goodwill, in accordance with our audited financial statement as of and for December 31, 2016. However, as disclosed in Note 1.1 to our audited consolidated financial statements as of and for the year ended December 31, 2017, a different allocation of the purchase price retrospectively was made to property plant and equipment and intangible assets.

Other Financial Data	For the nine-month period ended September 30,			For the year ended December 31,			
	2019	2019	2018	2018	2018	2017	2016
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)			
Profit (loss) for the year/period	20,054	83,513	(726,159)	44,861	186,818	532,169	2,481,946
Income tax and social contribution.....	11,522	47,982	(415,903)	(61,329)	(255,399)	306,499	732,989
Finance result.....	489,097	2,036,795	3,030,320	732,923	3,052,186	713,384	(1,816,789)
Amortization, depreciation and depletion..	362,672	1,510,310	1,258,214	401,822	1,673,347	1,940,487	1,423,112
Variation in the fair value of biological assets	(75,530)	(314,539)	(250,344)	(150,890)	(628,367)	(789,661)	(532,911)
Equity in results of investees and joint venture.....	(1,484)	(6,182)	(4,716)	(1,432)	(5,964)	(13,624)	(49,321)
Adjusted EBITDA of a jointly-controlled subsidiary.....	-	-	-	-	-	9,124	40,300
Realization of deemed costs following revaluations of sold lands.....	-	-	27	432	1,798	39,801	8,094
Adjusted EBITDA⁽²⁾	806,330	3,357,879	2,891,439	966,386	4,024,419	2,738,179	2,287,420

Other Financial Data	As of September 30,		As of December 31,			
	2019	2019	2018	2018	2017	2016
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)		
Borrowings	271,464	1,130,483	459,557	1,913,779	2,230,624	2,593,029
Debentures	113,704	473,511	14,813	61,686	239,276	245,080
Short-term debt.....	385,168	1,603,994	474,370	1,975,465	2,469,900	2,838,109
Borrowings	5,808,687	24,189,695	4,050,816	16,869,217	16,444,917	14,765,982
Debentures	349,529	1,455,579	144,316	600,990	634,594	864,456
Long-term debt	6,158,216	25,645,274	4,195,132	17,470,207	17,079,511	15,630,438
Total Debt.....	6,543,384	27,249,268	4,669,501	19,445,672	19,549,411	18,468,547
(-) Cash and cash equivalents and marketable securities.....	(2,918,320)	(12,153,051)	(1,692,250)	(7,047,204)	(8,271,595)	(6,464,023)
Total Net Debt⁽³⁾	3,625,064	15,096,217	2,977,252	12,398,468	11,277,816	12,004,524
Total Net Debt /Adjusted EBITDA⁽⁴⁾	3.4	3.4	3.1	3.1	4.1	5.2

- (1) Solely for the convenience of the reader, amounts in Brazilian *real* as of and for the nine-month period ended September 30, 2019 and as of and for the year ended December 31, 2018 have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00.
- (2) Adjusted EBITDA is a non-GAAP measure prepared by us, as EBITDA calculated in accordance with CVM Instruction No. 527 defined as adjusted profit (loss) for the period or year plus income taxes and social contribution, finance result, amortization, depreciation and depletion cost and expenses, and further adjusted, considering as necessary, the effects of equity in results of investees and joint venture, variation in the fair value of biological assets, proportional EBITDA from joint ventures, as well the realization of the deemed costs following revaluations of sold lands, which does not impact our cash. We believe Adjusted EBITDA facilitates comparisons of operating performance between years and periods and among other companies in industries similar to ours because it removes the effect of variances in capital structures, taxation, and noncash depreciation and amortization charges, which may differ between companies for reasons unrelated to operating performance. We believe Adjusted EBITDA better reflects our underlying operating performance because it excludes the impact of items which are not related to our core results of continuing operations. Adjusted EBITDA measures are frequently used by securities analysts, investors and other interested parties in their evaluation of companies comparable to us, many of which present EBITDA-related performance measures when reporting their results. Adjusted EBITDA have limitations as analytical tools. These measures are not presentations made in accordance with Brazilian GAAP or IFRS, are not measures of operating performance or liquidity and should not be considered in isolation or as alternatives to profit or loss for the year and period from continuing operations, cash flow or other measures determined in accordance with Brazilian GAAP or IFRS. Adjusted EBITDA are not necessarily comparable to similarly titled measures used by other companies. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.
- (3) In considering our financial condition, our management analyses Total Net Debt, which is defined as total debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability), minus cash and cash equivalents and marketable securities. Total Debt and Total Net Debt has limitations as an analytical tool. Total Debt and Total Net Debt are neither a measure defined by or presented in accordance with Brazilian GAAP or IFRS, nor measures of liquidity, and should not be considered in isolation or as an alternative cash flow or other measure determined in accordance with Brazilian GAAP or IFRS. Total Net Debt is not necessarily comparable to similarly titled measures used by other companies. These non-GAAP measures should be considered supplemental in nature and should not be construed as more important than comparable GAAP measures.
- (4) Considering Adjusted EBITDA of the last twelve months period.

Risk Factors

Prospective purchasers of notes should carefully consider the risks described below as well as the other information in this offering memorandum before deciding to purchase any notes. Our business results of operations, financial condition or prospects could be negatively affected if any of these risks occur and, as a result, the trading price of the notes could decrease and you could lose all or part of your investment.

Risks Relating to Us and the Paper and Packaging Industry in General

Our debt may adversely affect our financial health and operating flexibility and your investment in the notes.

We have incurred significant debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability) and as of September 30, 2019, our Total Debt was R\$27,249 million and we may in the future incur significant additional debt, including (i) through investments for expansion projects, such as our prospective expansion plans, (ii) in connection with ongoing discussions with financial institutions in which we are actively engaged (which may primarily consist of liability management exercises) or (iii) otherwise. Our debt and other financial obligations increase the possibility that we may be unable to generate sufficient cash to pay, when due, the principal of, interest on, or other amounts due, in respect of our debt, including the notes. Our debt may also have other significant consequences. For example, our debt may:

- increase our vulnerability to general adverse economic, competitive and industry conditions;
- limit our ability to obtain additional financing in the future required for working capital, capital expenditures, debt, service requirements, acquisitions, general corporate purposes or other purposes on satisfactory terms or at all;
- require us to dedicate a substantial portion of our cash flow from operations to the service of our debt, thereby reducing the funds available to us for operations, capital expenditures and any future business opportunities;
- expose us to the risk of increased interest rates as certain of our borrowings are at variable rates of interest;
- expose us to the risk of the acceleration of our outstanding debt should we be in default under the terms of the agreements underlying our debt;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- limit our planning flexibility for, or ability to react to, changes in our business and the industries in which we operate;
- limit our ability to adjust to changing market conditions, react to competitive pressures and adverse changes in government regulation;
- limit our ability or increase the costs to refinance our debt;
- limit our ability to enter into marketing and hedging transactions by reducing the number of counterparties with whom we can enter into such transactions, as well as the volume of those transactions; and
- place us at a competitive disadvantage with competitors who may have less debt and other obligations or greater access to financing.

The occurrence of any of these and other risks related to our debt may have a material adverse effect on our business, results of operations and financial condition.

Our success is dependent upon our ability to maintain our current customers and obtain new customers. Any failure in our ability to maintain or obtain customers may materially adversely affect our business, financial condition and results of operations.

As a global producer of pulp, paper packaging products as well as pine and eucalyptus logs, our success is dependent upon our ability to identify, attract and maintain customers in each of the regions in which we operate, which in turn are dependent on (1) our research and development to maintain our innovation, (2) our sales and marketing efforts to increase our market share and expand into new markets and (3) the quality and reliability of our products to satisfy our demanding clientele. Our ability to engage in these activities requires significant time, planning and expenditures, and our failure to execute any of them successfully, given the competitiveness of our industry, could materially adversely affect us.

The loss of members of our management or our inability to hire and retain qualified employees or properly train our personnel may negatively affect us.

Our ability to maintain our competitive position depends in large part on the experience of our management. We have not entered into employment contracts or non-compete agreements with any of the members of our management. There can be no assurance that we will be able to retain current members of our management and the loss of any member of our management or the inability to attract and retain experienced executives may materially adversely affect our business, financial condition and results of operations.

Furthermore, as part of our expansion strategy, we hire, train and retain new professionals for our operations. We are subject to substantial competition in seeking to hire these professionals, and there can be no assurance that we will be able to attract and train qualified professionals in sufficient numbers to provide our services and expand our business. Additionally, we may experience difficulties in retaining professionals if we are not able to maintain an attractive corporate culture and competitive levels of remuneration. We believe that the hiring, training and retention of skilled labor is a critical factor for business success and growth in the long term, and unsatisfactory implementation or failure of this strategy may materially adversely affect our business, results of operations or financial condition.

The loss of any member of our management or the inability to attract and retain experienced executives may materially adversely affect our business, financial condition and results of operations.

Our insurance coverage may be insufficient to cover our losses, and does not cover certain damage, such as from forest diseases.

We seek to contract insurance coverage in accordance with our understanding of best international practices for similar operations and assets.

Our mills are covered by fire insurance policies and against civil liability for general operating risks. The insurance coverage also includes damage caused by natural events such as windfalls, floods and lightning strikes and aircraft crashes. In addition, we have insurance for the national and international shipping of products, including against general civil liability domestically and abroad. We evaluate other risk factors such as landslides, contaminations and collapses regularly, analyzing the technical likelihood of their occurrence before deciding whether to insure for such events.

We may not timely receive amounts paid by insurance companies for covered losses or other damage, or the amounts paid may be insufficient or inadequate to cover all such losses and damages. In addition, we may not be able to maintain or renew our current insurance policies on terms and conditions we consider adequate for our operations.

Furthermore, we may suffer losses due to claims not covered by our policies, such as forest diseases. On the occurrence of losses or other damage not covered by our insurance policies, we will not be entitled to any indemnification to cover the costs arising out of non-covered claims.

Any of these cases may result in additional costs that adversely and significantly impact our financial capacity.

Expansion projects, investments and acquisitions may require substantial additional funding, which may not be available or may not be cost-effective.

Expansion projects are capital-intensive and require substantial additional funding, which may be raised through the issuance of equity, debt securities or through bank financing, including financing from development banks, multilateral institutions, and/or export credit agencies. We cannot ensure the availability of additional funding or, if available, that we will have access to additional funding on competitive terms. The lack of access to funding on competitive terms may restrict the future growth and development of our activities as well as any expansion projects or acquisitions we undertake, which would include our prospective expansion plans, and may materially adversely affect our business, financial condition and results of operations.

Delays in the expansion of our mills or in building new mills may affect our costs and results of operations.

As part of our strategy to increase our market share and improve our competitiveness through greater economies of scale, we may expand or improve our existing production facilities. The expansion or construction of a mill involves numerous risks, including engineering, construction, regulatory and other significant challenges that may delay or prevent the successful operation of the project or significantly increase our costs. Our ability to successfully complete any expansion or new construction project on time is also subject to financing and other risks.

In particular:

- we may either not be able to complete any expansion or new construction project on time or within budget or be required by market conditions or other factors to delay the initiation of construction or the timetable to complete new projects or expansions;
- our new or modified facilities may not operate at designed capacity or may cost more to operate than anticipated;
- we may not be able to sell our additional production at attractive prices; and
- we may not have the cash or be able to obtain financing to implement our growth plans.

The occurrence of these or other risks may materially adversely affect our business, financial condition and results of operation.

We are subject to anti-corruption, anti-bribery, anti-money laundering, sanctions and antitrust laws and regulations. Our violation of any such laws or regulations could have a material adverse effect on our reputation, our results of operations and our financial condition.

We are subject to anti-corruption, anti-bribery, anti-money laundering, sanctions, antitrust and other similar laws and regulations. We are required to comply with the applicable laws and regulations of Brazil, and we may become subject to such laws and regulations in other jurisdictions. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect any inappropriate practices, fraud or violations of these laws or regulations by our affiliates, employees, officers, executives, partners, agents and service providers, nor that any such persons will not take actions in violation of our policies and procedures. Any violations by us or any of our affiliates, employees, directors, officers, partners, agents and service providers of these laws or regulations could have a material adverse effect on our business, reputation, results of operations and financial condition.

We may incur losses and spend time and money defending pending litigation and administrative proceedings, each of which may materially adversely affect us.

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. Our established provisions for all amounts in dispute that represent a probable loss in the view of our legal advisors and in relation to unfavorable decisions in certain disputes may be insufficient to cover all resulting losses in connection with such proceedings. As

of September 30, 2019, the amount claimed under these legal proceedings totaled R\$3,633 million, for which we have recorded a provision for contingencies totaling R\$61.1 million.

Our activities face significant operating risks, which can result in partial interruption of our activities and could adversely affect our financial results.

Our business operations are subject to risks related to the use of chemical products, storage and disposal of chemical waste, such as explosions, fires, wear and tear resulting from weather exposure, mechanical failures, interruption to required maintenance, transportation or other logistics failures affecting the supply and shipment of materials or our suppliers, chemical products spills, among other environmental hazards. For example, in May, 2018, Brazil experienced a national truck drivers' strike that severely impacted the logistics operations of many companies throughout Brazil, including the delivery of our goods and products. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Year ended December 31, 2018 Compared to the Year ended December 31, 2017."

The occurrence of any of the above-mentioned events may result in bodily injuries or death, damages and destruction of equipment, as well as environmental damage, resulting in the interruption of our business operations and also resulting in civil liability for us, including the payment of indemnification to third parties. Any such occurrence could materially adversely affect our financial results.

Increases in the prices of raw materials could result in an increase of our production costs and a decrease in our profitability.

We may experience increases in the prices of raw materials, which could reduce our profitability if we are unable to pass on these increased costs to our customers. Additionally, any changes in tax legislation, such as increases in tax rates or new taxes, may result in an increase in the prices of our inputs. Our ability to pass on higher costs to our customers through price increases or other adjustments is uncertain and dependent on market conditions and may materially adversely affect our results of operations and financial condition in the event we are unable to pass them on.

We are subject to labor risks, including increases in labor costs and labor disruptions.

We incur significant labor expenses (personnel, costs of products sold, sales expenses and general and administrative expenses), which were among our largest expenses for the nine-month periods ended September 2019 and 2018, respectively, totaling R\$1.229 million and R\$1.201 million and for the years ended December 31, 2018, 2017 and 2016, totaling R\$1,636 million, R\$1,489 million and R\$1,303 million, respectively. Our labor expenses include the total amount of direct remuneration paid to our employees, unemployment and other benefits.

Additionally, most of our employees are represented by unions and are covered by collective bargaining or similar agreements, which are subject to periodic renegotiation. We have occasionally experienced brief work slowdowns. In addition, we may not successfully conclude our labor negotiations on satisfactory terms, which may result in a significant increase in our costs of labor or may result in work stoppages or labor disturbances that disrupt our operations and may impact our profitability. For example, we also faced a work stoppage at the Puma plant for 21 days in 2018, the economic effects of which we have not quantified.

As a result of the competitiveness of our industry and union influence, we may face pressure to increase the salaries of our employees as well as the amount of employees' benefits we provide. Should our labor expenses increase significantly, or should we experience labor disruptions, our business, financial condition and results of operations may be materially adversely affected.

Our sales in the liquid packaging board segment are relatively concentrated.

We are an important supplier to Tetra Pak, which produces packaging for liquids. For the nine-month periods ended September 30, 2019 and 2018, respectively, and for the years ended December 31, 2018, 2017 and 2016, our sales to this customer of this product accounted for 13%, 11%, 11%, 15% and 18%, respectively, of our net sales revenue. Tetra Pak has no contractual obligation to acquire any portion of our production, and if it fails to acquire our

production of liquid packaging board, our business, financial condition and results of operations could be materially adversely affected.

We face significant competition in our business from domestic and international paper producers with substantial resources, which may adversely affect our market share and profitability.

Many of the markets we serve are highly competitive. In the packaging industry, our main competitors in Brazil are WestRock, International Paper, Irani and Trombini. In the coated board segment, excluding liquid packaging board, our main competitors in Brazil are Suzano (which recently merged with our competitor Fibria), Papirus and Ibema, with Klabin being the only national liquid packaging board producer. In the corrugated boxes segment, our main competitors in Brazil are WestRock, International Paper, Smurfit, Kappa, Irani and Trombini, and in the industrial bags segment, our main competitors are Trombini, Tedesco, Cocelpa, Conpel and Iguacu. In the pulp segment, our main competitors are the recently merged companies Suzano and Fibria, Cenibra, Lwarcel and Eldorado. While the full effects of the Suzano and Fibria merger are yet to materialize, this merger may impact our competitive position as it relates to purchasing power, economies of scale and pricing. In addition, in 2018, after evaluating the market and strategic benefits of and alternatives to our BEKP agreement with Fibria, we terminated the agreement, which means we will be more exposed to price volatilities and market conditions.

Our main competitors in the international paper and packaging board segment are: in North America – WestRock, Graphic Packaging and International Paper; in Europe – B. Korsnäs, Stora Enso and Metsä Board; and, in Latin America, Cartulinas CMPC. In the kraftliner paper segment, the main international competitors are Smurfit Kappa (Europe), SCA (Europe), Portucel (Europe), Sappi (Africa), WestRock (North America) and International Paper (North America). In the international industrial bags segment, our main competitor is Mondi. In the pulp segment (hardwood, softwood and fluff) our main competitors are Arauco (Latin America), CPMC (Latin America), International Paper and Georgia-Pacific (North America). Additionally, we compete with small to medium-size producers.

We cannot assure that we will retain our competitive position. If we are unable to remain competitive with these or other producers in the future, our market share and profitability may be materially adversely affected.

Competition over land from non-eucalyptus producers or developers of lands for pasture, or loss of our long-term lease contracts for land, may affect our expansion and could have a material adverse effect on us.

At any given time, most of the wood used in our production processes is supplied by our own forestry operations, which include planted forest areas located in close proximity to our production facilities. An increase in global demand for certain commodities or land used for pasture may lead to greater competition for the use of land that we may need to continue or increase our forestry operations, which could increase the prices for the land used in our activities. The production of non-eucalyptus plants or crops or the development of land for pasture may be economically superior to forestry activities, and as a result, prospective increases in land values may inhibit the expansion of our forestry operations. For the same reason, we may face difficulties in convincing third parties to lease land or maintain our current long-term lease contracts to begin or expand eucalyptus cultivation. A reduction in the amount of land available or leased to us in the regions where we operate could have a material adverse effect on us.

The market prices for pulp and paper are cyclical and are subject to factors that are beyond our control. The price fluctuation for coated boards and packaging boxes can materially adversely affect our revenues and operating results.

The prices we are able to obtain for our pulp and packaging products depend on prevailing world prices for such products. Worldwide prices of pulp and paper packaging products have historically been cyclical, subject to significant fluctuations over short periods, depending on a number of factors beyond our control, including:

- worldwide demand for pulp and packaging products;
- current inventory levels of customers;
- global production capacity;

- the strategies adopted by major pulp producers; and
- the availability of substitutes for our products.

Price fluctuations occur not only from year to year but also within a given year as a result of global and regional economic conditions, capacity constraints and mill openings and closures, and supply of and demand for both raw materials and finished products, among other factors.

Discounts from list prices are frequently granted by producers to significant purchasers. It is possible that market prices for packing products will decline in the future, or that there will not be sufficient demand for our products to enable us to operate our production facilities in an economical manner.

No assurance can be given that the prices for our products will stabilize or not decline further in the future, or that demand for our products will not decline in the future. As a result, no assurance can be given that we will be able to operate our production facilities in a profitable manner in the future. Our business, financial condition and results of operations would be materially adversely affected if the price of our products were to decline significantly.

Changes in the quality of the credit risk of our customers to whom we have made advances may adversely affect us.

In the markets in which we operate, it is typical, and often a condition for competitive participation, for producers to make sales to customers on credit. When we make sales on credit to our customers, we assume their credit risk. Therefore, changes in the macroeconomic environment, the market conditions in which our customers operate, in addition to problems related to the management of our clients may significantly affect their ability to make payments to us, directly and adversely impacting our assets and working capital. We may also make advances for suppliers in connection with future expansion projects, which are also subject to these risks.

Any increase in our customers' and suppliers' credit risk may materially adversely affect our assets, shareholders' equity and results of operation.

We are party to a major licensing agreement pursuant to which we are permitted to use our main trademarks.

The utilization of the trademark "Klabin" and six other trademarks related to paperboard and corrugated cardboard products, or the Trademarks, is licensed to us via the Licensing Agreement we have entered into with Sogemar. If the Licensing Agreement were rescinded or terminated, we could no longer be authorized to use the Trademarks, which could negatively affect the sale of our products using such Trademarks and thus could adversely impact our economic and financial condition.

The emergence of new technologies, competitive products and new consumer habits can lead to the replacement of our products by lower priced products or differentiated technologies.

The emergence of new technologies may cause our products to become obsolete, resulting in the replacement of our products by products that are innovative, efficient, high quality and price competitive. If we fail to anticipate industry trends or do not introduce or develop innovative and competitive products and services concurrently with our competitors, our customers may replace our products with products produced by our competitors, which could materially adversely affect our financial condition and results of operations.

We are subject to stringent environmental requirements, and compliance with existing and future regulations could require significant capital expenditures and increase our operating costs.

We are subject to stringent environmental laws and regulations in Brazil on the federal, state and local levels. These regulations set forth complex rules regarding environmental control, including discharge of hazardous materials and solid waste. Changes in environmental laws and regulations or changes in the policy of enforcement of existing environmental laws and regulations could adversely affect us. Our operations are supervised by governmental agencies that are responsible for the implementation of pollution control laws and policies. These agencies could take action against us if we failed to comply with applicable environmental regulations or in case of hazardous accidents. As a result, our ability to operate could be suspended or otherwise adversely affected. In addition, non-compliance

with these laws, regulations and permits could result in criminal sanctions for us and for our employees. We could also be responsible for related environmental remediation costs, which could be substantial and materially adversely affect our financial condition and results of operations.

In addition, environmental laws are becoming stricter in Brazil and also internationally, and as a result the investments and expenses required to comply with environmental legislation could increase substantially in the future, which may materially adversely affect our financial condition and results of operations.

Failure to obtain the necessary permits and licenses could adversely affect our operations.

We depend on the issuance of permits and licenses from governmental agencies in order to undertake certain of our activities. In order to obtain licenses for certain activities that are expected to have a significant environmental impact, certain investments in conservation are required to offset any such impact. Furthermore, we have licenses to, among others, operate our plants and perform activities using chemical substances. The operational licenses require, among other things, that we periodically report our compliance with emissions standards set by environmental agencies. Failure to obtain, renew or comply with our operating licenses may cause delays in our deployment of new activities, increased costs, monetary fines or even suspension of the affected activity, which may materially adversely affect us.

Higher than expected building and maintenance costs may negatively affect our financial condition and results of operations.

As part of our strategy to increase our global market share and improve our competitiveness through greater economies of scale, we have completed Project Puma and may further expand our existing production facilities or build one or more additional production facilities. The expansion or construction of a production facility involves various risks. Our ability to (1) complete our projects according to schedule and (2) obtain the expected efficiency of the machinery used in the production of our products is subject to, among other factors, fluctuations in the workforce and raw materials costs, changes in the general economy, changes in our ability to obtain necessary financing, regulatory challenges, the default or unsatisfactory performance by our contractors and subcontractors, and disruptions arising from unpredictable engineering problems.

These factors can significantly increase our costs and may materially adversely affect our business, financial condition and results of operation.

Certain of our shareholders have the ability to determine the outcome of corporate actions or decisions, which could affect the holders of the notes.

As of September 30, 2019, 54.61% of our voting stock is owned by Klabin Irmãos & Cia and Niblak Participações S.A., or Niblak, our principal shareholders. As a result, these shareholders have the ability to control the election of our board of directors and our direction and future operations, including decisions regarding acquisitions and other business opportunities, the declaration of dividends in excess of the requirements under our by-laws and Brazilian Corporation Law, and the issuance of additional shares and other securities, which could materially adversely affect the holders of the notes. See “Principal Shareholders.”

A slowdown due to the global economic slowdown may adversely affect demand and price for our pulp, paper and converting products.

Demand for our products is directly linked to global economic conditions and the economic conditions of the markets in which we sell our products. For the nine-month periods ended September 30, 2019 and 2018 and for the years ended December 31, 2018 and 2017, our exports accounted for 40%, 44%, 45% and 40% of our net sales revenue, respectively, and we exported our products to more than 60 countries. If the economic condition of countries to which we export is adversely affected, our results of operations may also be adversely affected. A continued decline in the level of activity in either the domestic or the international markets within which we operate could materially adversely affect both the demand for and the price of our products and have a material adverse effect on us.

The deterioration of Brazilian and global economic conditions could, among other things:

- further negatively impact global demand for pulp and paper, or further lower market prices for our paper and converting products, which could result in a continued reduction of our sales, operating income and cash flows;
- make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt in the future;
- impair the financial condition of some of our customers, suppliers or counterparties to our derivative instruments, thereby increasing customer bad debts or non-performance by suppliers or counterparties;
- decrease the value of certain of our investments; and
- impair the financial viability of our insurers.

The occurrence of any of these or other risks related to a Brazilian or global economic slowdown may materially adversely affect our business, financial condition or results of operations.

Our exports expose us to political and economic risks in foreign countries.

Our exports expose us to risks not faced by companies that limit themselves to operating only in Brazil or any single country. For example, our exports may be affected by import restrictions and tariffs, other trade protection measures, and import or export licensing requirements.

Our future financial performance will depend significantly on economic, political and social conditions in our principle export markets. Other risks associated with our international activities include:

- lower global demand for pulp and paper packaging products, which could result in a reduction of our sales, operating income and cash flows;
- changes in foreign currency exchange rates and inflation in the foreign countries in which we operate;
- exchange controls;
- changes in a specific country's or region's political or economic conditions, particularly in developing markets;
- adverse consequences deriving from changes in regulatory requirements, including environmental rules and regulations;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex international laws, treaties, and regulations;
- adverse consequences from changes in tax laws;
- higher distribution costs, disruptions in shipping or reduced availability of freight transportation;
- strikes or other events that may affect ports and transportation; and
- trade barriers.

An occurrence of any of these events may negatively impact our ability to transact business in certain existing or new markets and have a material adverse effect on our business, financial condition and results of operations.

Investments by our competitors in increased production capacity in the coming years may adversely affect us.

Our competitors have recently made several announcements regarding investments towards expanding their production capacity. If some or all of these announcements result in increased production capacity by our competitors, there may be an imbalance between supply and demand which may result in a decrease in pulp prices. Therefore, any significant drop in pulp prices could adversely affect our operating margins, profitability and return on capital.

Additionally, due to an increase in the supply of pulp to the market, we may be required to temporarily adjust our volume of production to suit the reduced demand for our products, incurring the risk of operating with idle capacity and, consequently, higher production costs.

Various other risks could have a material adverse effect on our operational and financial results.

Our operations are subject to various other risks affecting our forests and manufacturing processes, including fire, drought to the extent affecting the lands we own, disease, climate changes, strikes, port closings, freight, electrical failures and factory explosions, any of which could have a material adverse effect on our operational and financial results.

Failure in the operation of our or our suppliers' IT systems, including with respect to security, may compromise our operations.

We and our suppliers depend on IT systems to service our clients, conduct cost analysis and establish adequate prices. Defects in IT systems, security failures or inadequate maintenance and updating of these systems may interrupt our or our suppliers' operations, cause our clients to leave us, contribute to disputes with clients, result in violation of the regulations applicable to us, increase administrative expenses, compromise the security of our internal or our customers' data or result in other adverse consequences. To the extent our controls, policies, procedures, and technological safeguards are not sufficient, these and other significant changes in our IT systems may adversely affect our business, financial condition and results of operations.

Our IT systems are used on the administrative and operating levels of our business and each stage of our operations. To the extent our controls, policies, procedures, and technological safeguards are not sufficient, the regular operation of our IT systems may be compromised by unforeseeable circumstances, human and programming failure, our infrastructure and/or the infrastructure of our data processing service providers, and force majeure, including fire, explosion, disasters and any other event or incident beyond our control.

Additionally, the security of our IT systems, or, as has happened in the past, IT systems of our IT service providers, may be compromised, exploited or corrupted by experienced programmers or hackers, harming the operation of our or our services providers' IT systems. In such events, to the extent our controls, policies, procedures, and technological safeguards are not sufficient, such actors may also improperly capture or disclose our confidential information and/or the confidential information of our clients. Any of these events may adversely affect the market value of our notes, our operations, results of operations and/or reputation.

We are subject to LIBOR-based risks.

On July 27, 2017, the head of the Financial Conduct Authority, or the FCA, announced the desire to phase out the use of London Interbank Offered Rate, or LIBOR, by the end of 2021. Because the statements made by the head of the FCA are recent in nature, there is no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential effect of any such event on our net investment income cannot yet be determined and, at this time, it is not possible to predict the effect of any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect our notes or have a material adverse effect on our business, financial condition and results of operations.

The outbreak of communicable diseases in Brazil and around the world could directly affect our operations and lead to higher volatility in the global capital markets and recessionary pressure on the Brazilian and global economies, each of which may materially and adversely affect our business, financial condition and results of operations.

The outbreak of communicable diseases such as the widespread Coronavirus outbreak in Brazil could directly affect our operations. For example, Brazilian residents, including our employees, that are suspected of having contracted communicable diseases such as the coronavirus, may be subjected to quarantines. On a business level, this could mean that our or other companies' operations may be suspended. Any such future outbreak could more generally restrict economic activities in affected regions in Brazil, resulting in reduced business volume, temporary closures of our or other companies' facilities or otherwise disrupt our business operations and adversely affect our results of operations or those of other companies or customers we interact with.

In addition, any such outbreaks on a global scale have and may continue to affect investment sentiment and result in sporadic volatility in global capital markets and may have a recessionary effect on the Brazilian economy. In addition, any such outbreaks may result in restrictions on travel and public transport and prolonged closures of workplaces which may have a material adverse effect on the global economy and more specifically on the Brazilian economy. Any material change in the financial markets or the Brazilian economy as a result of these events or developments may materially and adversely affect our business, financial condition and results of operations.

Risks Relating to Brazil

The Brazilian government has exercised and continues to exercise significant influence on the Brazilian economy. This influence, as well as Brazilian political and economic conditions, and any related political instability, could adversely affect us.

The Brazilian economy has been characterized by intervention by the Brazilian government, which has often changed monetary, credit and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, depreciation of the *real*, controls on remittances abroad, fluctuations of the Central Bank's base interest rate, as well as other measures. We do not have any control over what measures or policies the Brazilian government may adopt in the future and we cannot foresee them. Our business, financial condition, results of operations, and prospects may suffer from significant changes in policies or regulations involving or affecting factors such as:

- expansion or contraction of the global or Brazilian economy;
- currency exchange controls and restrictions on remittances abroad;
- economic and social instability;
- political elections;
- import and export controls;
- significant exchange rate fluctuations;
- changes in tax regimes and taxation;
- changes in labor regulations;
- liquidity of financial and domestic capital markets;
- interest rates;
- inflation;
- monetary policy;
- the regulatory environment applicable to our activities;
- fiscal policy; and

- other political, diplomatic, social, and economic events that may take place in Brazil or may affect it.

Uncertainty regarding the Brazilian government's implementation of changes in policies or regulations that may affect these or other factors in the future could contribute to economic uncertainty in Brazil and to heightened volatility in the market for Brazilian securities and for securities issued abroad by Brazilian companies. Such uncertainties and other future developments in the Brazilian economy and governmental policies in respect of the above may materially and adversely affect us.

Brazilian politics have historically affected the performance of the Brazilian economy, and past political crises have affected the confidence of investors and the public, generally resulting in an economic slowdown and volatility of securities issued by Brazilian companies. Political crises have affected, and continue to affect, the confidence of investors and the public in general, resulting in an economic downturn and heightened volatility of securities issued by Brazilian companies.

The impeachment of President Dilma Rouseff, and subsequent attempts to remove her successor, President Michel Temer, as well as wide-scale protests throughout Brazil focused on economic and political reform, have led to a climate of growing uncertainty. Brazilian presidents have substantial power to determine public policy, as well as to introduce measures affecting the Brazilian economy and the operations and financial results of companies such as ours. The conviction and imprisonment of former President Luiz Inacio Lula da Silva and ongoing judicial appeals has further increased political and economic instability. In addition, Temer's presidency was marked by significant economic and political turmoil resulting from, among other factors, the continued emergence of political corruption scandals, political gridlock, a slow economic recovery, mass strikes (including a general truck transportation strike that materially adversely affected our results of operations in 2018), general discontent among the Brazilian population and foreign trade disputes.

Following a divisive presidential race, Congressman Jair Bolsonaro defeated Mr. Fernando Haddad in the second round of elections held on October 28, 2018 and became Brazil's president on January 1, 2019. It is unclear if and for how long the political divisions in Brazil that arose prior to the elections will continue under Mr. Bolsonaro's presidency and the effects that any such divisions will have on Mr. Bolsonaro's ability to govern Brazil and implement reforms. Any continuation of such divisions could result in congressional deadlock, political unrest and massive demonstrations and/or strikes, including strikes that materially adversely affect our operations.

New and amended Brazilian policies and regulations, whether in response to further protests, as a result of the recent general elections or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

In addition, uncertainty over whether the acting Brazilian government will have the political power or will to implement other needed policies or regulations affecting the above or other factors in the future may also contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies.

Corruption scandals have adversely affected the Brazilian economy and our business and results of operations and the trading price of our common shares.

Brazilian markets have been experiencing heightened volatility due to the uncertainties derived from the ongoing corruption scandals currently being investigated by the Brazilian Federal Prosecutor's Office, including, among others, the *Lava Jato*, *Cui Bono*, *A Origem*, *Sepsis*, *Patmos* and related and offshoot investigations. These investigations impact the Brazilian economy and political environment. Numerous members of the Brazilian government and of the legislative branch, as well as senior officers of large state-owned and private companies have been convicted of, or are facing allegations of, corruption for allegedly bribing government officials by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies, in addition to other crimes committed over the years. Profits from these kickbacks provided financing for the political campaigns of political parties that was unaccounted for or not publicly disclosed, and served to further the personal enrichment of the recipients of the bribery scheme. As a result, a number of senior politicians, including congressmen and officers of the major state-owned and private companies in Brazil, resigned or have been arrested and convicted, and various civil servants (including at the senior level in Congress) are under investigation for unethical and illegal behavior identified during the *Lava Jato* and other investigations.

The ultimate outcome of these investigations is uncertain, but they have already had an adverse effect on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy, the political environment and the Brazilian capital markets. The development of these investigations has affected and may continue to adversely affect our business, financial condition and results of operations and the trading price of our common shares. We cannot predict whether such allegations will cause further political and economic instability or whether new allegations against government officials and other large companies will arise in the future.

Print, online and social media, posts and reports have made allegations that certain Brazilian industries and conglomerates have been involved in conduct targeted by some of these investigations. To the extent that any such reports and posts, or further developments or allegations related to them or the above investigations, relate to us or to any of our affiliates, executives or directors, our public perception, reputation and the trading price of our securities may be materially adversely affected.

The Brazilian government's actions to combat inflation may contribute significantly to economic uncertainty in Brazil and reduce the demand for our products.

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby limiting the availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil in the past and to heightened volatility in the Brazilian securities markets. According to the General Market Price Index (*Índice Geral de Preços do Mercado*), or IGP-M, a general price inflation index in Brazil, there was inflation of 4.10% for the nine-month period ended September 30, 2019, and 7.55%, -0.53% and 7.19% for the years ended December 31, 2018, 2017 and 2016, respectively. Inflation measured by the IPCA index was 2.49% for the nine-month period ended September 30, 2019, and 3.75%, 2.95% and 6.41% for the years ended December 31, 2018, 2017 and 2016, respectively.

Possible future measures by the Brazilian government, including reduction in interest rates, intervention in the foreign exchange market, and actions to adjust or fix the value of the Brazilian *real* could trigger increases in inflation. If Brazil experiences an increase in inflation in the future, the Brazilian government may choose to raise official interest rates.

An increase in interest rates could have an adverse effect on activities and on our payment capacity, for the following reasons: (1) periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales revenue; (2) we may not be able to adjust the prices we charge our customers in order to offset the effects of inflation on its cost structure, which, as a result, may reduce our profit margins and net profit; (3) higher inflation rates could result in higher domestic interest rates, with a direct impact on our cost of raising funds as well as on our cost of financing in such way as to increase the cost of servicing our debt denominated in *reais*, thus leading to lower net profit; and (4) an increase in the rate of inflation and its effect on the domestic interest rate could result in reducing our liquidity on the domestic capital and credit markets, which would directly adversely affect our ability to refinance our debt. Any reduction in our net sales revenue or in our net profit and any deterioration in the economic scenario and our financial condition may adversely affect our payment capacity.

An increase or continuation of high real interest rates may adversely affect the Brazilian economy and us.

We are exposed to interest rate risk, given that most of our financial obligations are tied to floating rates (the long-term interest rate set by the Central Bank). Brazil's short-term interest rate, deriving from the short-term interest rates set by the Central Bank, generally has been kept at high levels in recent years. The base interest rate is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government and traded in the Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*), or SELIC. At times, the base interest rate has been maintained at levels that are generally considered incompatible with sustainable economic growth. On September 30, 2019 and December 31, 2018, 2017 and 2016, the SELIC rate was 5.50%, 6.50%, 7.00% and 13.75%, respectively. Higher interest rates may negatively affect domestic demand and consequently our products.

Additionally, our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. As of September 30, 2019, we had, among other debt obligations, R\$2,987 million of borrowings and financing that was subject to the Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI rate.

The CDI rate has fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, the CDI rate as of September 30, 2019 and December 31, 2018, 2017 and 2016 was 5.40% and 6.40%, 9.93% and 13.65%, respectively.

If the Brazilian government were to increase interest rates, including the long-term interest rate, or adopt other measures with respect to monetary policy that result in a significant increase in interest rates, our financial expenses may increase significantly, materially adversely affecting our business, financial condition and results of operations.

Exchange rate instability may harm the Brazilian economy and us as well.

Fluctuations in the value of the *real* against the U.S. dollar have affected and will continue to affect our financial condition and results of operations and, consequently, our ability to pay interest and principal under the notes.

Our export revenues are directly affected by exchange rate variations. The depreciation of the Brazilian *real* when compared to the U.S. dollar adversely affects the aggregate amount of our debt in foreign currency, but positively affects our export revenues (in each case when expressed in Brazilian *reais*), improving our operating results. The opposite happens when the Brazilian *real* appreciates, reducing the principal amount and related debt service of our foreign-currency denominated debt but negatively affecting our export revenues and operating results (in each case when expressed in Brazilian *reais*).

Furthermore, some of our costs and operating expenses are also affected by fluctuations in the value of the *real* against the U.S. dollar, including export insurance, freight costs and the cost of certain chemicals we use as raw materials. Depreciation of the *real* against the U.S. dollar will increase such costs, while appreciation of the *real* against the U.S. dollar will reduce these costs. In addition, we do not generally enter into derivative contracts to hedge our exposure to this exchange rate risk.

As a result of inflationary pressures, the Brazilian *real* has been devalued periodically in the past versus the U.S. dollar and other foreign currencies. The Brazilian government has in the past implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. From time to time, there have been significant fluctuations in the exchange rate between the *real* and the U.S. dollar and other currencies. For example, in 2011, 2012 and 2013, the *real* depreciated against the U.S. dollar by 11.2%, 8.2% and 14.6%. During 2014, the Brazilian *real* depreciated by 12%, ending the year at an exchange rate of R\$2.6562 per U.S.\$1.00. During 2015, the Brazilian *real* depreciated by 32%, ending the year at an exchange rate of R\$3.9048 per U.S.\$1.00. During 2016, the Brazilian *real* appreciated by 20%, ending the year at an exchange rate of R\$3.2591 per U.S.\$1.00. During 2017, the Brazilian *real* depreciated by 2%, ending the year at an exchange rate of R\$3.3080 per U.S.\$1.00. During 2018, the Brazilian *real* depreciated by 17% to R\$3.8748 and depreciated further to end 2019 at R\$4.0307 per U.S.\$1.00. The exchange rate as of March 31, 2020 was R\$5.1987 per U.S.\$1.00.

The Central Bank has intervened occasionally to control unstable movements in the foreign exchange rate. We cannot predict whether the Central Bank will continue to let the *real* float freely. Accordingly, it is not possible to predict what impact the Brazilian government's exchange rate policies may have on us. We cannot assure that in the future the Brazilian government will not impose a band within which the *real* U.S. dollar-*real* exchange rate could fluctuate or set fixed exchange rates, nor can we predict what impact such an event might have on our business, financial position or operating results.

Economic and market conditions in other countries, including in developing countries, may materially and adversely affect the Brazilian economy and, therefore, the market value of the notes.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil, and, to varying degrees, market conditions in other countries, including Latin American and other developing countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other countries, including developing countries, have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in

Brazil, as well as limited access to international capital markets, all of which may materially and adversely affect our ability to borrow funds at an acceptable interest rate or to raise equity capital when and if there should be a need for us to do so. The volatility in market prices for Brazilian securities has increased from time to time, and investors' perception of increased risk due to crises in other countries, including developing countries, may also lead to a reduction in the market price of the notes. The recent investment and speculative capital inflow has resulted in the appreciation of the *real* against the U.S. dollar, affecting our revenue.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to our business.

The Brazilian government frequently implements changes to tax regimes that may adversely affect us and our customers. These changes include changes in prevailing tax rates and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. Some of these changes may result in increases in our tax payments, which could adversely affect our profitability and increase the prices of our products, restrict our ability to do business in our existing and target markets and cause our financial results to suffer. There can be no assurance that we will be able to maintain our projected cash flow and profitability following any increases in Brazilian taxes applicable to us and our operations.

In addition, we receive certain tax benefits by virtue of our production facilities and investment projects in underdeveloped regions in Brazil. We also benefit from tax incentives based on state law, which may become subject to legal challenges based on the argument that the benefits we receive require the unanimous approval of the Brazilian National Board of Financial Policy (*Conselho Nacional de Política Fazendária*), or the CONFAZ, a federal agency composed of the state treasurers of each state.

We cannot assure you that the tax incentives we currently benefit from will be maintained, renewed or that we will obtain new tax incentives on favorable terms. In the event we fail to comply with specific obligations to which we are subject in connection with the tax benefits described above, such benefits may be suspended or cancelled, or we may be required to pay the taxes due in full, plus penalties, which may adversely affect us. Additionally, we cannot assure you that we will be able to renew these tax benefits when they expire, or to obtain additional tax benefits under favorable conditions. State and federal governments frequently implement changes to the tax regimes, such as changes in tax rates, that may adversely affect us or our customers. If our current tax benefits are cancelled or not renewed, we may be materially adversely affected.

More stringent trade barriers in key export markets may adversely affect us.

Brazilian exporters may be affected by measures taken by importing countries to protect local producers. The competitiveness of Brazilian companies has led certain countries to establish trade barriers to limit the access of Brazilian companies to their markets or even to subsidize local producers. These quotas can adversely affect our exports. For example, in the first quarter of 2016, the U.S. Department of Commerce, and the International Trade Commission or, the ITC, announced their decisions regarding dumping proceedings against a number of countries, including Brazil. Among other measures, the U.S. Department of Commerce and the ITC applied anti-dumping margins on uncoated paper sales on the investigated countries. We may request an annual review of the decision pursuant to the relevant legislation.

Any of the aforementioned restrictions may affect our export volume and, as a result, our sales from export markets and financial condition. In the case of newly created trade barriers in our key export markets, it may be difficult for us to sell our products in other markets at favorable conditions, which may have a material adverse effect on us.

Risks Relating to the Notes and the Guarantee

Klabin Austria does not have independent cash flow from operations to pay amounts due under the notes.

Klabin Austria is a wholly-owned trading company of the Guarantor. Its activities and operations comprise only and exclusively the purchase of Klabin's goods for resale and therefore Klabin Austria does not have operations independently of Klabin. Klabin Austria has no substantial assets and its only sources of cash flow are from its trading activities and from capital contributions and other investments by us and our other subsidiaries. It does not have any cash flow from operations to pay amounts due under the notes. If contributions to Klabin Austria are not made by us

or our subsidiaries, then the holders of notes would have to rely upon claims for payment under the guarantee. However, payments under the guarantee are subject to the risks and limitations described under “—The guarantee will be unsecured and will rank equally with our existing and future unsecured unsubordinated debt and may be structurally junior to debt obligations of our subsidiaries.”

Claims against the issuer under the notes may be limited by mandatory Austrian capital maintenance rules

Mandatory Austrian capital maintenance rules (*Verbot der Einlagenrückgewähr*) pursuant to Austrian corporate law, in particular Section 82 of the GmbHG prohibit the granting of any benefits to a direct or indirect shareholder, save as permitted by law such as in case of a duly approved dividend or by a reduction of share capital or as liquidation surplus on liquidation of that company. The prohibition potentially also encompasses cases where a limited liability company incurs indebtedness for the benefit of its direct or indirect shareholder where no “adequate consideration” is received in return or no special corporate benefit of the company from such transaction (*betriebliche Rechtfertigung*) exists.

The issue of the notes may be assessed as a benefit granted by Klabin Austria to its shareholder Klabin as an amount equal to the net proceeds from the sale of the notes is intended to be forwarded by the issuer to and applied by Klabin as described in “Use of Proceeds”. If (i) the issue and sale of the notes and the on-lending of proceeds to Klabin are held to constitute a relevant benefit granted by the issuer to Klabin, (ii) the issuer is held not to have received “adequate consideration” or not to derive a special corporate benefit from such transaction (*betriebliche Rechtfertigung*) and (iii) underwriters or holders of notes are held to have known or negligently not known of a breach of Austrian capital maintenance rules, obligations of the issuer could be disregarded as void, including vis-à-vis holders of the notes as third party claimants against the issuer and such claims could thus be limited pursuant to mandatory Austrian capital maintenance rules, in full or in part. See “Certain Insolvency Law and Other Considerations—Austrian Capital Maintenance Rules.”

The issuer may not be able to purchase the notes upon a specified Change of Control event.

Upon the occurrence of a specified Change of Control event, the issuer will be required to offer to purchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts. At the time of any specified Change of Control event, the issuer may not have sufficient financial resources to purchase all of the notes that holders may tender in connection with any such Change of Control offer.

Securities laws will restrict your ability to transfer the notes.

The notes have not been registered under the Securities Act and applicable state securities laws and will be subject to transfer restrictions in order to ensure compliance with federal and state securities laws. You may not sell the notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws, or pursuant to an effective registration statement. The notes and the indenture contain provisions that will restrict the notes from being offered, sold or otherwise transferred except pursuant to certain exemptions under the Securities Act.

An active trading market for the notes may not be maintained.

Although we have applied to list the notes offered hereby on the Official List of the Luxembourg Stock Exchange, we cannot assure investors that this application will be accepted. The initial purchasers are not under any obligation to make a market with respect to the notes, and we cannot assure you that trading markets will be maintained, that holders of the notes will be able to sell their notes, or the price at which such holders may be able to sell their notes. If an active trading market exists, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting Brazil, the risk associated with Brazilian issuers of similar securities and the market for similar securities. If an active trading market for the notes is interrupted, the market price and liquidity of the notes may be materially adversely affected.

We cannot assure investors that a judgment of a court for liabilities under the securities laws of a jurisdiction outside Brazil or Austria would be enforceable in Brazil or Austria, or that an original action can be brought in Brazil or Austria against the issuer or us for liabilities under applicable securities laws.

The issuer is incorporated under the laws of Austria, and Klabin is incorporated under the laws of Brazil. Substantially all of our assets are located in Brazil. All of the issuer's and all of our directors, executive officers and certain advisors named herein reside in Brazil or Austria. As a result, it may not be possible for investors to effect service of process within the United States upon the issuer or us, or its or our directors, executive officers and advisors, or to enforce against the issuer or us, or its or our directors, executive officers and advisors, in U.S., Brazilian or Austrian courts, any judgments predicated upon the civil liability provisions of applicable securities laws. In addition, it may not be possible to bring an original action in Brazil against us or in Austria against the issuer for liabilities under securities laws of the United States or other jurisdictions or to enforce the guarantee of Klabin or liability of the issuer if the indenture or the notes were to be declared void by a court applying the laws of the State of New York.

Judgments of Brazilian courts enforcing our and the guarantor's obligations under the notes would be payable only in reais.

If proceedings were brought in Brazil seeking to enforce our and the guarantor's obligations under the notes, neither we nor the guarantor would be required to discharge our or its obligations in a currency other than *reais*. Any judgment obtained against us in Brazilian courts in respect of any payment obligations under the notes will be expressed in *reais* equivalent to the U.S. dollar amount of such payment at the exchange rate published by the Central Bank on (1) the date of actual payment, (2) the date on which such judgment is rendered or (3) the actual due date of the obligations, in which case the amount would be subject to a monetary adjustment as determined by the relevant court. There can be no assurance that such rate of exchange will afford you full compensation of the amount invested in the notes plus accrued interest. For further information, see "Enforceability of Civil Liabilities."

The guarantee will be unsecured and will rank equally with our existing and future unsecured unsubordinated debt and may be structurally junior to debt obligations of our subsidiaries.

The guarantee will be unsecured and will constitute our unsubordinated and unsecured obligation that we have agreed will rank *pari passu* in priority of payment with all our other present and future unsubordinated and unsecured obligations. Although the guarantee will provide note-holders with a direct, but unsecured, claim on our assets and property, the guarantee will be effectively junior to our secured debt, to the extent of the assets and property securing such debt. In addition, claims of creditors of Klabin's subsidiaries, including trade creditors and creditors holding debt or guarantees issued by such subsidiaries, and claims of preferred stockholders of such subsidiaries will have priority with respect to the assets and earnings of such subsidiaries over Klabin's creditors' claims. Accordingly, the notes will be "structurally" subordinated to such creditors (including trade creditors) and preferred stockholders, if any, of Klabin's subsidiaries.

If the issuer or Klabin becomes insolvent or is liquidated, or if payment under any secured debt is accelerated, the lenders thereunder would be entitled to exercise the remedies available to a secured lender. Accordingly, the secured lenders would have priority over any claim for payment under the notes to the extent of the value of the assets that constitute its collateral. If this were to occur, it is possible that there would be no assets remaining from which claims of the holders of the notes could be satisfied. Further, if any assets remained after payment of these lenders, the remaining assets might be insufficient to satisfy the claims of the holders of the notes and holders of other unsecured debt that is deemed *pari passu* with notes, and potentially all other general creditors who would participate ratably with holders of the notes.

As of September 30, 2019, Klabin had Total Debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability) of R\$27,249 million, of which R\$3,724 million was secured debt of Klabin. As of September 30, 2019, the only indebtedness owed by our subsidiaries consisted of the 5.25% notes due 2024, the 4.875% notes due 2027 issued by Klabin Finance and guaranteed by us and the 2029 Notes and 2049 Green Notes, issued by Klabin Austria and guaranteed by us.

We cannot assure you that the credit ratings for the notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have a material adverse effect on the market price and marketability of the notes.

In addition, our credit rating is sensitive to any change in the Brazilian sovereign credit rating. The credit rating of the Brazilian sovereign was downgraded in 2015 and 2016 and is no longer investment grade. Any further lowering of the Brazilian sovereign credit rating may have additional adverse consequences on our ability to obtain financing or our cost of financing and consequently on our results of operations and financial condition.

Enforcement of civil liabilities and judgments against the issuer, the guarantor or any of their or our respective directors or officers may be difficult.

The issuer is a company incorporated with limited liability under the laws of Austria. All of its assets are located outside the United States. In addition, the issuer's directors are non-residents of the United States, and all or a substantial portion of the assets of such person are or may be located outside the United States. The guarantor is a corporation (*sociedade por ações*) incorporated under the laws of Brazil. A significant portion of our assets and a substantial majority of our operations are located, and a substantial majority of our revenues are derived, outside the United States. In addition, our directors are non-residents of the United States, and all or a substantial portion of the assets of such person are or may be located outside the United States.

As a result of the above, investors may be unable to effect service of process within the U.S. upon such persons, or to enforce judgments against them obtained in the U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal and state securities laws. There is uncertainty as to whether the courts of Brazil or other jurisdictions would enforce (1) judgments of U.S. courts obtained against the issuer or us or such affiliated persons, predicated upon the civil liability provisions of the U.S. federal and state securities laws or (2) in original actions brought in such countries, liabilities against the issuer or us or such affiliated persons, predicated upon the U.S. federal and state securities laws. The courts of Austria would not recognize or enforce judgments of U.S. courts. See "Enforceability of Civil Liabilities."

The interests of our controlling shareholder may conflict with the interests of the holders of the Notes.

Our controlling shareholder has the power to, among other things, elect a majority of the members of our board of directors and to decide any matters requiring shareholder approval, including related-party transactions, corporate reorganizations and dispositions, and the timing and payment of any future dividends, subject to the requirements of mandatory dividends under Brazilian Corporation Law. We have entered into, and we intend to continue to enter into, arm's-length commercial and financial transactions with our controlling shareholder and related companies. Commercial and financial transactions between related parties and us may result in conflicts of interest, which may adversely affect us. See "Certain Transactions with Related Parties."

We may redeem the notes prior to maturity.

The notes are redeemable at our option in the event of certain changes in applicable taxes and at our option for any other reason. We may choose to redeem those notes at times when prevailing interest rates may be relatively low. Accordingly, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the notes.

The obligations of Klabin under the guarantee are subordinated to certain statutory liabilities.

Under Brazilian law, our obligations under the notes, the guarantee and the indenture are subordinated to certain statutory preferences. In the event of our bankruptcy, according to the Brazilian bankruptcy law, such statutory

preferences, such as certain claims for salaries and wages to a certain limit, social security and other taxes, court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the notes.

The foreign exchange policy of Brazil may affect our ability to make money remittances outside Brazil in respect of the guarantee.

Under existing regulations, Brazilian companies are not required to obtain authorization from the Central Bank in order to make payments in U.S. dollars outside Brazil under guarantees, such as to the holders of the notes. We cannot assure you that these regulations will continue to be in force at the time we may be required to perform our payment obligations under the guarantee; provided that any remittances made by the company from Brazil, in U.S. dollars, as payments under the guarantees are made in accordance with the procedures established in Resolution No. 3,568, issued by the Brazilian Monetary Council on May 29, 2008, regulated by Circular No. 3,691, as issued by the Central Bank on December 16, 2013. If these regulations or their interpretation are modified and an authorization from the Central Bank is required, we would be required to seek an authorization from the Central Bank to transfer the amounts under the guarantee out of Brazil or, alternatively, make such payments with funds held by us outside of Brazil. We cannot assure you that such an authorization will be obtained or that such funds will be available.

Brazilian bankruptcy laws may be less favorable to investors than bankruptcy and insolvency laws in other jurisdictions.

If we are unable to pay our debt, including our obligations under the guarantee, we may become subject to bankruptcy proceedings in Brazil. The bankruptcy laws of Brazil currently in effect are significantly different from, and may be less favorable to creditors than, those of certain other jurisdictions. Noteholders may have limited voting rights at creditors' meetings in the context of a court reorganization proceeding. In addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the guarantee normally would be expressed in the *real* equivalent of the U.S. dollar amount of such sum at the exchange rate in effect on the date of declaration of our bankruptcy by the court. Consequently, in the event of our bankruptcy, all of our debt obligations, including the guarantee of the notes, which are denominated in U.S. dollars, will be converted into *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court. We cannot assure investors that such rate of exchange will afford full compensation of the amount invested in the notes plus accrued interest.

Certain payments on notes may be subject to U.S. withholding tax under FATCA.

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes, or "foreign passthru payments," to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Austria and Brazil) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA, or the IGAs, which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the notes, such withholding would not apply prior to the second anniversary of the date on which final regulations defining the term "foreign passthru payments" are published in the U.S. Federal Register, and notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes that are not distinguishable from previously issued notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all notes, including the notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the notes, no person will be required to pay additional amounts as a result of the withholding.

The market price of the notes may be adversely affected by any failure by us to allocate an amount equal to the net proceeds from the sale of the notes to eligible green projects.

The market price of the notes may be impacted if we do not meet, or continue to meet, the investment requirements of certain environmentally focused investors with respect to the notes, which may also have consequences for certain investors with portfolio mandates to invest in green assets. There is currently no market consensus on what precise attributes are required for a particular project to be defined as “green” or “sustainable” and therefore no assurance can be provided to investors that the eligible green projects will meet all investor expectations regarding environmental impact and sustainability performance. Accordingly, each potential purchaser of the notes should determine for itself the relevance of the information contained in this offering memorandum regarding the use of proceeds of the notes.

Exchange Rates

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures. On March 23, 2010, the Brazilian Monetary Council (*Conselho Monetário Nacional*), or CMN, approved Resolution No. 3,844, or CMN Resolution No. 3,844, adopting a series of measures to consolidate and simplify the Brazilian foreign exchange regulations.

As of the date of this offering memorandum, all financial transfers from Brazil to other countries and from abroad to Brazil, either in *reais* or in any foreign currency, related to foreign capital flows governed by CMN Resolution No. 3,844 are required to comply with the general rules applicable to the Brazilian foreign exchange market, such as complying with all laws, being supported by proper documentation and having a reasonable economic justification.

In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially.

As of September 30, 2019, the *real*/U.S. dollar exchange rate was R\$4.1644 per U.S.\$1.00 and as of December 31, 2019, it was R\$4.0307 per U.S.\$1.00. For more information regarding risks associated with the *real*/U.S. dollar exchange rate see “Risk Factors—Risks Relating to Brazil—Exchange rate instability may harm the Brazilian economy and us as well.”

Use of Proceeds

The net proceeds from the sale of the initial notes were approximately U.S.\$489,900,300 and the net proceeds of the additional notes were approximately U.S.\$222,696,000 (excluding accrued interest payable by purchasers of the additional notes), after deducting the fees and estimated expenses of the respective offerings. We intend to use the net proceeds from the sale of the notes to finance and/or refinance, in whole or in part, existing and new qualifying “Eligible Green Projects” described below. Eligible Green Projects include those funded in the two years prior to the issue date of the notes or any time during the term of the notes.

Eligible Green Projects

Eligible Green Projects are those that fall within the categories outlined below.

Sustainable Forest Management

Sustainably manage eucalyptus and pine forest plantations that are certified by the FSC.

- New planting and replanting activities in owned and third-parties’ areas, such as:
 - Production and acquisition of eucalyptus and pine seedlings.
 - Preparation of soil for the plantation of seedlings, including subsoiling and harrowing activity.
 - Planting of seedlings.
 - Protection and maintenance of planted seedlings up until harvest.
- FSC Forest Certification Program for Small and Medium-sized Rural Producers, such as activities and services required to assess practices and implement appropriate measures in small and medium-sized rural producers’ planted areas for FSC certification

Restoration of Native Forests and Conservation of Biodiversity

Maintain existing or develop new conservation areas, via activities such as:

- Restoration and conservation of native forest cover in degraded land and biodiversity.
- Legalization and environmental licensing costs related to developing new conservation areas on owned and leased lands.
- Klabin’s Good Woods Program (*Programa Matas Legais*), which trains third-parties to foster recovery of native forests.
- Conservation of fauna through Klabin’s Ecological Park.

Renewable Energy

Projects and equipment that promote the use of renewable sources in Klabin’s operations, such as:

- Biomass Recovery Boilers and related facilities.
- Consolidation of electrical systems to export excess energy into the public grid.
- Optimization projects in Klabin’s plants.

Clean Transportation

Clean transport infrastructure dedicated exclusively to the transportation of pulp from Klabin’s facilities:

- Acquisition of locomotives and train wagons in order to replace the usage of trucks.
- Railway extensions from main railway lines to Klabin's facilities.

Energy Efficiency

Projects for energy efficiency and optimization of equipment or processes to reduce energy waste, such as:

- Acquisition of more efficient electric engines, valves and pumps.
- Optimization projects in Klabin's plants.

Waste Management

Projects and equipment to:

- Reduce the generation of waste and improve the recovery of wastes that are reused in other processes.
- Reuse waste, such as the transformation of solid waste of the industrial process into sub-products to use as soil correctives, agrochemicals and fertilizers.
- Wastewater treatment facilities to improve the quality of treated wastewater.

Sustainable Water Management

- Reduce water consumption, and allow for water reuse, including effluent water, in industrial processes.

Eco-Efficient and/or Circular Economy Adapted Products, Production Technologies and Processes

- Support Klabin's Industrial and Forestry Research Centers.
- Facilitate the use of FSC certified materials, recycled materials, and reduced use of materials in packaging, along with prolonging the life of packaging materials.
- Enhance the recovery and recycling of packaging materials at the end of their life cycles.

Climate Change Adaptation

Activities related to assessing Klabin's vulnerabilities and opportunities due to climate change and the means of improving the resilience of forestry, industrial and logistics operations, such as:

- Alternative green methodologies to fight forest pests.
- Preventative operations to reduce risk of forest fires.

These Eligible Green Projects are for illustrative purposes only and no assurance can be provided that the proceeds of the notes will be allocated to fund projects with these specific characteristics during the term of the notes.

Project Evaluation and Selection

All projects developed by the company are approved by the board of directors for budget approval, supported by the project's financial viability and alignment to Klabin's strategy. Additionally, projects that are funded through proceeds from this offering will be evaluated by the Company's Sustainability Governance Bodies (Sustainability Committee and Commission, Climate Committee and Sustainability Area), as applicable, for their potential to create and be aligned with our use of proceeds criteria.

In regards to the projects selected for allocation of amounts equal to the net proceeds from this offering, Klabin's Green Bond Sustainability Team will:

- Nominate projects that comply with the eligibility criteria as described in the framework;
- Nominate projects that meet Klabin's environmental and social risk mitigation process, as described below, and;
- Recommend an allocation of proceeds to eligible projects.

These nominated projects will then be presented to Klabin's Finance and Legal departments for approval. These recommendations will be made on an annual basis and will include past, current and future projects.

Management of Proceeds

The proceeds from this offering will be managed by Klabin's Finance Department and allocated to approved Eligible Green Projects following specific recommendations by Klabin's Green Bond Sustainability Team on project selection. The Finance Department has established an internal management system that will track the allocation of proceeds to such projects.

Pending allocation, the net proceeds from this offering may be invested in cash or cash equivalents, in accordance with Klabin's cash management policies.

Payment of principal of and interest on the notes will be made from Klabin's general funds and will not be directly linked to the performance of any Eligible Green Projects.

Reporting

Starting on or prior to the first anniversary of the settlement date of the note and thereafter, throughout the life of the notes, Klabin will make and keep readily available information on the allocation of amounts equal the net proceeds from this offering, to be updated annually until full allocation, and as necessary thereafter in the event of material developments. Such information will be made publicly available on Klabin's investor relations website (<http://ri.klabin.com.br>). This web-site is not incorporated by reference into this offering memorandum.

This information will include additional descriptions of projects funded with the net proceeds, amounts funded, date of funding, and any applicable exchange rates. These reports will be accompanied with an assertion by management that the net proceeds of this offering were allocated to qualifying eligible projects and a report by an external auditor in respect of its examination of management's assertion conducted in accordance with attestation standards established by the International Standard on Assurance Engagements – ISAE 3000.

The initial purchasers make no assurances as to (i) whether the notes will meet the criteria and expectations of investors with regarding environmental impact and sustainability performance, (ii) whether the net proceeds will be used for Eligible Green Projects or (iii) the characteristics of the Eligible Green Projects, including their environmental and sustainability criteria.

Capitalization

You should read this section in conjunction with “Use of Proceeds,” “Summary of Financial and Other Information,” “Selected Consolidated Financial Data and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations, our unaudited interim consolidated financial information as of and for the nine-month period ended September 30, 2019, included elsewhere in this offering memorandum, and our unaudited interim individual and consolidated financial information as of and for the three-month period ended March 31, 2020 and our audited consolidated financial information as of and for the period ended December 31, 2019 dated February 6, 2020, incorporated by reference in this offering memorandum.

The table below sets forth Klabin’s consolidated capitalization represented by the sum of our short-term debt and long-term debt (borrowings and debentures and does not include other interest-bearing liabilities or any other liability) and total equity:

- as of September 30, 2019, on an actual historical basis, derived from our unaudited consolidated financial information as of September 30, 2019 included elsewhere in this offering memorandum, which accounts for the U.S.\$489,900,300 in estimated net proceeds for the issuance of the initial note;
- as adjusted to give effect to: (i) R\$63,948 thousand in net proceeds from an issuance of CRAs, after the deduction of estimated expenses and commissions payable by us; (ii) R\$486,874 thousand in net proceeds from a BNDES credit facility, after the deduction of estimated expenses and commissions payable by us; (iii) repayment of R\$2,416,652 thousand and R\$355,252 thousand in BNDES credit and other export prepayment facilities; and (iv) the distribution of anticipated dividends on November 1, 2019 in the amount of R\$294,000 thousand and R\$200,000 thousand on December 17, 2019 relating to 2019 results and R\$185,000 thousand of new contribution of non-controlling interest in equity on October 29, 2019. See “Summary—Recent Developments;” and
- as further adjusted to give effect to U.S.\$222,696,000 in estimated net proceeds from the offering of the additional notes, excluding accrued interest payable by purchasers of the additional notes, after the deduction of estimated expenses and commissions payable by us.

	As of September 30, 2019					
	Actual ⁽¹⁾		As adjusted ⁽³⁾		As further adjusted for the offering of the additional notes ⁽⁴⁾	
	(in thousands of U.S.\$) ⁽²⁾	(in thousands of reais)	(in thousands of U.S.\$) ⁽²⁾	(in thousands of reais)	(in thousands of U.S.\$) ⁽²⁾	(in thousands of reais)
Short-term debt ⁽⁵⁾	385,168	1,603,994	270,044	1,124,572	270,044	1,124,572
Long-term debt ⁽⁶⁾	6,158,216	25,645,274	5,739,990	23,903,614	5,962,686	24,831,009
Total Debt	6,543,384	27,249,268	6,010,034	25,028,186	6,232,730	25,955,581
Total equity	1,492,071	6,213,581	1,417,871	5,904,581	1,417,871	5,904,581
Total capitalization⁽⁷⁾	8,035,455	33,462,849	7,427,905	30,932,767	7,650,601	31,860,162

(1) Reflects the issuance of the initial notes.

(2) Solely for the convenience of the reader, amounts in Brazilian real as of September 30, 2019 have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00.

(3) Adjusted to give effect to: (i) R\$63,948 thousand in net proceeds from an issuance of CRAs, after the deduction of estimated expenses and commissions payable by us; (ii) R\$486,874 thousand in net proceeds from a BNDES credit facility, after the deduction of estimated expenses and commissions payable by us; (iii) repayment of R\$2,416,652 thousand and R\$355,252 thousand in BNDES credit and other export prepayment facilities; and (iv) the distribution of anticipated dividends on November 1, 2019 in the amount of R\$294,000 thousand and R\$200,000 thousand on December 17, 2019 relating to 2019 results and R\$185,000 thousand of new contribution of non-controlling interest in equity on October 29, 2019. See “Summary—Recent Developments.”

(4) As further adjusted to give effect to U.S.\$222,696,000 in estimated net proceeds from the offering of the additional notes, excluding accrued interest payable by purchasers of the notes, after the deduction of estimated expenses and commissions payable by us.

(5) Amounts of our current borrowings and debentures maturing within 12 months.

(6) Amounts of our non-current borrowings and debentures maturing after 12 months.

(7) Total capitalization represents the sum of our short-term debt and long-term debt and total equity.

Other than as described above, there have been no material changes to our capitalization since September 30, 2019.

Selected Consolidated Financial Data and Other Information

The summary financial and other information as of September 30, 2019 and for the nine-month periods ended September 30, 2019 and 2018 has been derived from our unaudited interim consolidated financial information included elsewhere in this offering memorandum and for the years ended December 31, 2018, 2017 and 2016 has been derived from our audited consolidated financial statements included elsewhere in this offering memorandum.

This financial information should be read in conjunction with “Presentation of Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our unaudited interim individual and consolidated financial information as of and for the three-month period ended March 31, 2020 and our audited consolidated financial information as of and for the period ended December 31, 2019 dated February 6, 2020, including the notes thereto, included elsewhere in this offering memorandum incorporated by reference in this offering memorandum.

Statement of Operations Data	For the nine-month period ended September 30,			For the year ended December 31,			
	2019	2019	2018	2018	2018	2017	2016
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of reais unless otherwise indicated)		(in thousands of U.S.\$) ⁽¹⁾	(in thousands of reais unless otherwise indicated)		
Gross sales revenue.....	2,104,994	8,766,037	8,329,478	2,765,404	11,516,247	9,727,021	8,204,424
Sales deductions ⁽²⁾	(287,783)	(1,198,444)	(1,098,320)	(360,145)	(1,499,786)	(1,353,643)	(1,113,626)
Net sales revenue.....	1,817,211	7,567,593	7,231,158	2,405,259	10,016,461	8,373,378	7,090,798
Domestic market.....	1,083,254	4,511,105	4,069,260	1,328,782	5,533,578	5,019,971	4,229,957
Export market.....	733,956	3,056,488	3,161,898	1,076,478	4,482,883	3,353,407	2,860,841
Variation in the fair value of biological assets.....	75,530	314,539	250,344	150,890	628,367	789,661	532,911
Cost of products sold.....	(1,271,169)	(5,293,655)	(4,621,775)	(1,523,006)	(6,342,406)	(6,427,492)	(5,227,023)
Gross profit.....	621,573	2,588,477	2,859,727	1,033,143	4,302,422	2,735,547	2,396,686
Operating expenses							
Sales.....	(151,111)	(629,288)	(549,891)	(183,543)	(764,348)	(656,844)	(586,075)
General and administrative.....	(106,360)	(442,926)	(397,264)	(134,042)	(558,205)	(528,398)	(466,493)
Other, net.....	155,087	645,845	(29,030)	(535)	(2,228)	(11,877)	4,707
	(102,384)	(426,369)	(976,185)	(318,120)	(1,324,781)	(1,197,119)	(1,047,861)
Equity in results of investees and joint ventures.....	1,484	6,182	4,716	1,432	5,964	13,624	49,321
Profit before finance result and taxes.....	520,673	2,168,290	1,888,258	716,455	2,983,605	1,552,052	1,398,146
Finance result.....							
Finance income.....	211,557	881,009	391,199	118,961	495,403	748,618	878,945
Finance costs.....	(505,108)	(2,103,472)	(1,017,682)	(371,912)	(1,548,790)	(1,287,854)	(1,231,088)
Foreign exchange.....	(195,546)	(814,332)	(2,403,837)	(479,973)	(1,998,799)	(174,148)	2,168,932
	(489,097)	(2,036,795)	(3,030,320)	(732,923)	(3,052,186)	(713,384)	1,816,789
Profit (loss) before taxes on income.....	31,576	131,495	(1,142,062)	(16,468)	(68,581)	838,668	3,214,935
Income tax and social contribution							
Current.....	33,221	138,347	(295,296)	(77,379)	(322,236)	(299,948)	(190,023)
Deferred.....	(44,743)	(186,329)	711,199	138,708	577,635	(6,551)	(542,966)
	(11,522)	(47,982)	415,903	61,329	255,399	(306,499)	(732,989)
Profit (loss) for the year/period.....	20,054	83,513	(726,159)	44,861	186,818	532,169	2,481,946

(1) Solely for the convenience of the reader, amounts in Brazilian real for the nine-month period ended September 30, 2019 and for the year ended December 31, 2018 have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00.

(2) Consists of discount and rebates and taxes on sales.

Balance Sheet Data

	As of September 30,		As of December 31,			
	2019	2019	2018	2018	2017	2016
	<i>(in thousands of R\$ unless otherwise indicated)</i>		<i>(in thousands of U.S.\$)⁽¹⁾</i>	<i>(in thousands of R\$ unless otherwise indicated)</i>		
	<i>(in thousands of U.S.\$)⁽¹⁾</i>					
Cash and cash equivalents and marketable securities.....	2,918,320	12,153,051	1,692,250	7,047,204	8,271,595	6,464,023
Accounts receivable.....	499,995	2,082,180	490,090	2,040,931	1,754,063	1,625,380
Inventory.....	339,676	1,414,545	289,682	1,206,353	933,161	876,915
Taxes recoverable.....	182,105	758,356	64,770	269,728	567,079	803,355
Other assets.....	66,588	277,297	71,491	297,718	277,691	190,362
Total current assets.....	4,006,683	16,685,429	2,608,283	10,861,934	11,803,589	9,960,035
Judicial deposits.....	27,073	112,741	20,809	86,658	83,381	85,704
Taxes recoverable.....	472,323	1,966,942	307,562	1,280,811	1,287,669	1,554,672
Other assets.....	59,826	249,139	72,221	300,757	344,233	385,706
Investments.....	43,758	182,224	41,605	173,259	173,446	555,345
Property, plant and equipment(2).....	3,058,388	12,736,353	2,944,595	12,262,472	12,619,495	12,995,407
Biological assets.....	1,166,024	4,855,791	1,100,430	4,582,631	4,147,779	3,656,596
Right of use.....	97,317	405,268	-	-	-	-
Intangible assets(2).....	19,566	81,480	20,464	85,221	89,949	120,264
Total non-current assets.....	4,944,275	20,589,938	4,507,686	18,771,809	18,745,952	19,353,694
Total assets.....	8,950,957	37,275,367	7,115,969	29,633,743	30,549,541	29,313,729
Borrowings.....	271,464	1,130,483	459,557	1,913,779	2,230,624	2,593,029
Debentures.....	113,704	473,511	14,813	61,686	239,276	245,080
Trade payables.....	234,852	978,019	217,019	903,752	713,612	634,856
Tax obligations.....	18,838	78,450	12,206	50,832	55,673	53,643
Social security and labor obligations.....	77,629	323,279	72,130	300,379	281,466	257,712
Dividends and interest on shareholders' equity.....	-	-	60,033	250,000	-	180,000
Enrollment in Tax Recovery Program (REFIS).....	-	-	17,737	73,862	71,467	66,884
Lease Liability.....	18,109	75,415	-	-	-	-
Other payables and provisions and related parties.....	49,503	206,149	36,986	154,026	155,215	112,460
Total current liabilities.....	784,100	3,265,306	890,480	3,708,316	3,747,333	4,143,664
Borrowings.....	5,808,687	24,189,695	4,050,816	16,869,217	16,444,917	14,765,982
Debentures.....	349,529	1,455,579	144,316	600,990	634,594	864,456
Deferred income tax and social contribution.....	275,675	1,148,023	230,503	959,906	1,544,578	1,476,866
Provisions for tax, social security, labor and civil contingencies.....	14,674	61,110	15,397	64,118	65,377	70,483
Payables – Investors in Special Partnership Companies (SPCs).....	76,892	320,209	72,419	301,583	272,938	229,315
Enrollment in Tax Recovery Program (REFIS).....	-	-	63,776	265,587	307,476	340,364
Lease Liability.....	79,303	330,248	-	-	-	-
Other payables and provisions.....	70,026	291,616	79,434	330,796	298,177	322,263
Total non-current liabilities.....	6,674,786	27,796,480	4,656,661	19,392,197	19,568,057	18,069,729
Total liabilities.....	7,458,886	31,061,786	5,547,141	23,100,513	23,315,390	22,213,393
Share capital.....	978,781	4,076,035	978,781	4,076,035	2,516,753	2,384,484
Capital reserves.....	(84,195)	(350,622)	(86,743)	(361,231)	1,187,329	1,301,907
Revaluation reserve.....	11,696	48,705	11,696	48,705	48,705	48,705
Revenue reserves.....	419,801	1,748,219	419,801	1,748,219	2,699,577	2,543,084
Carrying value adjustments.....	232,190	966,932	234,637	977,122	987,916	1,028,238
Retained earnings.....	(78,868)	(328,436)	-	-	-	-
Treasury shares.....	(44,970)	(187,272)	(47,213)	(196,615)	(206,129)	(206,082)
Shareholders' equity of Klabin.....	1,434,435	5,973,561	1,510,958	6,292,235	7,234,151	7,100,336
Non-controlling interest.....	57,636	240,020	57,870	240,995	-	-
Consolidated shareholders' equity.....	1,492,071	6,213,581	1,568,829	6,533,230	7,234,151	7,100,336
Total liabilities and equity.....	8,950,957	37,275,367	7,115,969	29,633,743	30,549,541	29,313,729

(1) Solely for the convenience of the reader, amounts in Brazilian *real* as of September 30, 2019 and as of December 31, 2018 have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00.

(2) Amounts shown as of December 31, 2016 reflect a preliminary allocation of the purchase price relating to the acquisition of Embalplan (on December 1, 2016) to goodwill, in accordance with our audited financial statement as of and for December 31, 2016. However, as disclosed in Note 1.1 to our audited consolidated financial statements as of and for the year ended December 31, 2017, a different allocation of the purchase price retrospectively was made to property plant and equipment and intangible assets.

Other Financial Data	For the nine-month period ended September 30,			For the year ended December 31,		
	2019	2019	2018	2018	2017	2016
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)		
Profit (loss) for the year/period	20,054	83,513	(726,159)	44,861	186,818	532,169
Income tax and social contribution.....	11,522	47,982	(415,903)	(61,329)	(255,399)	306,499
Finance result.....	489,097	2,036,795	3,030,320	732,923	3,052,186	713,384
Amortization, depreciation and depletion..	362,672	1,510,310	1,258,214	401,822	1,673,347	1,940,487
Variation in the fair value of biological assets	(75,530)	(314,539)	(250,344)	(150,890)	(628,367)	(789,661)
Equity in results of investees and joint venture.....	(1,484)	(6,182)	(4,716)	(1,432)	(5,964)	(13,624)
Adjusted EBITDA of a jointly-controlled subsidiary.....	-	-	-	-	9,124	40,300
Realization of deemed costs following revaluations of sold lands.....	-	-	27	432	1,798	39,801
Adjusted EBITDA⁽²⁾.....	806,330	3,357,879	2,891,439	966,386	4,024,419	2,738,179
						2,287,420

Other Financial Data	As of September 30,		As of December 31,			
	2019	2019	2018	2018	2017	2016
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)		
Borrowings	271,464	1,130,483	459,557	1,913,779	2,230,624	2,593,029
Debentures.....	113,704	473,511	14,813	61,686	239,276	245,080
Short-term debt.....	385,168	1,603,994	474,370	1,975,465	2,469,900	2,838,109
Borrowings	5,808,687	24,189,695	4,050,816	16,869,217	16,444,917	14,765,982
Debentures.....	349,529	1,455,579	144,316	600,990	634,594	864,456
Long-term debt	6,158,216	25,645,274	4,195,132	17,470,207	17,079,511	15,630,438
Total Debt.....	6,543,384	27,249,268	4,669,501	19,445,672	19,549,411	18,468,547
(-) Cash and cash equivalents and marketable securities.....	(2,918,320)	(12,153,051)	(1,692,250)	(7,047,204)	(8,271,595)	(6,464,023)
Total Net Debt⁽³⁾.....	3,625,064	15,096,217	2,977,252	12,398,468	11,277,816	12,004,524
Total Net Debt /Adjusted EBITDA⁽⁴⁾	3.4	3.4	3.1	3.1	4.1	5.2

- (1) Solely for the convenience of the reader, amounts in Brazilian real as of and for the three months ended September 30, 2019 and as of and for the year ended December 31, 2018 have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00.
- (2) Adjusted EBITDA is a non-GAAP measure prepared by us, as EBITDA calculated in accordance with CVM Instruction No. 527 defined as adjusted profit (loss) for the period or year plus income taxes and social contribution, finance result, amortization, depreciation and depletion cost and expenses, and further adjusted, considering as necessary, the effects of equity in results of investees and joint venture, variation in the fair value of biological assets, proportional EBITDA from jointly owned subsidiaries, as well the realization of the deemed costs following revaluations of sold lands, which does not impact our cash. We believe Adjusted EBITDA facilitates comparisons of operating performance between years and periods and among other companies in industries similar to ours because it removes the effect of variances in capital structures, taxation, and noncash depreciation and amortization charges, which may differ between companies for reasons unrelated to operating performance. We believe Adjusted EBITDA better reflects our underlying operating performance because it excludes the impact of items which are not related to our core results of continuing operations. Adjusted EBITDA measures are frequently used by securities analysts, investors and other interested parties in their evaluation of companies comparable to us, many of which present EBITDA-related performance measures when reporting their results. Adjusted EBITDA have limitations as analytical tools. These measures are not presentations made in accordance with Brazilian GAAP or IFRS, are not measures of operating performance or liquidity and should not be considered in isolation or as alternatives to profit or loss for the year and period from continuing operations, cash flow or other measures determined in accordance with Brazilian GAAP or IFRS. Adjusted EBITDA are not necessarily comparable to similarly titled measures used by other companies. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.
- (3) In considering our financial condition, our management analyzes Total Net Debt, which is defined as total debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability), minus cash and cash equivalents and marketable securities. Total Debt and Total Net Debt has limitations as an analytical tool. Total Debt and Total Net Debt are neither a measure defined by or presented in accordance with Brazilian GAAP or IFRS, nor measures of liquidity, and should not be considered in isolation or as an alternative cash flow or other measure determined in accordance with Brazilian GAAP or IFRS. Total Net Debt is not necessarily comparable to similarly titled measures used by other companies. These non-GAAP measures should be considered supplemental in nature and should not be construed as more important than comparable GAAP measures.
- (4) Considering Adjusted EBITDA of the last twelve months period.

Issuer Consolidated Condensed Financial Information

The following consolidated condensed financial information of Klabin Austria as of and for the nine-month periods ended September 30, 2019 and 2018 and as of and for the years ended December 31, 2018 and 2017 was derived from the issuer's management and accounting records and as such has not been audited or reviewed by our independent auditors. On the date of this offering memorandum, the financial statements of Klabin Austria are required to be published under the laws of Austria in the Austrian companies register (*Firmenbuch*) in condensed, abbreviated form and will be made available at the office of the Paying Agent free of charge. If requested by the trustee, Klabin Austria will furnish to the holders of the notes any of its financial statements. See "Risk Factors—Risks Relating to the Notes and the Guarantee." Our consolidated condensed financial information of Klabin Austria may not be necessarily indicative of the results we would have achieved as a stand-alone company and may not be a reliable indicator of our future results.

The condensed consolidated financial information below are presented on unconsolidated basis and has not been adjusted to reflect eliminations for intercompany transactions with the guarantor and its subsidiaries and should be read in conjunction with and is qualified by reference to the consolidated financial statements of Klabin and the notes thereto included elsewhere in this offering memorandum. As Klabin's audited individual and consolidated financial statements for the year ended December 31, 2019, dated February 5, 2020 and unaudited financial statements for the three-month period ended March 31, 2020, dated May 5, 2020 are incorporated by reference in this offering memorandum, we believe the non-inclusion in this offering memorandum of Klabin Austria's audited financial statements for the year ended December 31, 2019 and its unaudited financial statements for the three-month period ended March 31, 2020 will not be likely to mislead investors with regard to facts and circumstances that are essential for assessing the notes.

Furthermore, Klabin Austria's condensed consolidated financial information has not been subject to audit or review procedures by our independent auditors and may not be indicative or a reliable indicator of the issuer's results in the future.

	For the nine-month period ended September 30,			For the year ended December 31,		
	2019	2019	2018	2018	2018	2017
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)		(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)	
Statement of income						
Net sales revenue	292,170	1,216,712	433,407	166,712	694,257	144,957
Cost of products sold	(268,774)	(1,119,281)	(399,244)	(154,411)	(643,029)	(132,778)
Gross Profit	23,396	97,431	34,163	12,301	51,228	12,179
Operating income (expenses)	(5,034)	(20,962)	(13,091)	(4,587)	(19,104)	(5,037)
Profit before finance result and taxes ..	18,363	76,469	21,072	7,714	32,124	7,142
Finance result	13,134	54,696	(2,922)	(472)	(1,967)	241
Profit before taxes on income	31,497	131,165	18,150	7,242	30,157	7,383
Income tax	(4,685)	(19,512)	(7,638)	(2,309)	(9,617)	-
Profit for the year	26,811	111,653	10,512	4,932	20,540	7,383

	As of September 30,			As of December 31,		
	2019	2019	2018	2018	2018	2017
	(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)		(in thousands of U.S.\$) ⁽¹⁾	(in thousands of R\$ unless otherwise indicated)	
Balance sheet						
Cash and cash equivalent	96,620	402,365	57,911	7,464	31,083	18,213
Accounts receivable	114,298	475,982	163,086	53,509	222,832	84,072
Inventory	23,863	99,374	41,571	12,064	50,238	25,033
Other assets	96	401	160	45	189	176
Total current assets	234,877	978,122	262,728	73,082	304,342	127,494
Related parties	1,851,000	7,708,304	-	-	-	-
Other assets	74	308	351	78	326	337
Total non-current assets	1,851,074	7,708,612	351	78	326	337

	As of September 30,			As of December 31,		
	2019	2019	2018	2018	2018	2017
Total assets	2,085,951	8,686,734	263,079	73,160	304,668	127,831
Trade payables	1,397	5,816	-4,553	396	1,649	171
Tax obligations	6,521	27,156	5,096	1,907	7,941	0
Other payables and provisions and related parties	198,446	826,409	234,287	62,578	260,598	116,739
Total current liabilities	206,364	859,381	234,830	64,880	270,188	116,910
Borrowings.....	1,576,673	6,565,898	-	-	-	-
Related parties.....	265,600	1,106,065	-	-	-	-
Other payables and provisions	90	373	187	84	349	10
Total non-current liabilities	1,842,363	7,672,336	187	84	349	10
Total liabilities	2,048,727	8,531,717	235,017	64,964	270,537	116,920
Share capital	1,079	4,495	4,495	1,079	4,495	4,495
Retained earnings	3,125	13,013	6,567	2,184	9,096	967
Revenue reserves	33,020	137,509	17,000	4,932	20,540	7,383
Total equity	37,224	155,017	28,062	8,196	34,131	10,911
Total liabilities and equity	2,085,951	8,686,734	263,079	73,160	304,668	127,831

- (1) Solely for the convenience of the reader, amounts in Brazilian *real* as of and for the nine-month period ended September 30, 2019 and as of and for the year ended December 31, 2018 have been translated into U.S. dollars at the selling rate of R\$4.1644 to U.S.\$1.00.

Management's Discussion and Analysis of Results of Operations and Financial Condition

The following discussion of our financial condition and operating results should be read in conjunction with our audited consolidated financial statements the years ended December 31, 2018, 2017 and 2016 and our unaudited interim individual and consolidated financial information as of and for the nine-month periods ended September 30, 2019 and 2018, included elsewhere in this offering memorandum, and our unaudited interim individual and consolidated financial information as of and for the three-month period ended March 31, 2020 and our audited consolidated financial information as of and for the period ended December 31, 2019 dated February 6, 2020, incorporated by reference in this offering memorandum, as well as with the information presented under "Presentation of Financial and Other Information," "Summary of Financial and Other Information" and "Selected Consolidated Financial Data and Other Information." The following discussion contains forward-looking statements that are based on management's current expectations, estimates and projections and that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in the sections "Forward-Looking Statements and Associated Risks" and "Risk Factors."

The Issuer

Klabin Austria is a company incorporated under the laws of Austria. The issuer is a wholly-owned trading company of the Guarantor.

The Guarantor

We are the largest producer, exporter and recycler of packaging paper in Brazil according to IBÁ and internal estimates, and one of the largest integrated paper producers in Latin America according to internal estimates, based on our production capacity in 2018 of two million tonnes of packaging paper. We are also the only Brazilian company to simultaneously sell hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp. We recorded a profit of R\$84 million and a loss of R\$726 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$187 million, R\$532 million and R\$2,482 million for the years ended December 31, 2018, 2017 and 2016, respectively. Our Adjusted EBITDA was R\$3,358 million and R\$2,891 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$4,024 million, R\$2,738 million and R\$2,287 million for the years ended December 31, 2018, 2017 and 2016. We recorded cash flow from operating activities of R\$1,902 million and R\$2,125 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,787 million, R\$1,793 million and R\$1,203 million for the years ended December 31, 2018, 2017 and 2016.

We produce several types of paper, packaging products and pulp in 17 plants in Brazil and one plant in Argentina for the domestic and international markets.

Our coated boards are utilized in the production of cardboard packaging for consumer products in a wide range of sectors, including food (both natural and processed), electronic and electrical products, utensils, sanitation and cleaning products, footwear, personal hygiene and beauty products, canned and bottled beverages, equipment and clothing, among other products.

Our corrugated boxes are also utilized by a diverse range of international customers for the packaging of raw and processed foods, chemicals and related products, flowers, beverages, tobacco products, metallurgy, perfume and cosmetics. Certain domestic purchasers also utilize our corrugated boxes for the packaging of exports such as meat, poultry, fruit and tobacco. We produce industrial bags, primarily for use in the civil construction industry (for the packaging of raw materials such as cement, lime and clay) as well as for the packaging of seeds, chemical products, food, animal feed and minerals. Sales of industrial bags to the civil construction industry alone account for over 56% of sales volumes of this business unit in 2018.

In the first quarter of 2016, we began operating our new pulp plant, or the Puma Plant, located in Ortigueira, Paraná, with the first pulp produced on March 4, 2016, certified by FSC. The Puma Plant has an annual production capacity of 1.5 million tonnes of pulp per year, including bleached hardwood pulp (eucalyptus) and bleached softwood pulp (pine), a portion of which is converted into fluff pulp. The Puma Plant is the only industrial unit in the world designed to manufacture these three fibers and is the first softwood fluff production facility in Brazil, enabling our customers to economize on import and foreign exchange costs. Fluff is an important input used in the production of

sanitary products (such as baby and adult diapers, as well as sanitary pads). In addition, we export softwood and fluff pulp to more than 28 countries, taking advantage of the growth of the global diaper and adult incontinence markets.

We believe that we are the only Brazilian producer of liquid packaging board, which is used for packaging liquids, and have supplied all of the liquid packaging board in Brazil for Tetra Pak International S.A., or Tetra Pak, which has been our largest client in this market segment. In 2015, we entered into an agreement to sell hardwood pulp to Fibria Celulose S.A., or Fibria. Tetra Pak and Fibria were responsible for approximately 23%, or R\$1,740 million, and 32%, or R\$2,333 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and 33%, or R\$3,261 million, and 30%, or R\$2,503 million, of our net sales revenue in 2018 and 2017, respectively. Tetra Pak was responsible for 13 %, or R\$959 million, and 11%, or R\$822 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$1,083 million, or 11%, and R\$1,261 million, or 15%, of our net sales revenue in 2018 and 2017, respectively. Fibria was responsible for 10%, or R\$780 million, and 21%, or R\$1,511 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,178 million, or 22%, and R\$1,241 million, or 15%, of our net sales revenue in 2018 and 2017, respectively. By mutual agreement with Fibria we have terminated our agreement with them and agreed on a transition period during which we will directly assume marketing activities, mostly in Europe, and which ended in 2019.

The balance of our clients is diversified, with no other single client individually representing a material portion (over 10%) of our net sales revenue.

We organize our business operations into the following four business units, which are our operational segments corresponding to our principal production processes and main products:

- *Papers Unit*, which manufactures coated boards, including liquid packaging board, kraftliner, sack kraft and recycled paper, which accounted for R\$2,542 million, or 34%, and R\$2,301 million, or 32%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$3,177 million, or 32%, R\$2,951 million, or 35%, and R\$3,090 million, or 44%, of our total net sales revenue in 2018, 2017 and 2016, respectively;
- *Conversion Unit*, which manufactures corrugated boxes and industrial bags, and accounted for R\$2,220 million, or 29%, and R\$2,118 million, or 29%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,852 million, or 28%, R\$2,675 million, or 32%, and R\$2,428 million, or 34%, of our total net sales revenue in 2018, 2017 and 2016, respectively;
- *Pulp Unit*, which manufactures hardwood, softwood and fluff pulp, which accounted for R\$2,613 million, or 35%, and R\$2,571 million, or 36%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$3,680 million, or 37% of our total net sales revenue in 2018; R\$2,422 million, or 29%, of our total net sales revenue in 2017 and R\$1,252 million, or 18%, of our total net sales revenue in 2016; and
- *Forestry Unit*, which produces both pine (softwood) and eucalyptus (hardwood) logs, and which accounted for R\$199 million, or 3%, and R\$246 million, or 3%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$316 million, or 3%, R\$330 million, or 4%, and R\$324 million, or 4%, of our total net sales revenue in 2018, 2017 and 2016, respectively.

For the nine-month period ended September 30, 2019 and for the year ended December 31, 2018, we sold 2,400 thousand tonnes and 3,189 thousand tonnes, respectively, of pulp, paper and packaging products (excluding wood, which has a distortive effect when measuring volume), operating at full capacity, and recorded net sales revenue of R\$7,568 million and R\$10,016 million, respectively. Approximately 46% of our production is exported to approximately 82 countries on five continents and, as of September 30, 2019, we and our subsidiaries had 14,297 employees and generated approximately 20,000 direct and indirect jobs.

Principal Factors Affecting our Results of Operations

The primary factors affecting our results of operations include:

- macroeconomic and political conditions in the countries in which we operate, particularly Brazil;
- fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar;
- inflation;
- the cyclical nature of supply and demand for pulp and paper products both inside and outside of Brazil;
- prices and sales condition in the market;
- our level of exports;
- sales volumes and product mix; and
- our production costs.

Macroeconomic and political conditions in the countries in which we operate, particularly Brazil

Our results tend to be directly due to the level of international and domestic economic growth and political conditions in the countries in which we operate. Economic growth, expressed in terms of change in gross domestic product, or GDP, mainly affects the level of demand for our products and our growth relative to previous years. Furthermore, increases or reductions in market demand tend to be reflected in the levels of prices in the industry. Moreover, political conditions, particularly political turmoil, may significantly impact consumption in the countries in which we operate and therefore our results of operations. Population growth also positively affects demand for our products.

In particular, as a Brazilian company with substantially all of our operations in Brazil, we are significantly affected by economic conditions in Brazil. Our results of operations and financial condition have been, and will continue to be, affected by the growth rate of GDP in Brazil because a substantial portion of our products are sold in Brazil.

The Brazilian economic environment has been characterized by significant variations in economic growth, inflation and currency exchange rates. The following table sets forth Brazilian inflation rates, interest rates, and exchange rates for the nine-month period ended September 30, 2019 and for the years ended December 31, 2018, 2017 and 2016, respectively:

	For the nine-month period ended September 30, 2019	For the Year Ended December 31,		
		2018	2017	2016
GDP growth.....	1.0%	1.10%	1.30%	(3.3)%
Inflation rate (IGP-M) ⁽¹⁾	4.10%	7.55%	(0.52)%	7.19%
Inflation rate (IPCA) ⁽²⁾	2.49%	3.75%	2.95%	6.35%
CDI ⁽³⁾	6.3%	6.42%	9.93%	14.00%
SELIC rate ⁽⁴⁾	5.5%	6.43%	7%	13.75%
Appreciation (depreciation) of <i>real</i> against the U.S. dollar	7.47%	17.06%	1.99%	19.80%
Exchange rate of <i>reais</i> against U.S.\$1.00	R\$4.16	R\$3.87	R\$3.31	R\$3.26
Average exchange rate – <i>reais</i> against U.S.\$1.00 ⁽⁵⁾	R\$3.89	R\$3.66	R\$3.19	R\$3.49

Sources: IBGE, Central Bank, B3 and FGV.

(1) IGP-M is the general index of market prices calculated by the FGV (accumulated for the year).

(2) IPCA is a consumer price index calculated by the IBGE (accumulated for the year).

(3) The CDI rate is the average interbank deposit index applicable in Brazil (accumulated for the year).

(4) As of the last day of the relevant year.

(5) Average exchange rate for the last day of each month for the year.

Fluctuations in exchange rates between the Brazilian real and the U.S. dollar

The variation of the *real* against the U.S. dollar has affected and will continue to affect our financial condition and operating results, which are consolidated in *reais*, in addition to impacting our revenues, expenses and assets denominated in foreign currency, mainly the U.S. dollar. Our sales revenues from exports and, therefore, our operating cash flow, are directly and immediately affected by the variation of the average exchange rate between the *real* and the U.S. dollar. For the nine-month periods ended September 30, 2019 and 2018 and for the years ended December 31, 2018, 2017 and 2016, net sales revenue derived from exports denominated in foreign currency represented 40% and 44% and 45%, 40% and 40%, of our total net sales revenue, respectively. A depreciation of the *real* results in an increase in these revenues when expressed in *reais*, while an appreciation of the *real* results in lower sales revenue from exports, in each case assuming that the international market prices of our products remain constant. Revenues in the domestic market are indirectly influenced by the variation of the exchange rate, given that imported paper quoted in U.S. dollars gains or losses competitiveness in the domestic market depending on the exchange rate.

Our costs and operating expenses, such as freight and insurance costs and costs related to exports of chemicals used as raw materials, among others, are also affected by currency fluctuations. Depreciation of the *real* results in increases in such costs and expenses, when expressed in *reais*, while appreciation of the *real* results in the reduction of costs and expenses.

The short-term and long-term portions of our consolidated Total Debt denominated in U.S. dollars, cash and cash equivalents available abroad and accounts receivable from international clients are also exposed to foreign exchange variations of the *real* against the U.S. dollar. We do not enter into derivative contracts to hedge against long-term foreign exchange exposure. We are substantially naturally hedged given that our revenue from sales of exports is projected to be equal to or greater than our net liability exposure. There can be no assurance, however, that our actual revenue will be consistent with our projections. Accordingly, material exchange rate fluctuations may have a material adverse effect on us. For a discussion of the risks associated with exchange rate fluctuations, see “Risk Factors—Risks Relating to Brazil—Exchange rate instability may harm the Brazilian economy and us as well.”

With nominal amount in *reais*, as of September 30, 2019, our short-term and long-term borrowings and debentures denominated in foreign currency were R\$19,133 million, or 70% of our Total Debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability).

Inflation

Our financial condition and results of operations are also affected by inflation in Brazil. Our costs and expenses, with the exception of certain minor U.S. dollar-denominated expenses which are not relevant, including certain chemical raw material purchases, are generally incurred in *reais* and tend to reflect the effects of inflation, since our suppliers and service providers generally increase their prices to reflect Brazilian inflation as set forth in the IPCA, although certain suppliers use measures such as fuel prices in the case of freight to calculate adjustments for inflation. As such, an increase in inflation may result in an increase in our costs and expenses and adversely affect our financial condition and results of operations.

The cyclical nature of supply and demand for pulp and paper products both inside and outside of Brazil

Our product prices vary as a function of the equilibrium between supply and demand in the domestic and international markets. Price formation differs in the various sectors in which we operate and is subject to variations in GDP, inflation, the level of economic activity in Brazil and worldwide population growth and penetration of pulp and paper products, interest rates, tax rates, the Brazilian *real* versus foreign currencies, market pulp prices, the price of OCC paper, as well as natural phenomena affecting wood supplies.

The prices of our products are generally cyclical and are subject to factors outside of our control.

The performance of the pulp and paper sector is cyclical in nature, influenced mainly by the expansions and retractions of the global economy. Expansions of the global economy increase the demand for, and decrease global supplies of, pulp and paper, causing prices to increase in international markets. While there have recently been

decreases in international markets, we believe we are currently in an up-cycle and pulp and paper product prices may further increase. On the other hand, retractions of the global economy decrease the demand for pulp and paper and increase global supply, resulting in a reduction of prices in international markets. Other factors also influence the prices of our products, such as world production capacity, strategies adopted by the main global producers and the availability of substitute products.

For the nine-month periods ended September 30, 2019 and September 30, 2018, the international prices for kraftliner and pulp decreased according to FOEX. The average international prices for kraftliner and hardwood pulp in Europe decreased to U.S.\$749 per tonne and U.S.\$915 per tonne, respectively, during the nine-month period ended September 30, 2019 compared to U.S.\$871 per tonne and U.S.\$1,034 per tonne, respectively, during the nine-month period ended September 30, 2018. This decrease has adversely affected and we expect it will continue to adversely affect our results of operations. In 2018, the international prices for kraftliner and pulp increased according to FOEX. On December 27, 2018, the kraftliner price in Europe was U.S.\$837 per tonne, an increase of 1% compared to the price on December 27, 2017.

In the pulp segment, on September 30, 2019, the hardwood pulp price was U.S.\$748 per tonne in Europe, a decrease of 27% compared to the price on December 27, 2018. In the pulp segment, on December 27, 2018, the hardwood pulp price was U.S.\$1.026 per tonne in Europe, an increase of 5% compared to the price on December 27, 2017.

Our Export Levels

For the nine-month periods ended September 30, 2019 and 2018 and for the years ended December 31, 2018, 2017 and 2016, we exported 46% and 49% and 50%, 51% and 50% of our product volume, respectively. The sales mix between our domestic and export markets has a significant impact on our results of operations given that prices and margins are generally higher in the domestic market.

The tables below set forth a breakdown of our net sales revenue and sales volume by market for the nine-month periods ended September 30, 2019 and 2018 and for the years ended December 31, 2018, 2017 and 2016, respectively:

	Net Sales Revenue							
	For the Nine-month period Ended September 30,		For the Year Ended December 31,					
	2019	2018	2018		2017		2016	
			(in millions of reais, except percentages)					
Domestic Market	4,511 60%	4,069 56%	5,534	55%	5,020	60%	4,230	60%
Export Market	3,056 40%	3,162 44%	4,483	45%	3,353	40%	2,861	40%
Total net sales revenue	7,568 100%	7,231 100%	10,016	100%	8,373	100%	7,091	100%

	Sales Volume ⁽¹⁾							
	For the Nine-month period Ended September 30,		For the Year Ended December 31,					
	2019	2018	2018		2017		2016	
			<i>(thousand tonnes, except percentages)</i>					
Domestic Market	1,295 54%	1,180 51%	1,589	50%	1,564	49%	1,316	50%
Export Market	1,105 46%	1,148 49%	1,600	50%	1,656	51%	1,333	50%
	2,400 100%	2,328 100%						
Total sales volume			3,189	100%	3,220	100%	2,650	100%

(1) Excluding sales of wood.

In addition, the sales mix of our products within a particular region also has a significant impact on our results of operations given that prices, freight costs and delivery conditions differ from region to region.

As set forth in the table below, our largest export market by sales volume was Asia for the nine-month periods ended September 30, 2019 and 2018 and for the years ended December 31, 2018 and 2017, and Europe for the year ended December 31, 2016.

	Sales Volume Export Market				
	For the Nine-month period Ended September 30,		For the Year Ended December 31,		
	2019	2018	2018	2017	2016
	<i>(thousand tonnes, except percentages)</i>				
Latin America.....	215	191	258	248	279
Asia	664	732	998	943	358
Europe	121	165	222	286	614
Africa.....	34	10	13	42	21
North America.....	72	49	110	136	60

Sales Volume and Product Mix

Our revenue derives from our sales of pulp, kraftliner, coated board and industrial bags in foreign and domestic markets, and sales of wood logs and corrugated boxes in the domestic market, being highly affected by fluctuations in sales volumes.

In 2016, we commenced operations at the Puma Plant, a pulp mill with a nominal production capacity of 1.5 million tonnes of hardwood, softwood and fluff pulp per year. In 2017, the Puma Plant sold 1,355,010 tonnes of pulp, of which 996,000 tonnes was hardwood and the remainder, softwood and fluff pulp. In 2018, the Puma Plant sold 1,401,244, tonnes of pulp, of which 1,042,200 tonnes was hardwood and the remainder, softwood and fluff pulp. For the nine-month period ended September 30, 2019, the Puma Plant sold 1,049 tonnes of pulp, of which 772 tonnes were hardwood and 277 tonnes were softwood and fluff pulp. For the year ended 2018, the Puma Plant sold 1,401,000 tonnes of pulp, of which 1,042,000 tonnes were hardwood and 359,000 tonnes were softwood and fluff pulp.

According to IBÁ, total Brazilian shipments of coated boards, excluding liquid packaging board, were 545,000 tonnes and 532,000 tonnes for the nine-month periods ended September 30, 2019 and 2018, respectively, compared to 526,000 tonnes in 2017 and 505,000 tonnes in 2016. Our market share in the coated boards market totaled approximately 30% for the nine-month period ended September 30, 2019 and 2018 and for the years ended December 31, 2018, 2017 and 2016.

For the nine-month period ended September 30, 2019, our kraftliner sales of 258,000 tonnes represented a decrease of 5% compared to the same period in 2018, mainly due to a higher conversion of paper into corrugated boxes. In 2018, our kraftliner sales of 366,000 tonnes increased 4% compared to 2017, mainly due to an increase in global demand for packing. The effect was stronger in the first half of 2018 following the appreciation of the *real* resulting in kraftliner net sales revenue of R\$972 million, an increase of 35% compared to 2017.

According to ABPO, for the nine-month period ended September 30, 2019, Brazilian shipments of corrugated boxes increased 0.57% compared to the same period in 2018, and in 2018, Brazilian shipments of corrugated boxes increased 1.63% compared to 2017. Benefiting from our established relationships with leading food sector companies, in addition to already enjoying contributions from the recently acquired plants in the City of Manaus, State of Amazonas and the City of Rio Negro, State of Paraná, we experienced a decrease in sales volumes of corrugated boxes for the first nine months of 2019 against and for 2018, whereas sales remained stable in 2018.

Regarding the industrial bag segment, the civil construction market has been showing early signs of recovery since October 2017 and the National Cement Industry Association, or the SNIC (*Sindicato Nacional da Indústria do Cimento*). Additionally, we are increasingly focusing our business on new market segments such as fertilizers, food and coffee, as well as, increasing export volumes, especially to countries such as Mexico and the United States.

Accordingly, in both the industrial bag and corrugated box markets, we have succeeded in taking advantage of our solid positioning, and despite adversities in the Brazilian domestic economy and foreign exchange volatility, our sales volume for the nine-month period ended September 30, 2019 decreased by 1%, accompanied by a 7% increase in revenues compared to the same period in 2018. Our sales volume in 2018 increased by 1%, accompanied by an 11% increase in revenues compared to 2017.

We sell the entirety of our wood logs in the domestic market. Our customers are sawmills, plywood mills and customers in the furniture industry, which sell their products to consumers in Brazil and abroad. The U.S. housing market has strongly influenced wood sales in Brazil. For the nine-month period ended September 30, 2019, our wood sales volume to third parties decreased 18%, to 1,362 thousand tonnes, representing a decrease of 23% in our net sales revenue of wood for the period. In 2018, our wood sales volume to third parties decreased 20%, to 2,109 million tonnes, representing a decrease of 9% in our net sales revenue of wood in 2018.

Production Costs

The main production costs that affect our results are: labor, timber production, chemical inputs, energy and freight. The cost of our production inputs is substantially all in *reais*. Our service providers readjust their prices based on inflation variations generally indexed to the IPCA. In addition to the IPCA, the costs of certain materials used in our production are adjusted based upon fluctuations in the cost of certain commodities, such as fuel oil, which is used to determine adjustments in the cost of freight.

The table below sets forth our cash cost for the nine-month periods ended September 30, 2019 and 2018 and for 2018, 2017 and 2016:

	For the Nine-month period Ended September 30,		For the Year Ended December 31,		
	2019	2018	2018	2017	2016
	<i>(In millions of reais, except as otherwise indicated)</i>				
Sales volume – excluding wood (thousand tonnes).....	2,400	2,328	3,189	3,221	2,650
Cost of products sold.....	(5,293)	(4,622)	(6,342)	(6,428)	(5,227)
Sales and general and administrative expenses.....	(1,072)	(947)	(1,323)	(1,185)	(1,053)
Other net.....	646	(29)	(2)	(12)	5
Extemporaneous tax credit ⁽¹⁾	(631)	-	-	-	-
Depreciation, amortization and depletion of biological assets.....	1,510	1,258	1,673	1,940	1,423
Total.....	(4,840)	(4,340)	(5,994)	(5,685)	(4,852)
Cash cost/volume – (thousands of reais per tonne)⁽²⁾...	2.017	1.864	1.880	1.766	1.831

- (1) Non-current extemporaneous tax credit referring to the final court decision, accepting the Company's intention to exclude sales tax (*Imposto sobre Operações relativas à Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*), or ICMS, from the Social Integration Program (*Programa de Integração Social*), or PIS, and the Social Security Financing Program (*Contribuição para o Financiamento da Seguridade Social*), or COFINS, tax base, with retroactive effect from April 2002, as notified to the market on August 22, 2019, in the amount of R\$631 million recorded in "Other net." As a non-current effect, it is excluded from the cash cost analysis.
- (2) Cash cost is a non-GAAP measure defined by us as the cost per volume incurred for sales made by us during a period. Cash cost is calculated by dividing the sum of total cost of goods sold, selling, general and administrative expenses and other, net (excluding non-current effects, if applicable), excluding the effects of depreciation, amortization and depletion, by total volume in tonnes sold. Cash cost does not have a standardized meaning and different companies may use different definitions to measure unit cash cost.

Commencement of the Puma Plant

In March 2016, we commenced operations at our Puma Plant, with a nominal production capacity of 1.5 million tonnes of pulp of hardwood bleached pulp (eucalyptus) and softwood bleached pulp (pine) per year, partly converted into fluff pulp, making it the only industrial unit in the world designed to manufacture these three fibers.

Total investment in the project was approximately R\$8.5 billion, including infrastructure, taxes and inflation adjustments.

In 2015, we and Fibria announced an agreement for the supply of hardwood pulp produced at the Puma Plant. The agreement established a firm commitment for acquisition by Fibria or its subsidiaries of a minimum of 900,000 tonnes per year of hardwood pulp, for exclusive sale by Fibria or its subsidiaries in countries outside South America. By mutual agreement with Fibria we have terminated our agreement with them and agreed on a transition period that ended in 2019.

In 2016, with the start-up of operations of the Puma Plant, the “Pulp” segment was included in our operating segments, according to characteristics specified in CPC 22/IFRS 8 – Operating Segments.

Critical Accounting Practices

Our accounting practices are described in our unaudited interim consolidated financial information and audited consolidated financial statements, which are included elsewhere in this offering memorandum. In preparing our consolidated financial statements, we relied on estimates and assumptions derived from historical experience and various other factors that were deemed reasonable and relevant. Critical accounting practices are those that are important to the presentation of our consolidated financial position and results of operations and require our management’s most difficult, subjective or complex judgments, estimates and assumptions. The following is a summary of our critical accounting policies. In preparing our consolidated financial statements, we relied on estimates and subjective judgments and uncertain future, necessary to prepare our consolidated financial statements, which depend on the definition of premises such as discount rates, client analysis, the definition of the useful life of assets, estimation of results based on budget, estimation of losses, productivity, prediction of future events and market prices, among others.

These premises are based on our management’s knowledge and experience, relying on the best references available in the market, estimates of future events and the assistance of experts, when necessary.

Accounts Receivables (Allowance for doubtful debts)

Allowances for doubtful debts are recorded for losses arising in connection with our credits of doubtful liquidation, based on an individual analysis of the credits and an estimation of probable losses in the realization of the receivables. Credit risks for our operating activities are managed by specific policies, including, among others, “Know Your Costumer” procedures, analysis of credits and definition of exposure limits per client, which are reviewed periodically. Additionally, clients are also constantly monitored so as to ensure our credits are received timely.

We record an allowance for doubtful payment of receivables based on individual analysis of receivables, considering (i) the concept of incurred loss and expected loss, taking into consideration events of default that are likely to occur within twelve months, (ii) financial instruments that had a significant increase in credit risk, with no objective evidence of impairment and (iii) financial assets which already present objective evidence of impairment.

Inventories

Inventories are stated at average purchase cost, net of taxes to be offset, when applicable, and fair value of biological assets at the cut-off date, which are both generally smaller than net realizable values. Inventories of finished products are valued based on the cost of processed raw materials, direct labor and other production costs.

When necessary, inventories are reduced by a provision for losses, which is established in cases of inventory devaluation, obsolescence of products and physical inventory losses. In addition, because of the nature of our products, obsolete finished products may be recycled for reuse in our production.

Property, plant and equipment

Property, plant and equipment are stated at acquisition or construction cost, less taxes to be offset, when applicable, and accumulated depreciation. Additionally, based on the option exercised by us upon our initial adoption of IFRS, the deemed cost of property, plant and equipment (land) was determined based on the adoption of the deemed cost for this class of assets.

Depreciation is calculated on a straight-line basis taking into consideration the estimated useful lives of the assets, based on the expected future economic benefits, except for land, which is not depreciated. The estimated useful lives of assets are reviewed annually and adjusted, if necessary, and may vary based on the technological capacity of each unit.

Costs of maintenance of our assets are allocated directly to profit for the year when realized.

Finance charges are capitalized to property, plant and equipment, when incurred on construction in progress, if applicable.

Impairment of assets

Property, plant and equipment, goodwill and other assets are tested for impairment on an annual basis or whenever significant events or changes in circumstances indicate that their carrying amounts may not be recoverable. When this is the case, the recoverable amount is calculated to determine if assets are impaired.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the value in use of an asset or its cash-generating unit, and is determined individually for each asset, unless the asset does not generate cash inflows that are independent from those of other assets or groups of assets. In estimating the value in use, estimated future cash flows are discounted to their present value, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of its fair value less costs to sell and the value in use of an asset.

Biological assets

Biological assets consist of eucalyptus and pine forests, which are used for production of packaging paper, paper sacks and corrugated cardboard boxes as well as sales to third parties. Harvesting and replanting have an approximate cycle of 7-14 years, which varies based on crop and genetic material. Biological assets are measured at fair value, less estimated selling prices at the point of harvest.

We undertake the valuation of our biological assets on a quarterly basis, and we recognize any gain or loss on the variation in fair value of biological assets in the statement of operations for the year in which it occurs, in a specific line item titled "Variation in fair value of biological assets." The increase or decrease in the fair value is determined based on the difference between the fair values of biological assets at the beginning and at the end of the valuation period.

The depletion of biological assets is measured based on the amount of wood cut, carried at fair value.

Assets and Liabilities of the right of use

The right of use of the assets, or right of use, and the liabilities of the leases, or lease liability, are recognized at the future values of the contractual obligations assumed in the agreement, which are included in the net present value. The right of use of the assets is amortized on a straight-line basis over the term of the contract in the income statement for the year in the relevant line item ("Cost of Goods Sold" / "Administrative Expenses" / "Commercial Expenses"). Interest, corresponding to the amortization of the adjustment to the net present value of the contracts, is allocated in the "Financial result" line item. The depreciation of the right of use asset is calculated by the straight-line method according to the remaining term of each contract.

We recognize our right of use and lease liabilities in respect of lease contracts signed for a period of more than 12 months, not considering renewals, and operations that involve specific assets identified in the contract for exclusive use throughout the contract period. The net present value of a lease contract corresponds to the amount payable under the contract, discounted by the discount rate for the relevant class of assets, including recoverable taxes.

Provisions

Provisions are recognized when we have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

The expense related to any provision is presented in the statement of operations, net of any reimbursement. Where timing proves material, provisions are discounted using a discount rate that reflects the risks specific to the obligation, if applicable.

Among the provisions recorded by us are the provisions for tax, social security, labor and civil claims, which accrue when lawsuits are assessed as probable loss by our legal counsel and management. We perform this assessment by taking into account the nature and progress of pending litigation, as well as similarities with prior litigation.

When we expect that the amount of a provision will be fully or partially reimbursed, this asset is recognized only when realization is considered clear and certain. We do not recognize an asset if any uncertainty remains.

Income tax and social contribution (Deferred income tax and social contribution)

Deferred income tax and social contribution are recorded net in the balance sheet, in non-current assets or liabilities based on the difference between tax base for assets and liabilities. We regularly monitor the realization of deferred tax assets.

The critical determination when recording deferred taxes relates to the judgment exercised by our management in relation to the realization of deferred fiscal net assets, which is recorded as long as it is probable and supported by projected results, but its value is subject to uncertainties since it depends on the actual occurrence of projected taxable profits for future periods.

Consolidation Criteria

Subsidiaries are fully consolidated as from the date of acquisition and continue to be consolidated until the date on which our control ceases to exist, except for joint ventures, which are accounted for using the equity accounting method in the consolidated information.

The financial information of subsidiaries is prepared for the same reporting period as the parent company, using accounting practices consistent with the policies adopted by the parent company. The following criteria are adopted for consolidation purposes: (i) investments in subsidiaries and equity in the investments are eliminated; (ii) profits from intercompany transactions and the related assets and liabilities are also eliminated; and (iii) the amount of non-controlling interest is calculated and shown separately.

Description of Main Statement of Operations Line Items

Net sales revenue. Our net sales revenue comprises our revenue from our sales of paper, converted, pulp and forestry products, net of taxes, discounts and rebates.

Variation in the fair value of biological assets. This line item comprises the gains or losses in the fair value of our biological assets, due to changes in their sales prices, variations in the growth of our forests and changes in the assumptions underlying related discounted cash flow analysis, excluding depletion of biological assets which is allocated in the cost of products sold line.

Cost of products sold. Our cost of products sold comprises our production costs, such as raw materials and consumables, timber, industrial labor costs and also depreciation and depletion of assets.

Operating income (expenses). Our operating expenses/income comprise our sales, general administrative expenses and other, net.

Sales. Our sales comprise all the expenses related to our selling process, including freight, commissions and personnel expenses of commercial staff.

General and administrative. Our general and administrative expenses comprise administrative personnel expenses and third-party services contracted.

Other, net. This line comprises several items such as: result in sales of fixed assets and subsidiaries and provisions of actuarial liabilities, non-current extemporaneous tax credits and others.

Equity in results of investees. Equity in results of investees comprises the results of operations of our non-consolidated subsidiaries and jointly-controlled subsidiaries, which we account for using the equity accounting method.

Finance result. Our finance result comprises the results of financial operations such as income from financial investments and marketable securities as well as costs associated with interest on financing. Finance result also includes the effects of exchange rate variations.

Income tax and social contribution. Income tax and social contribution comprises corporate income tax and social contribution based on a rate of approximately 25% for income tax and 9% for the social contribution, calculated in accordance with applicable tax legislation, and is categorized as current or deferred charges.

Current. Current income tax and social contribution comprises our recognized taxes calculated over our result.

Deferred. Deferred income tax and social contribution represents those charges that derive mainly from temporarily non-deductible provisions and taxes under litigation, deferred exchange variations and adjustments included in the Transitional Tax Regime, such as fair value measurements, changes in depreciation rates of assets and amortization of deferred charges.

Results of Operations

Nine-month period ended September 30, 2019 compared to the nine-month period ended September 30, 2018

The table below sets forth certain statement of operations data for the nine-month periods ended September 30, 2019 and 2018:

Statement of Operation Data	For the nine-month period ended September 30,	
	2019	2018
	<i>(in thousands of R\$)</i>	
Gross sales revenue.....	8,766,037	8,329,478
Sales deductions ⁽¹⁾	(1,198,444)	(1,098,320)
Net sales revenue	7,567,593	7,231,158
Domestic market.....	4,511,105	4,069,260
Export market.....	3,056,488	3,161,898
Variation in the fair value of biological assets.....	314,539	250,344
Cost of products sold.....	(5,293,655)	(4,621,775)
Gross profit	2,588,477	2,859,727
Sales.....	(629,288)	(549,891)
General and administrative.....	(442,926)	(397,264)
Other, net.....	645,845	29,030
Operating income (expenses)	(426,369)	(976,185)
Equity in the results of investees.....	6,182	4,716
Profit before finance result and taxes	2,168,290	1,888,258
Finance result		
Finance income.....	881,009	391,199
Finance costs.....	(2,103,472)	(1,017,682)
Foreign exchange.....	(814,332)	(2,403,837)
	(2,036,795)	(3,030,320)
Profit before taxes on income	131,495	(1,142,062)
Current.....	138,347	(295,296)
Deferred.....	(186,329)	711,199
Income tax and social contribution	(47,982)	415,903
Profit (loss) for the year	83,513	(726,159)

Net sales revenue

In the nine-month period ended September 30, 2019, net sales revenue increased 5% to R\$7,568 million compared to R\$7,231 million for the same period in 2018. This increase was mainly due to:

- (i) a 10% increase in our paper net sales revenue (to R\$2,542 million in the nine-month period ended September 30, 2019 compared to R\$2,301 million in the same period in 2018), mainly due to new markets developed through technological improvements allowing us to launch new products;
- (ii) a 4% increase in our pulp sales volumes (to 1,049 thousand tonnes in the third quarter of 2019, compared to 1,002 thousand tonnes in the same quarter of 2018), substantially due the unit's strong operating performance in 2019 and the scheduled maintenance shutdown at the Puma Unit in 2018 resulting in decreased sales volumes in the nine-month period ended September 30, 2018 when compared to the same period in 2019; partially offset by a 2% decrease in our pulp net sales revenue in the nine-month period of 2019 compared to the same period in 2018, due to uncertainties from the deterioration of global economic conditions and the risks associated with the US-China trade war which reduced market prices of our pulp products and profits for the segment. The downward trend in pulp prices has adversely affected and continues to adversely affect us. For further information on pulp prices, please see "—The prices of our products are generally cyclical and are subject to factors outside of our control;"
- (iii) a 5% increase in the sales revenue of conversion products, such as corrugated boxes and industrial bags, in the nine-month period of 2019 compared to the same period in 2018, despite a decrease of 1% in sales volume, mainly as a result of the realization of our expansion strategy for this segment and operating in markets with greater returns, such as food markets;

The table below sets forth the sales volumes of our products by market category for the nine-month periods ended September 30, 2019 and 2018:

Sales Volume		For the nine-month period ended September 30,		% Variation in period
		2019	2018	
(in thousands of tonnes)				
Domestic market.....	Papers	420	422	0%
	Pulp	353	222	59%
	Conversion	522	536	(3%)
	Total (excluding wood)	1,295	1,180	10%
	Wood	1,362	1,666	(18%)
Export market.....	Papers	362	329	10%
	Pulp	696	780	(11%)
	Conversion	46	39	18%
	Total (excluding wood)	1,105	1,148	(4%)
Total.....	Papers	782	751	4%
	Pulp	1,050	1,002	5%
	Conversion	568	575	(1%)
	Total (excluding wood)	2,400	2,328	3%
	Wood	1,362	1,666	(18%)

Variation in the fair value of biological assets

In the nine-month period ended September 30, 2019, our variation in fair value of biological represented a gain of R\$315 million, compared to a gain of R\$250 million in the same period of 2018.

This gain was mainly due to the decrease in the discount rate used to calculate the fair value of the biological assets for the nine-month period ended September 30, 2019.

Cost of products sold

In the nine-month period ended September 30, 2019, cost of products sold increased 15% to R\$5,294 million, compared to R\$4,622 million in the nine-month period ended September 30, 2018. Despite an increase of 3% in sales

volume in the nine-month period ended September 30, 2019 compared to the same period of 2018, this was mainly due to additional expenses from a pulp mill maintenance shutdown and a product mix with a large share of paper and conversion products, with higher costs, including energy costs.

The depletion of biological assets included within cost of products sold totaled R\$713 million in the nine-month period ended September 30, 2019, and R\$485 million for the same period in 2018.

The average unit cost of our products sold in the nine-month period ended September 30, 2019 was R\$2,017 per tonne, representing an increase of 8% compared to the nine-month period ended September 30, 2018 of R\$1,864 per tonne.

Gross Profit

As a result of the foregoing, our gross profit decreased 9% to R\$2,588 million in the nine-month period ended September 30, 2019 compared to R\$2,860 million in the nine-month period ended September 30, 2018.

Operating expenses

Sales expenses. In the nine-month period ended September 30, 2019, sales expenses increased 14% to R\$629 million, compared to R\$550 million in the nine-month period ended September 30, 2018, mainly due to increased sales volumes in the nine-month period ended September 30, 2019 and higher cost allocation to sales expenses due to the termination of the pulp sales agreement with Fibria. Sales expenses represented 8% of our net sales revenue in the nine-month period ended September 30, 2019 and 2018, with freight comprising 68% of our sales expenses in the nine-month period ended September 30, 2019, compared to 64% in the same period of 2018.

General and administrative expenses. General and administrative expenses increased 11% to R\$443 million in the nine-month period ended September 30, 2019, compared to R\$397 million in the nine-month period ended September 30, 2018. This increase was mainly due to an increase in labor costs as a result of higher wages granted under collective bargaining agreements and higher bonuses due to improvement of our key performance indicators.

Other, net. In the nine-month period ended September 30, 2019, other, net represented an income of R\$646 million, mainly impacted by a non-current extemporaneous tax credit. As we notified the market on August 22, 2019, a final judgment was rendered in our favor pursuant to a lawsuit against our right to exclude ICMS from our PIS and COFINS tax base calculation, with retroactive effect to April 2002. The total amount of the award was R\$1 billion, with R\$631 million recorded in Other, net and R\$383 million recorded in Finance result.

Profit before finance result and taxes

As a result of the foregoing, our profit before finance result and taxes increased 15% to R\$2,168 million in the nine-month period ended September 30, 2019 compared to R\$1,888 million in the nine-month period ended September 30, 2018.

Finance Result

In the nine-month period ended September 30, 2019, financial income, excluding foreign exchange variations, increased 125% to R\$881 million, compared to R\$391 million in the nine-month period ended September 30, 2018. This increase was mainly due to gains of R\$466 million in the tax credits proceedings, including a lawsuit against our right to exclude ICMS from our PIS and COFINS tax base calculation, with retroactive effect to April 2002. The total amount of the award was R\$1 billion, with R\$631 million recorded in Other, net and R\$383 million recorded in Finance result.

In the nine-month period ended September 30, 2019, our financial expenses, excluding foreign exchange variations, increased 107% to R\$2,103 million, compared to R\$1,018 million in the nine-month period ended September 30, 2018. This increase was mainly due to the impact of negative mark-to-market on a currency swap of R\$725 million, with no cash effect, and also impacted by commissions and a break funding fee of R\$174 million, reflecting the liability management process we now have in operation in 2019 and which has been responsible for significantly increasing average debt maturities.

Net foreign exchange variation decreased to an expense of R\$814 million in the nine-month period ended September 30, 2019, compared to an expense of R\$2,404 million in the nine-month period ended September 30, 2018. This decrease was mainly due to the 7% appreciation of the U.S. dollar against the *real* in 2019, when compared to 2018. This variation did not have a net impact on cash given that our U.S. dollar-denominated export transactions exceed our payment obligations denominated in U.S. dollars.

As a result of the foregoing, our finance result increased to an expense of R\$2,037 million in the nine-month period ended September 30, 2019 compared to an expense of R\$3,030 million in the nine-month period ended September 30, 2018.

Income tax and social contribution (current and deferred)

In the nine-month period ended September 30, 2019, our current and deferred income tax and social contribution represents an expense of R\$48 million, mainly due to taxable results resulting from our increased operational results.

In the nine-month period ended September 30, 2018, our current and deferred income tax represented a credit of R\$416 million, mainly due to our loss from financial result.

In 2019 the Company changed the method for tax recognition of exchange variations of our rights and obligations to the accrual basis for the year 2019.

Profit (Loss) for the period

As a result of the foregoing, our profit for the nine-month period ended September 30, 2019 totaled R\$84 million, compared to a loss of R\$726 million in the nine-month period ended September 30, 2018, for the reasons explained above.

Year ended December 31, 2018 Compared to the Year ended December 31, 2017

The table below sets forth certain statement of operations data for the years ended December 31, 2018, 2017 and 2016:

Statement of Operation Data	For the year ended December 31,		
	2018	2017	2016
		(in thousands of R\$)	
Gross sales revenue.....	11,516,247	9,727,021	8,204,424
Sales deductions ⁽¹⁾	(1,499,786)	(1,353,643)	(1,113,626)
Net sales revenue.....	10,016,461	8,373,378	7,090,798
Domestic market.....	5,533,578	5,019,971	4,229,957
Export market.....	4,482,883	3,353,407	2,860,841
Variation in the fair value of biological assets.....	628,367	789,661	532,911
Cost of products sold.....	(6,342,406)	(6,427,492)	(5,227,023)
Gross profit.....	4,302,422	2,735,547	2,396,686
Sales.....	(764,348)	(656,844)	(586,075)
General and administrative.....	(558,205)	(528,398)	(466,493)
Other, net.....	(2,228)	(11,877)	4,707
Operating income (expenses).....	(1,324,781)	(1,197,119)	(1,047,861)
Equity in the results of investees.....	5,964	13,624	49,321
Profit before finance result and taxes.....	2,983,605	1,552,052	1,398,146
Finance result			
Finance income.....	495,403	748,618	878,945
Finance costs.....	(1,548,790)	(1,287,854)	(1,231,088)
Foreign exchange.....	(1,998,799)	(174,148)	2,168,932
	(3,052,186)	(713,384)	1,816,789
Profit (loss) before taxes on income.....	(68,581)	838,668	3,214,935
Current.....	(322,236)	(299,948)	(190,023)
Deferred.....	577,635	(6,551)	(542,966)

Income tax and social contribution	255,399	(306,499)	(732,989)
Profit for the year	186,818	532,169	2,481,946

(1) Consists of discount and rebates and taxes on sales.

Net sales revenue

In 2018, net sales revenue increased 20% to R\$10,016 million compared to R\$8,373 million in 2017. This increase was mainly due to:

- (i) a 34% increase in our export market net sales revenue (to R\$4,483 million in 2018 compared to R\$3,353 million in 2017), mainly due to a 15% appreciation of the average U.S. dollar against the *real* in 2018, if compared to 2017 and also for the reasons set out in items (ii) to (iv) immediately below;
- (ii) a 3% increase in our pulp sales volumes (to 1,401 thousand tonnes in 2018, compared to 1,355 thousand tonnes in 2017) substantially due to an increase in sales of pulp at the Puma Plant, following the end of the ramp-up process in the end of the second quarter of 2017 and reaching full productive capacity by the end of 2018;
- (iii) in the pulp segment, on December 27, 2018, the hardwood pulp price was U.S.\$1.026 per tonne in Europe, an increase of 5% compared the price on December 27, 2017; and
- (iv) a 1% increase in the sale volume of conversion products in 2018 compared to 2017, mainly as a result of the realization of our expansion strategy for this segment.

The table below sets forth the sales volumes of our products by market category for the years ended December 31, 2018 and 2017:

Sales Volume		For the year ended December 31,		% Variation in year
		2018	2017	
		<i>(in thousands of tonnes)</i>		
Domestic market.....	Papers	579	556	4%
	Pulp	294	294	0%
	Conversion	715	715	0%
	Total (excluding wood)	1,589	1,564	2%
	Wood	2,109	2,596	(19%)
Export market	Papers	441	548	(20%)
	Pulp	1,107	1,061	4 %
	Conversion	52	47	11%
	Total (excluding wood)	1,601	1,656	(3%)
	Wood	2,109	2,596	(19%)
Total.....	Papers	1,021	1,104	(8%)
	Pulp	1,401	1,355	3%
	Conversion	767	762	1%
	Total (excluding wood)	3,189	3,220	(1%)
	Wood	2,109	2,596	(19%)

Variation in the fair value of biological assets

In 2018, our gain in the variation in fair value of biological assets changed 20% to R\$628 million, compared to R\$790 million in 2017.

In 2017, we acquired certain assets of Florestal Vale do Corisco, including certain forests, and when these forests were evaluated to ascertain their fair value, Klabin recorded a gain in the variation in the fair value of their biological assets that year. There was no similar change to biological assets in 2018.

Cost of products sold

In 2018, cost of products sold decreased 1% to R\$6,342 million, compared to R\$6,427 million in 2017. This decrease was mainly due to the 1% decrease in our sales volume (excluding wood).

The average unit cost of our products sold in 2018 was R\$1,880 per tonne, representing an increase of 6% compared to 2017 of R\$1,766 per tonne, partially due to inflation of approximately 3.75% in the same period, according to the IBGE. The depletion of biological assets included within cost of products sold totaled R\$655 million in 2018, compared to R\$947 million in 2017, mainly due a decrease in the volume of forests harvested in 2018 compared to 2017.

Gross Profit

As a result of the foregoing, our gross profit increased 57% to R\$4,302 million in 2018 compared to R\$2,736 million in 2017.

Operating expenses

Sales expenses. In 2018, sales expenses increased 16% to R\$764 million, compared to R\$657 million in 2017, mainly due to the increase in freight costs (including due to the truckers strike in Brazil) and in the volume of our foreign sales (in respect of which we incur higher costs than domestic sales). Sales expenses represented 8% of our net sales revenue in 2018 and 2017, with freight comprising 64% of our sales expenses in 2018, compared to 63% in 2017.

General and administrative expenses. General and administrative expenses increased 6% to R\$558 million in 2018, compared to R\$528 million in 2017. This increase was mainly due to an increase in labor costs as a result of higher wages granted under collective bargaining agreements and higher bonuses, due to improvement of our key performance indicators.

Profit before finance result and taxes

As a result of the foregoing, our profit before finance result and taxes increased 92% to R\$2,984 million in 2018 compared to R\$1,552 million in 2017.

Finance Result

In 2018, financial income, excluding foreign exchange variations, decreased 34% to R\$495 million, compared to R\$749 million in 2017. This decrease was mainly due to lower interest rates applicable to cash, cash equivalents and marketable securities after decreases in financial indices such as SELIC, CDI and IPCA.

In 2018, our financial expense, excluding foreign exchange variations, increased 20% to R\$1,549 million, compared to R\$1,288 million in 2017. This increase is mainly due to our entry into a new BRL to USD foreign exchange swap in two tranches that is linked to a new credit export note of R\$1,879 million we entered into in December 2018 with Banco Bradesco.

Net foreign exchange variation increased to an expense of R\$1,999 million, compared to an expense of R\$174 million, in 2017. This increase was mainly due to the 17% appreciation of the U.S. dollar against the *real* in 2018, if compared to 2017, compared to a 2% appreciation of the U.S. dollar against the *real* in 2017. This variation did not have a net impact on cash given that our U.S. dollar denominated export transactions exceed our payment obligations denominated in U.S. dollars.

As a result of the foregoing, our finance result increased to an expense of R\$3,052 million in 2018, compared to an expense of R\$713 million in 2017.

Income tax and social contribution (current and deferred)

In 2018, our current income tax and social contribution expense increased 7% to R\$322 million, compared to R\$300 million in 2017. This was mainly due to higher taxable results resulting from our increased operational results.

Deferred income tax and social contribution gain in 2018 was driven by our adoption of the cash regime for exchange variation purposes, so that the effects recorded in financial results, accounted for on an accrual basis, are considered in the current tax base only when actually used on a cash basis and are otherwise recorded under deferred taxes.

Profit for the year

As a result of the foregoing, our profit for the year totaled R\$187 million in 2018, a 65% decrease, compared to R\$532 million in 2017.

Year ended December 31, 2017 Compared to the Year ended December 31, 2016

Net sales revenue

In 2017, net sales revenue increased 18% to R\$8,373 million compared to R\$7,091 million in 2016. This increase was mainly due to:

- (i) a 22% increase in our total sales volumes (to 3,220,436 tonnes in 2017, compared to 2,649,583 tonnes in 2016, excluding wood) substantially due to an increase in sales of pulp at the Puma Plant (to 1,355,010 tonnes in 2017, compared to 797,288 tonnes in 2016), following the end of the ramp-up process in the end of the second quarter of 2017 reaching full productive capacity at the year-end of 2017; and
- (ii) an 8% increase in the sale of conversion products in 2017, compared to 2016, mainly as a result of the realization of our expansion strategy for this segment.

The increase in our net sales revenue over the year was partially offset by an 8% depreciation of the average U.S. dollar/*real* exchange rate, resulting in a reduction of our export sales and related net sales revenue, which are substantially denominated in U.S. dollars.

The table below sets forth the sales volumes of our products by market category for the years ended December 31, 2017 and 2016:

Sales Volume		For the year ended December 31,		% Variation in year
		2017	2016	
(in thousands of tonnes)				
Domestic market.....	Papers	556	553	1%
	Pulp	294	104	183%
	Conversion	715	659	8%
	Total (excluding wood)	1,564	1,316	19%
	Wood	2,596	2,462	5%
Export market.....	Papers	548	591	(7%)
	Pulp	1,061	693	53%
	Conversion	47	49	(4%)
	Total (excluding wood)	1,656	1,333	24%
Total.....	Papers	1,104	1,144	(3%)
	Pulp	1,355	797	70%
	Conversion	762	708	8%
	Total (excluding wood)	3,220	2,650	22%
	Wood	2,596	2,462	5%

Variation in the fair value of biological assets

In 2017, our gain in the variation in fair value of biological assets increased 48% to R\$790 million, compared to R\$533 million in 2016.

In 2017, the increase in fair value of biological assets was mainly due to the acquisition by us of certain forests of Florestal Vale do Corisco. In 2016, the gain recorded was mainly due to adjustments to our forest-cutting plan as a result of Project Puma, in addition to the growth of our forests.

Cost of products sold

In 2017, cost of products sold increased 23% to R\$6,427 million, compared to R\$5,227 million in 2016. This increase was mainly due to the 22% increase in our sales volume (excluding wood), mainly due to increased pulp sales from the Puma Plant.

The average unit cost of our products sold in 2017 was R\$1,766 per tonne, representing a decrease of 4% compared to 2016 of R\$1,831 per tonne, despite inflation of approximately 3% in the same period, according to the IBGE. The depletion of biological assets included within cost of products sold totaled R\$947 million in 2017, compared to R\$675 million in 2016, mainly due an increase in the volume of forests harvested in 2017 compared to 2016. Cash cost of pulp production has decreased since the third quarter of 2016 then, from R\$890 per tonne to R\$681 per tonne in the fourth quarter of 2017.

Gross Profit

As a result of the foregoing, our gross profit increased 14% to R\$2,736 million in 2017 compared to R\$2,397 million in 2016.

Operating income (expenses)

Sales expenses. In 2017, sales expenses increased 12% to R\$657 million, compared to R\$586 million in 2016, mainly due to the increase in sales volume, particularly the volume of our foreign sales, in respect of which we incur higher costs than domestic sales. Sales expenses represented 8% and 8% of our net sales revenue in 2017 and 2016, respectively, with freight comprising 63% of our sales expenses in 2017, compared to 58% in 2016.

General and administrative expenses. General and administrative expenses increased 13% to R\$528 million in 2017, compared to R\$466 million in 2016. This increase was mainly due to an increase in labor costs as a result of higher wages granted under collective bargaining agreements and higher bonuses, due to improvement of our key performance indicators.

Profit before finance result and taxes

As a result of the foregoing, our profit before finance result and taxes increased 11% to R\$1,552 million in 2017 compared to R\$1,398 million in 2016.

Finance Result

In 2017, financial income, excluding foreign exchange variations, decreased 15% to R\$749 million, compared to R\$879 million in 2016. This decrease was mainly due to lower interest rates applicable to cash, cash equivalents and marketable securities after the decrease of financial indices such as SELIC, CDI and IPCA.

In 2017, our financial expense, excluding foreign exchange variations, increased 5% to R\$1,288 million, compared to R\$1,231 million in 2016. This increase is mainly due to the increase of R\$1.1 billion in Total Debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability), as a result of the issuance of the 2049 Green Notes in September 2017, and the 105th and 135th series of the 1st issuance of CRAs, in March and December 2017, respectively.

Net foreign exchange variation decreased to an expense of R\$174 million, compared to income of R\$2,169 million, in 2016. This decrease was mainly due to the 2% appreciation of the U.S. dollars against the *real* in 2017, compared to a 17% appreciation of the U.S. dollar over the *real* in 2016. This variation did not have a net impact on cash given that our U.S. dollars denominated export transactions exceed our payments obligations denominated in U.S. dollar.

As a result of the foregoing, our finance result decreased to an expense of R\$713 million in 2017, compared to an income of R\$1,817 million in 2016.

Income tax and social contribution (current and deferred)

In 2017, our income tax and social contribution expense decreased 58% to R\$306 million, compared to R\$733 million in 2016. This decrease was driven by our adoption of the cash regime for exchange variation purposes in 2016, so that the effects recorded in financial results, accounted for on an accrual basis, are considered in the current tax base only when actually used on a cash basis and are otherwise recorded under deferred taxes.

Profit for the year

As a result of the foregoing, our profit for the year totaled R\$532 million in 2017, a 79% decrease, compared to R\$2,482 million in 2016.

Liquidity and Capital Resources

Our primary sources of liquidity have historically been cash flows from operating and financing activities and short-term and long-term borrowings and issuances of debentures. We believe these sources will continue to be the principal means of meeting our cash flow needs.

Our material cash requirements include the following:

- working capital;
- the servicing of our debt; and
- capital expenditures.

Condensed consolidated statements of cash flows

Our cash and cash equivalents and marketable securities as of September 30, 2019 and as of December 31, 2018, 2017 and 2016, were R\$12,153 million, R\$7,047 million, R\$8,272 million and R\$6,464 million, respectively.

	For the nine-month period ended September 30,		For the year ended December 31,		
	2019	2018	2018	2017	2016
	<i>(in thousands of reais)</i>		<i>(in thousands of reais)</i>		
Net cash provided by operating activities	1,901,866	2,124,538	2,786,976	1,792,978	1,202,849
Net cash used in investing activities	(1,711,933)	(638,854)	(1,049,222)	(838,817)	(2,648,153)
Net cash provided by (used in) financing activities.....	4,861,170	(2,470,589)	(3,032,322)	201,541	2,264,301
Increase (decrease) in cash and cash equivalents.....	5,051,103	(984,905)	1,294,568	1,155,702	818,997

Net cash provided by operating activities

For the nine-month periods ended September 30, 2019 and 2018, net cash flow provided by operating activities were R\$1,902 million and R\$2,125 million, respectively. This reflected our sales and subsequent cash generation, particularly those deriving from our sales and improved product mix, together with improvements in profit margins resulting from our increased operating efficiency.

For the years ended December 31, 2018, 2017 and 2016, net cash flow provided by operating activities were R\$2,787 million, R\$1,793 million and R\$1,203 million, respectively. This reflected increases as a result of

improvements in our sales and subsequent cash generation, particularly those deriving from pulp sales from the Puma Plant.

Net cash used in investing activities

For the nine-month periods ended September 30, 2019 and 2018, net cash used in our investing activities totaled R\$1,712 million and R\$639 million, respectively. In 2019 the Company incurred capital expenditures of R\$717 million for the new Puma II Project, to construct two new paper machines.

For the years ended December 31, 2018, 2017 and 2016, net cash used in our investing activities totaled R\$1,049 million, R\$839 million and R\$2,648 million, respectively.

Our business is capital intensive, and we consistently invest in the development of our operations and in improving operating performance. Our cash used in investing activities is therefore generally allocated for acquisitions of fixed assets to ensure the success of our ongoing operations and the development of our industrial facilities, investments in reforestation and maintenance of our forestry base.

In particular, from 2014 to 2017 we incurred capital expenditures of R\$8.5 billion to construct the Puma Plant, which has an annual production capacity of 1.5 million tonnes.

Net cash provided by (used in) financing activities

For the nine-month period ended September 30, 2019 we recorded net cash provided by financing activities of R\$4,861 million and for the nine-month period ended September 30, 2018, we recorded net cash used in financing activities of R\$2,471 million. For the year ended December 31, 2018 we recorded net cash used in financing activities of R\$3,032 million and for the years ended December 2017 and 2016, we recorded net cash provided by financing activities of R\$202 million, and R\$2,264 million respectively.

For the nine-month period ended September 30, 2019, net cash reflected the volume of new borrowings incurred in connection with liability management, including our 12th issuance of debentures, two new CRAs and our issuance of green notes in March 2019 and reopening of the notes due 2029 in July 2019.

In 2016, these amounts reflect the incurrence of financing to support the construction of the Puma Plant, from 2014 to 2017, including net cash provided by financings from BNDES, IDB and Finnvera. In 2017, these amounts reflect the net proceeds from the 105th and 135th series of the 1st issuance of CRAs in March and December 2017 and our issuance of the 2049 Green Notes in September 2017. In 2018, the net cash used in financing activities was primarily due to prepayment of indebtedness.

In addition to financing transactions, activities that affect our cash provided by (used in) financing activities include dividends we pay, as well as repurchases of our equity capital using available cash in accordance with the share repurchase plan approved by our management.

Total Debt

The table below sets forth our outstanding Total Debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability), as of September 30, 2019, and as of December 31, 2018, 2017 and 2016, including the currency and tenor of such total debt (for the purpose of this table, local currency means borrowings and debentures with nominal amounts in R\$ and foreign currency means borrowings with nominal amounts in U.S. dollars):

	As of September 30, 2019	As of December 31,		
		2018	2017	2016
		<i>(R\$ million, except percentages)</i>		
Local currency	1,090	621	874	928
Foreign currency	514	1,356	1,596	1,911
Short-term	1,604	1,976	2,470	2,839
% Short-term	6%	11%	13%	15%
Local currency	7,027	6,628	4,615	4,434

Foreign currency.....	18,619	10,842	12,465	11,196
Long -term.....	25,645	17,470	17,080	15,630
% Long -term.....	94%	90%	87%	85%
Total Local currency.....	8,117	7,248	5,489	5,362
% Local currency.....	30%	37%	28%	29%
Total Foreign currency.....	19,133	12,197	14,061	13,107
% Foreign currency.....	70%	63%	72%	71%
Total Debt⁽¹⁾.....	27,249	19,446	19,549	18,469
(-) Cash and cash equivalents and marketable securities.....	(12,153)	(7,047)	(8,272)	(6,464)
Total Net Debt⁽¹⁾.....	15,096	12,399	11,278	12,005

- (1) In considering our financial condition, our management analyzes Total Net Debt, which is defined as Total Debt (calculated as short-term and long-term borrowings and debentures and does not include other interest-bearing liabilities or any other liability) minus cash and cash equivalents and marketable securities. Total Net Debt has limitations as an analytical tool. Total Net Debt is neither a measure defined by or presented in accordance with Brazilian GAAP or IFRS nor a measure of financial performance, and should not be considered in isolation or as an alternative financial measure determined in accordance with IFRS. Total Net Debt is not necessarily comparable to similarly titled measures used by other companies. These non-GAAP measures should be considered supplemental in nature and should not be construed as more important than comparable GAAP measures. For a reconciliation of our Total Debt see “Selected Consolidated Financial Data and Other Information.”

Our Total Debt as of September 30, 2019 was R\$27,249 million, comprising R\$1,604 million of short-term debt (or 6% of our Total Debt) and R\$25,645 million of long-term debt (or 94% of our Total Debt). As of September 30, 2019, our *reais*-denominated Total Debt was R\$8,117 million (or 30% of our Total Debt), while our foreign currency denominated Total Debt was R\$19,133 million (or 70% of our Total Debt) with nominal amounts in U.S. dollars. As of September 30, 2019, R\$3,724 million of our Total Debt was secured.

Our Total Debt as of December 31, 2018 was R\$19,446 million, comprising R\$1,976 million of short-term debt (or 11% of our Total Debt) and R\$17,470 million of long-term debt (or 90% of our Total Debt). As of December 31, 2018, our *reais*-denominated Total Debt was R\$7,248 million (or 37% of our Total Debt), while our foreign currency denominated Total Debt was R\$12,197 million (or 63% of our Total Debt) with nominal amounts in U.S. dollars.

Our Total Debt as of December 31, 2017 was R\$19,549 million, comprising R\$2,470 million of short-term debt (or 13% of our Total Debt) and R\$17,080 million of long-term debt (or 87% of our Total Debt), with an average tenor of 40 months. As of December 31, 2017, our *reais*-denominated Total Debt was R\$5,489 million (or 28% of our Total Debt), while our U.S. dollar denominated Total Debt was R\$14,061 million (or 72% of our Total Debt) with an average tenor of 52 months.

Our Total Debt as of December 31, 2016 was R\$18,469 million, comprising R\$2,839 million of short-term debt (or 15% of our Total Debt) and R\$15,630 million of long-term debt (or 85% of our Total Debt). As of December 31, 2016, our *reais*-denominated Total Debt was R\$5,362 million (or 29% of our Total Debt), while our U.S. dollar Total Debt was R\$13,107 million (or 71% of our Total Debt).

As of September 30, 2019, 14% of our Total Debt was secured by assets consisting of financing from BNDES, Finnvera and export credit agencies. As of December 31, 2018, 26% of our Total Debt was secured by assets, consisting of financing from BNDES, export credit agencies, Finnvera and IDB.

In addition, we may in the future incur significant additional debt, including (i) through investments for expansion projects, such as our prospective expansion plans, (ii) in connection with ongoing discussions with financial institutions in which we are actively engaged (which may substantially consist of liability management exercises) or (iii) otherwise. See “Risk Factors—Risks Relating to Us and the Paper and Packaging Industry in General—Our debt may adversely affect our financial health and operating flexibility and your investment in the notes” for more information regarding risks relating to our incurrence of indebtedness.

Material Financing Agreements

The table below summarizes our principal financing agreements as of September 30, 2019 (in thousands of reais, except percentages):

In local currency	Annual interest rate – %	Current	Non-current	Total
Debtentures	IPCA + 2.5 to 7.2 or 115% of CDI rate	473,511	1,455,579	1,929,090
BNDES – Project Puma.....	6.0 or TJLP + 1.98 to 2.48	290,104	1,177,976	1,468,080
BNDES - FINAME	2.5 to 5.5 or TJLP + 2.06 to 3.28	40,243	-	40,243
BNDES – Other.....	TJLP + 2.06 to 3.28	38,282	74,648	112,930
Export credit notes (in R\$).....	102% of CDI rate	209,654	766,667	976,321
CRA.....	95% to 102% of CDI rate or IPCA + 3.50 to 4.51	37,926	3,642,541	3,680,467
Other.....	1.0 to 8.75 or TJLP	12,426	12,660	25,086
Cost of funding.....		(12,082)	(103,372)	(115,454)
Total		1,090,064	7,026,699	8,116,763
In foreign currency*				
BNDES – Project Puma.....	USD + 7.65 to 8.05	195,387	834,308	1,029,695
BNDES – Other.....	USD + 6.77 to 7.11	19,078	1,023	20,101
Export prepayments.....	USD + Libor + 1.35 to 2.20 or USD + 6.25	22,171	3,604,333	3,626,504
Export credit notes.....	USD + Libor + 2.5	39,037	1,878,882	1,917,919
Syndicated loan	USD + Libor + 1.20 to 2.10	8,006	2,498,640	2,506,646
Finnvera.....	USD + Libor + 0.82 to 1.05 or USD + 1.88 to 3.88	87,510	931,492	1,019,002
ECA	EUR + 0.45	5,246	28,790	34,036
SWAP	4.70 to 5.67	-	579,574	579,574
Bonds (Notes).....	USD + 4.88 or 7.00	176,759	8,418,176	8,594,935
Cost of funding.....		(39,264)	(156,643)	(195,907)
Total		513,930	18,618,575	19,132,505
Total financing agreements.....		1,603,994	25,645,274	27,249,268

* U.S. dollars

Cash and cash equivalents and marketable securities as of September 30, 2019 was R\$12,153 million, which exceeds the amortization of our debt falling due over the succeeding 56 months.

Mandatorily Convertible Debentures – 6th Issuance

In November 2013, we issued 27.2 million convertible debentures with a nominal unit value of R\$62.50, for an aggregate amount of R\$1.7 billion in proceeds through a private placement in Brazil. These debentures mature on January 8, 2019 and are mandatorily convertible into our units, each of which is comprised of one of our common shares and four of our preferred shares, bear interest of 8% per annum, plus an adjustment based on the U.S. dollar-real exchange rate and will be entitled to participate in any distribution of our dividends. Conversion may take place at any time following the period of 18 months after the issue date, as well as in certain other circumstances where we and/or the holders of the debentures would be entitled to exercise the conversion right (as set forth in the indenture governing the debentures), at a conversion rate calculated as the unitary price of the debenture, adjusted as provided in the indenture, divided by the amount of R\$62.50 (also subject to adjustment as provided in the indenture governing the debentures).

On January 31, 2018, we were required to convert all outstanding debentures into units, given that the Puma Plant reached a threshold operational level, having produced and sold 300,000 tonnes of pulp. Given the convertible nature of these debentures, we recorded these debentures as a hybrid instrument, partially as debt, corresponding to the present value of the interest until conversion, with the remainder recorded as equity. See “Summary—Recent Developments” for more information regarding the conversion of these debentures into our units.

The covenants under our debentures restrict, among other things, our ability to participate in certain related party transactions and to sell or encumber any fixed assets which represent more than 20% of our consolidated fixed assets.

Debentures with Subscription Rights – 7th Issuance

In April 2014, we issued 55,555,000 simple debentures, combined with a subscription bonus, at the nominal unit value of R\$14.40, for an aggregate amount of approximately R\$800 million, divided into two series of 27,777,500 debentures each. These debentures have an unsecured guarantee from our parent company (Klabin Irmãos e Cia).

- (i) The first series of debentures will mature on June 15, 2020, and bears interest of IPCA + 7.25% per annum, payable semiannually, with a grace period of two years, commencing in June 2016 through maturity, with a bullet principal payment due at maturity or the date of conversion of the subscription bonus, whichever occurs first. These debentures are convertible debt, since they can be utilized at any time until their maturity, at the discretion of the holder, to subscribe and pay up shares issued by us, in the form of units (comprising one common share and four preferred shares), in the proportion of one unit for each debenture, through the exercise of the subscription bonus.
- (ii) The second series of debentures will mature on June 15, 2022, and bears interest of IPCA + 2.50% per annum, payable semiannually, commencing in June 2016 through maturity, with a grace period of two years. Scheduled amortizations of the aggregate principal amount outstanding under this debenture are payable semi-annually commencing in June 2016 through maturity. This series of debentures is not convertible and therefore are not linked to the subscription bonus.

Investors who acquired the first series were obliged to acquire debentures of the second series. The amount of R\$28,503 arising from the subscription bonus on the debentures issued was allocated to equity. The debenture holders have the option to convert debentures into units any time before the debentures' maturity date. A total of 98.86% of the debentures were subscribed by BNDES and the remaining debentures were subscribed by other holders.

As of September 30, 2019, the outstanding balance of our 7th issuance of debentures (without deducting the effect of cost of funding) was R\$653 million.

The covenants under our debentures restrict, among other things, our ability to participate in certain related party transactions and to sell or encumber any fixed assets which represent more than 20% of consolidated fixed assets.

Debentures – 12th Issuance

On April 24, 2019, we concluded the issuance of our 12th series of simple debentures for an aggregate amount of R\$1.0 billion, with separate tranches (i) maturing in seven years, non-amortizing, and accruing semiannual interest at 98% of the CDI interest rate and (ii) maturing in eight, nine and 10 years, amortizing, and accruing annual interest at the IPCA + 4.5% p.a.

BNDES

We entered into credit facility agreements with BNDES for the financing of our industrial development projects, such as the Puma Plant, construction of the new paper machine in Correia Pinto (in the State of Santa Catarina), and the construction of a new recycled-paper machine in Goiana (in the State of Pernambuco). These facilities were composed of several tranches. Scheduled amortizations of the aggregate principal amount and interest outstanding under these facilities were payable in monthly installments commencing in July 2009 through maturity. Our main credit facility with BNDES was executed in April 2014 in the amount of R\$3.4 billion and matured in January 2025.

Our credit facilities with BNDES are fully secured by mortgages and liens on property, plant and equipment, as well as by escrow deposits and guarantees from our controlling shareholders.

Our BNDES facilities include covenants that restrict, among other actions, the ability of our parent company (Klabin Irmãos e Cia) to include provisions in our shareholders agreements and by-laws to restrict our growth or technological development; restrict our access to new markets; or affect our ability to fulfill our financial obligations with BNDES or adversely change our financial situation. In addition, the covenants restrict our parent company's ability to merge or consolidate with any other person or otherwise undergo a change of control.

As of September 30, 2019, the outstanding balance (without deducting the effect of cost of funding) of our BNDES credit facilities was R\$2,671 million all of which was secured.

On November 6, 2019, we opened a new credit line with BNDES to finance the Puma II Project, which may be partially or fully withdrawn in the following 30 months, has a total amount of up to R\$3 billion, with an interest rate equivalent to IPCA + 3.58% p.a., maturing in 20 years and with a 2.5 years grace period for the principal amount. This credit facility has not been drawn upon, which Klabin may do within 2.5 years.

On November 18, 2019, we repaid the full R\$2,400 million that was outstanding under the main credit facility we had with BNDES to finance Puma I.

CRA - Agribusiness Receivables Certificates

On March 28, 2017, we concluded our 8th issuance of simple debentures totaling R\$845.9 million, maturing in five years and accruing interest at 95% of the CDI interest rate. The debentures backed the 105th series of the 1st issuance of CRAs of Eco Securitizadora.

On December 28, 2017, we concluded our 9th issuance of simple debentures totaling approximately R\$600 million, maturing in six years and accruing semiannual interest at 97.5% of the CDI interest rate. These debentures backed the 135th series of the 1st issuance of CRAs of Eco Securitizadora.

On September 18, 2018, we concluded our 10th issuance of simple debentures totaling R\$350 million, maturing in 6 years and 4 months and accruing semiannual interest at 102% of the CDI interest rate. These debentures backed the 23rd series of the 1st issuance of CRAs of Ápice Securitizadora S.A.

On April 26, 2019, we concluded our 11th issuance of simple debentures totaling R\$1.0 billion, with separate tranches maturing in seven and 10 years and accruing semiannual interest at 98% of the CDI interest rate for the 1st tranche (R\$200 million) and annual interest at IPCA for the 2nd tranche (R\$800 million). These debentures backed the 26th issuance of CRAs of VERT Securitizadora.

As of September 30, 2019, the outstanding balance (without deducting the effect of cost of funding) of our debentures backing CRAs was R\$3,680 million.

In addition, on January 14, 2020, we concluded our 13th issuance of simple debentures in an aggregate principal amount of approximately R\$966.3 million, which we launched on June 15, 2019 and which will mature in June 2029, accruing annual interest at IPCA + 3.5%. These debentures back the 30th issuance of agricultural receivables certificates (*Certificados de Recebíveis do Agronegócio*), or CRAs, of VERT Securitizadora.

Export prepayments, export credit notes and working capital loans

We enter into export prepayment agreements and working capital loans with financial institutions to fund our working capital and our operations, and we have also issued export credit notes. These agreements are amortized according to the terms of each agreement (primarily on a semi-annual basis) and mature between January 2018 and March 2026. Our export credit notes, export prepayment agreements, and working capital loans are not secured by collateral; however, certain of these agreements are guaranteed by Klabin Trade.

As of September 30, 2019, our export financing agreements (export prepayment) represented an outstanding balance (without deducting the effect of cost of funding) amount of R\$6,521 million. See “Summary—Recent Developments,” for a discussion of our prepayment of certain of our export prepayment agreements since September 30, 2019.

In addition to the export prepayment agreements and working capital loans described above, in connection with our issuance of the Klabin Bond, we also entered into an intercompany export prepayment agreement with our wholly owned subsidiary Klabin Finance. This agreement was entered on September 19, 2017 and has an aggregate principal amount of U.S.\$490 million; the agreement matures in September 12, 2027, and bears interest at 5.20% per annum, payable semiannually, commencing March 2018 through maturity. The principal amount plus accrued interest may be paid at any time until maturity, at Klabin Finance’s option.

Syndicated Loan

In February 2019, Klabin Austria and Klabin Finance, as borrowers, and Klabin, as guarantor, entered into a U.S.\$1.1 billion unsecured syndicated revolving credit, export prepayment, and term loan facility maturing in December 2023 and bearing interest at a rate equal to 1, 3 or 6-month Libor (depending on the tranche and the borrower's election) plus grid pricing ranging from 1.20% to 2.10% (depending on Klabin's credit rating) plus a utilization fee on the revolving loans ranging from 0 to 0.30% (depending on the percentage of commitments utilized). As of the date of this offering memorandum, we borrowed R\$2,507 million under this facility.

The above syndicated loan includes covenants that restrict, among other actions, our ability to incur liens and merge or consolidate with any other person or convey or otherwise transfer all or substantially all of our assets. In addition, the covenants restrict Klabin Finance's and Klabin Austria's ability to incur debt with equity characteristics, make certain investments and engage in certain businesses.

SWAP (Derivative instruments)

In December 2018, we entered into a new export credit note of R\$1,879 million with Banco Bradesco which will mature in 2026 and bears interest at a rate of 114% of CDI. The note is linked to a BRL to USD foreign exchange swap in two tranches. These foreign exchange swaps bear interest of 5.6% and have the same maturity as the new credit export note. The settlements of the new export credit note and swaps are conditioned on one another. The gain and loss of the derivative instrument is determined by its mark to the market, corresponding to its fair value, recognized in the financial result.

On April 1, 2019, we concluded the issuance of our 12th series of simple debentures for an aggregate principal amount of R\$1.0 billion, with separate tranches maturing in eight, nine and 10 years and accruing semi-annual interest at 114.65% of the CDI interest rate. The debentures are linked pursuant to a BRL to USD foreign exchange swap in two tranches. These foreign exchange swaps bear interest of 5.4% and have the same maturity as the new debentures. The settlement of the new debentures and swaps are conditioned on one another. The gain and loss of the derivative instrument is determined by its mark to the market, corresponding to its fair value, recognized in the financial result.

IDB and IFC

In June 2015, we entered into a credit facility with IDB for an aggregate principal amount of up to U.S.\$300 million, divided into two tranches: tranche A, of U.S.\$150 million bearing interest at six-month LIBOR + 1.775% per annum and tranche B, of U.S.\$150 million, bearing interest at six-month LIBOR + 1.4% per annum.

This credit facility with IDB was fully secured by mortgages and liens on property, plant and equipment and requires an overcollateralization ratio equal to or greater than 130%. Tranche A of this facility matures in February 2025 and tranche B matures in February 2022.

On September 27, 2019, we repaid the U.S.\$96 million that was outstanding under that loan.

On October 31, 2019, we entered into new credit facilities with the Inter-American Investment Corporation, or IDB Invest, International Finance Corporation, or IFC, and other banks to finance the Puma II Project for the total amount of up to U.S.\$800 million, as follows:

- *A-Loans and Co-Loans:* Total amount of U.S.\$450 million, with floating interest rate equivalent to Libor plus 1.75%, maturing in 10 years, with a 3-year grace period for the principal amount; and
- *B-Loans:* Total amount of U.S.\$350 million, with floating interest rate equivalent to Libor plus 1.45%, maturing in 7 years, with a 3-year grace period for the principal amount. Eight other commercial banks participated the transaction.

This credit facility has not been drawn upon, which Klabin may do within two years. The facility is fully secured by mortgages and liens on property, plant and equipment and requires an overcollateralization ratio equal to or greater than 130%.

At the same time, we also entered into an additional credit facility with Finnvera, as discussed below.

Finnvera

As part of the funds necessary for the execution of Project Puma, in November 2014, we entered into a loan agreement with Finnvera for an aggregate principal amount of U.S.\$460 million, maturing in 2026, divided into two tranches: the first tranche of U.S.\$414 million, bearing interest at 3.4% per annum and the second tranche of U.S.\$46 million, bearing interest of six-month LIBOR + 1% per annum. As of the date of this offering memorandum, we have received three disbursements for an aggregate principal amount of U.S.\$364 million. The value obtained in U.S. dollars was lower than originally forecasted due to the appreciation of the U.S. dollar against the Euro in the period and the fact that imports pursuant to this agreement were denominated in Euros.

Our loan agreement with Finnvera is fully secured by mortgages and liens on property, plant and equipment. As of September 30, 2019, our Finnvera financing represented an outstanding balance (without deducting the effect of cost of funding) of R\$1,019 million.

The covenants under our credit facility with Finnvera restrict, among other things, our ability to sell or otherwise dispose of our fixed assets and to incur new debt. With respect to the limitation on the incurrence of debt, we received a waiver from Finnvera and HSBC, as agent under the agreement, to waive our compliance with this covenant in connection with this offering.

On October 15, 2019 we also entered into a new credit facility with Finnvera to finance the Puma II Project in the amount of U.S.\$245 million, with floating interest rate equivalent to Libor plus 0.55%, maturing in 12 years, with a grace period of 2.5 years. This credit facility has not been drawn upon, which Klabin may do within two years.

Notes and Green Notes

In July 2014, we, through our wholly owned subsidiary Klabin Finance, issued the 2024 Notes, which are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. The interest accruing on the Klabin Notes is payable in arrears in January and July of each year, commencing on January 16, 2015. Principal will be fully paid at maturity. The proceeds of the 2024 Notes were used to finance our activities in the normal course of business, in accordance with our business objectives. In April 2019, we commenced the Tender Offer for these Notes, in which we acquired U.S.\$238 million in outstanding principal amount. As of September 30, 2019, the outstanding amount of Klabin Notes was U.S.\$273 million.

In September 2017, we, through our wholly owned subsidiary Klabin Finance, issued U.S.\$500 million 4.875% senior notes due 2027, or the 2027 Green Notes, in respect of which application has been made to the Luxembourg Stock Exchange for listing on the Official List of the Luxembourg Stock Exchange and admission to trading on the Euro MTF Market. The interest accruing on the 2027 Green Notes is payable in arrears in March and September of each year, commencing on March 19, 2018. Principal will be fully paid at maturity. The proceeds of the 2027 Green Notes were used to finance and/or refinance, in whole or in part, Eligible Green Projects.

In April 2019, we, through our wholly owned subsidiary Klabin Austria, issued U.S.\$500 million 5.750% Note due 2029, or the 2029 Notes, and U.S.\$500 million 7.000% Notes due 2049, or the 2049 Green Notes, listed on the SGX-ST. The interest accruing on the 2029 Notes and 2049 Green Notes is payable in arrears in April and October of each year, commencing on October 3, 2019. Principal will be fully paid at maturity. The proceeds of the 2029 Notes were used to repay or refinance existing indebtedness and replenish our cash position and of the 2049 Green Notes were used to finance and/or refinance, in whole or in part, Eligible Green Projects.

In July 2019, we, through our wholly owned subsidiary Klabin Austria, issued another U.S.\$250 million of 2029 Notes. The proceeds of the second issuance were used for early redemption or refinancing of debt held by us, as well as for cash-position enhancement, and to finance our activities in the normal course of business.

The above notes include covenants that restrict, among other actions, our ability to incur liens and merge or consolidate with any other person or convey or otherwise transfer all or substantially all of our assets. In addition, the covenants restrict Klabin Finance's and Klabin Austria's ability to incur certain debt, make certain investments and engage in certain businesses.

As of September 30, 2019, the outstanding balance of U.S.-dollar denominated notes (without deducting the effect of cost of funding) totaled R\$8,595 million.

Covenants

The main restrictive covenants under our financing agreements are as shown above. We do not have any other financing agreements that include financial covenants or related events of default. As of the date of this offering memorandum, we are in compliance with all of our obligations under our debt agreements.

Quantitative and Qualitative Disclosures of Market Risks

Risk management

We are exposed to certain risks arising from our normal business activities. We and our subsidiaries enter into transactions involving financial instruments, all recorded in balance sheet accounts, in order to meet our operational needs and reduce exposure to financial risks. These market risks, which are beyond our control, are mainly related to credit and investment of funds, market risks (foreign exchange and interest rates) and liquidity risks, to which we are exposed based on the nature of our business and operating structure.

We have implemented a risk management policy approved in January 2016 by our board of directors in order to align our strategic objectives and structure with best market practices, so as to enable the fulfillment of the objectives established by our management to mitigate uncertainties and future events that cannot be predicted or measured accurately and that impact our operations.

We manage these risks through strategies that are prepared and approved by our management and are linked to our establishment of control systems and limits on related positions. We do not enter into derivative or other financial instruments for speculative purposes.

Our management also performs a prompt assessment of our consolidated position, monitoring the financial results we obtain, analyzing future projections, ensuring our compliance with the approved business plan, and monitoring the risks to which we are exposed.

Credit risk and risk related to use of funds

Credit risk is the risk that a counterparty of a business does not fulfill an obligation established in a financial instrument or contract with a customer, which would lead to a financial loss. We are exposed to credit risk in our operating activities (mainly in connection with trade receivables) and to the risk related to use of funds, including deposits in banks and financial institutions, foreign exchange transactions, financial investments and other financial instruments.

The maximum amount exposed to credit risk is the carrying amount of trade receivables recorded in our balance sheet. In regard to the risk related to use of funds, the exposure relates mainly to financial investments and capital market transactions.

We manage credit risk based on specific rules for acceptance of customers, credit analysis and establishment of exposure limits by customer, and we review those rules periodically. Past due receivables are monitored to attempt to ensure their recovery. Additionally, our management has approved specific analyses and policies for entering into financial investments with financial institutions with acceptable ratings and the types of investments offered in the financial market, seeking to invest our cash in a conservative and safe manner.

Liquidity risk

We monitor the risk of a shortfall of funding, managing our capital through a recurring liquidity planning tool, so that we have available funds for the fulfillment of our obligations, mainly concentrated in financings from financial institutions.

The table below sets forth the maturity of the financial liabilities recorded in our consolidated balance sheet, where the reported amounts include principal and future interest accruing on financings, calculated using rates and indices prevailing as of September 30, 2019 (in thousands of *reais*):

	September 2019	2020	2021	2022	2023	2024 onwards	Total
Trade payables	(978,019)	-	-	-	-	-	(978,019)
Borrowings/Debentures	(508,369)	(2,610,848)	(2,080,059)	(2,844,396)	(5,522,160)	(29,209,602)	(39,775,434)
Total.....	(1,486,388)	(2,610,848)	(2,080,059)	(2,844,396)	(5,522,160)	(29,209,602)	(40,753,453)

Our budget for the coming years, approved by our board of directors, provides that we will be able to meet our ongoing obligations as they are projected to come due.

Currency risk

We have transactions denominated in U.S. dollars, which are exposed to market risks arising from fluctuations in U.S./*real* rates. Any fluctuation in a U.S./*real* rate may increase or reduce these balances. The breakdown of this exposure as of September 30, 2019 is as set forth below (in thousands of *reais*):

	As of September 30, 2019 <i>(in thousands of reais)</i>
Banks and financial investments.....	2,245,264
Trade receivables (net of provision for impairment of trade receivables) and other assets	864,475
Other assets and liabilities	138,000
Export prepayments (financing)	(19,082,842)
Net exposure.....	(15,835,103)

For the nine-month periods ended September 30, 2019 and for the years ended December 31, 2018, 2017 and 2016, the primary market risk that impacted our results were exchange rate fluctuations related to the U.S. dollar, which generated negative and positive effects in the results for the respective years due to our foreign exchange exposure, which is comprised primarily of foreign currency financing.

For the nine-month period ended September 30, 2019, the *real*/U.S. dollar exchange rate increased by 7%, to R\$4.1644 per U.S.\$1.00, compared to 2018 which generated a negative impact of R\$814 million on net exchange variation.

In 2018, the *real*/U.S. dollar exchange rate increased by 17%, to R\$3.8748 per U.S.\$1.00 compared to 2017 which generated a negative impact of R\$1,999 million on net exchange variation. In 2017, the *real*/U.S. dollar exchange rate increased by 2%, to R\$3.31 per U.S.\$1.00 compared to 2016, which generated a negative impact of R\$174 million on net exchange variation.

In the nine-month period ended September 30, 2019, we did not enter into any derivative contracts to hedge against our foreign exchange rate exposure, except for the foreign exchange swap referred to above that is linked to a specific export credit note. However, in order to hedge against our exchange rate exposure, we have implemented a sales plan pursuant to which the projected flow of our export revenues is approximately U.S.\$1 billion annually, an amount that if realized, would exceed or approximate the flow of payments of our related liabilities, offsetting the cash effect of this foreign exchange exposure.

As set forth below, our sensitivity analysis for exchange variations is calculated on our net foreign exchange exposure and reflects a simulation of the effect of the exchange variation on our net based currency exposure as of September 30, 2019. For sensitivity analysis purposes, we have adopted as scenario I the future market rate in effect at the end of September 30, 2019 published by Central Bank. For scenarios II and III this rate was adjusted by 25% and 50%, respectively.

		Scenario I		Scenario II		Scenario III	
		Exchange Rate (R\$ per U.S.\$)	R\$ gain (loss)	Exchange Rate (R\$ per U.S.\$)	R\$ gain (loss)	Exchange Rate (R\$ per U.S.\$)	R\$ gain (loss)
	U.S.\$						
<i>(in thousands of reais and U.S. dollars)</i>							
Cash and cash equivalents	539,234	4.09	(37,207)	5.12	515,616	6.14	1,065,635
Trade receivables, net of allowances for doubtful accounts	207,617	4.09	(14,326)	5.12	198,523	6.14	410,292
Other assets and liabilities	33,143	4.09	(2,287)	5.12	31,691	6.14	65,497
Financing.....	(4,583,035)	4.09	316,229	5.12	(4,382,298)	6.14	(9,056,994)
Net effect on financial result ...	(3,803,041)		262,409		(3,636,468)		(7,515,570)

Interest rate exposure risk

We have loans indexed to the LIBOR, the CDI rate, and the Brazilian Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or TJLP, and financial investments indexed to the CDI, IPCA and SELIC. We do not have any derivative contracts to swap/hedge against the exposure to these market risks, and we maintain only one outstanding rate swap transaction (a synthetic financial instrument), in order to reduce the effective interest rate, together with an export prepayment transaction.

Our policy is to continuously monitor market interest rates in order to assess the need to contract additional derivatives to hedge against the risk of volatility of these rates. Additionally, we consider that the high cost associated with entering into transactions at fixed interest rates in the macroeconomic scenario justifies our use of floating rates.

The breakdown of our interest rate exposure as of September 30, 2019 is set forth below (in thousands of reais):

	As of September 30, 2019 <i>(in thousands of reais)</i>
Financial investments – CDI.....	8,488,247
Financial investments – SELIC	892,667
Financial investments – IPCA	466,883
Asset exposure.....	9,847,797
Financing – CDI	(4,656,788)
Financing – TJLP	(1,621,253)
Financing – Libor	(6,563,425)
Debentures – IPCA.....	(1,929,089)
Liability exposure	(14,770,555)

For sensitivity analysis purposes, we adopted rates prevailing at dates close to the reporting dates, using for SELIC, LIBOR, IPCA and CDI the same rate due to their close dates in the projection of scenario I. For scenarios II and III these rates were adjusted by 25% and 50%, respectively. The table below shows a simulation of the effect of the exchange variation on the future results for the interest risk exposure at September 30, 2019.

		Scenario I		Scenario II		Scenario III	
	R\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
		(in thousands of reais and U.S. dollars, except percentages)					
Short-term investments							
CDBs ⁽¹⁾ – CDI	8,488,247	5.40%	74,697	7.85%	207,962	9.42%	341,228
LFTs ⁽²⁾ – SELIC	892,667	5.40%	7,855	7.85%	21,870	9.42%	35,885
NTN-B ⁽³⁾ – IPCA.....	466,883	3.42%	6,210	5.94%	11,754	7.13%	17,298
Financings							
Export Credit Notes & CRA – CDI	(4,656,788)	5.40%	(40,980)	7.85%	(114,091)	9.42%	(187,203)
BNDES – TJLP	(1,621,253)	3.95%	6,161	6.96%	(16,415)	8.36%	(38,991)
Debentures – IPCA.....	(1,276,111)	3.42%	(16,972)	5.94%	(32,126)	7.13%	(47,280)

	Scenario I			Scenario II		Scenario III	
	R\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
<i>(in thousands of reais and U.S. dollars, except percentages)</i>							
Export Prepayments & IDB – LIBOR	(6,563,425)	1.91%	7,737	2.54%	(41,081)	3.05%	(74,426)
Net effect on financial result			<u>29,234</u>		<u>37,873</u>		<u>46,511</u>

(1) *Certificado de Depósito Bancário.*

(2) *Certificado Financeiro do Tesouro.*

(3) *Nota do Tesouro Nacional, série B.*

For more information, see “—Material Financing Agreements.”

Contractual Obligations

As of September 30, 2019, we have 303 lease agreements recognized in its balance sheet using IFRS 16 criteria so that the right of use of the assets and lease liabilities are recognized at the future value of the contractual obligations assumed in the agreement, giving their net present value. These lease agreements include land leases relating to an aggregate of approximately 80,000 hectares of land for the development of pine and eucalyptus forests with third parties in the states of São Paulo, Parana and Santa Catarina with a maturity in 2057 and leases of industrial machinery, agricultural and administrative real estate and commercial warehouses.

The following table summarizes certain of our contractual obligations and commitments under IFRS 16 criteria as of September 30, 2019:

Type of Obligation ⁽¹⁾	As of September 30, 2019					
	2019	2020	2021	2022	2023	2024 onwards
<i>(In millions of R\$)</i>						
Land lease agreements.....	21,593	86,219	67,387	43,519	38,912	260,641
Total.....	<u>21,593</u>	<u>86,219</u>	<u>67,387</u>	<u>43,519</u>	<u>38,912</u>	<u>260,641</u>

(1) Amounts do not include interest or other expenses payable, such as commissions.

Off-Balance Sheet Arrangements

As of September 30, 2019, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Capital Expenditures

The table below sets forth our capital expenditures (purchase of property, plant and equipment and planting cost of biological assets) for the years indicated (in millions of reais):

	For the nine-month period ended September 30,		For the year ended December 31,		
	2019	2018	2018 ⁽¹⁾	2017	2016
<i>(in millions of reais)</i>					
Forestry	255	196	272	228	136
Maintenance	522	299	462	399	405
Special Projects and Growth.....	228	183	222	121	320
Project Puma	-	-	-	177	1,707
Project Puma II.....	717	-	-	-	-
Total	<u>1,722</u>	<u>676</u>	<u>956</u>	<u>925</u>	<u>2,567</u>

(1) These investments represent the cash view and do not consider the investments by the subsidiary Guaricana Reflorestadora SA, constituted in December 2018, of R\$140 million in CAPEX. It is worth noting that Klabin's contribution to the SPE's equity was in the form of 4,511 hectares of pine plantations located in the state of Santa Catarina (does not include land) and TIMO (Timber Investment Management Organization), in turn, contributed in cash, with Klabin holding a majority of the SPE's voting capital.

In nine-month period ended September 30, 2019, we incurred capital expenditures of R\$1,722 million, mainly for forestry operations, R\$522 million for investments in the operational uptime of the plants, and R\$228 million for high-return special and expansion projects with the objective of improving operational performance in the various segments in which we operate and R\$717 million in the expansion of the Puma II Project for the construction of two new paper machines. The total investment budgeted for the Puma II Project is R\$9.1 billion, subject to currency fluctuations and adjustments for inflation, which will be disbursed between 2019 and 2023. Approximately R\$900 million of the total investment is tax deductible. Considering that most of the equipment will be installed in the first stage of the project, approximately two-thirds of the total investment budgeted amount is to be disbursed between 2019 and 2021. We will fund the Puma II Project with our cash and cash from our current operations, and we may obtain additional funding, provided that conditions, costs and terms are attractive.

In 2018, we incurred capital expenditures of R\$956 million, mainly for maintenance. This included R\$462 million for continuity of mill operations, R\$272 million for forestry operations and R\$222 million for special projects and Project Puma. In 2017, we incurred capital expenditures of R\$925 million, mainly for maintenance. This included R\$399 million for continuity of mill operations, R\$228 million for forestry operations, R\$121 million for special projects and expanding capacity and R\$177 million for Project Puma. In 2016, our capital expenditures totaled R\$2,567 million. We focused mainly on capacity expansion projects, which totaled R\$2,027 million and included the completion of the construction of the Puma Plant, the acquisition of Embalplan and the purchase of industrial assets for the production of corrugated boxes from Hevi Embalagens da Amazônia Ltda. located in the City of Manaus, State of Amazonas.

See “—Principal Factors Affecting our Results of Operations—Commencement of the Puma Plant” for more information regarding the Puma Plant.

Brazilian Pulp and Paper Market

Overview of the Pulp and Paper Industry

Wood pulp is one of the main raw materials used in the manufacture of paper and paperboard products and one of the most abundant raw materials in the world. Pulp can be manufactured from a number of raw materials (e.g., wood, bagasse and bamboo) and is classified according to the type of wood or fiber from which it is made, the manner in which the wood or fiber is processed, and whether it is bleached. Bleached pulp is used for a variety of purposes, including printing and writing papers, specialty papers and tissue, while unbleached pulp is used in the production of wrapping paper, corrugated containers and other paper and cardboard materials.

There are two main types of wood pulp that can be produced: (i) hardwood pulp, which is produced using hardwood trees (e.g., eucalyptus, aspen, birch and acacia) and is generally better suited to manufacturing coated and uncoated printing and writing papers, tissue and coated packaging boards; and (ii) softwood pulp, which is produced using softwood trees (e.g., pines and fir) and is generally used in the manufacture of papers that require durability and strength, such as kraftliner, newsprint, catalogues, boards and lightweight coated paper. Fluff pulp is also produced from softwood, but with different bulk and water absorbency characteristics, enabling it to be used in applications such as napkins, diapers and hygiene products.

The pulp manufacturing process determines the suitability of pulp for particular end uses. Mechanical pulp refers to pulp processed to leave in some lignin and other organic materials holding the wood fibers together, whilst chemical pulp refers to pulp made using chemical processes to dissolve the lignin. The most common amongst the different chemical processes for chemical pulp is the kraft process, which is the one used by Klabin to produce its pulp.

The kraft process converts wood into pulp by treating wood chips with a mixture of hot water, sodium hydroxide and sodium sulfide. This initial treatment compound is known as white liquor. The production process also creates a significant amount of black liquor, a residual component from the initial process of pulp production which is used to produce steam and generate energy. This allows some pulp mills to be self-sufficient in terms of electricity.

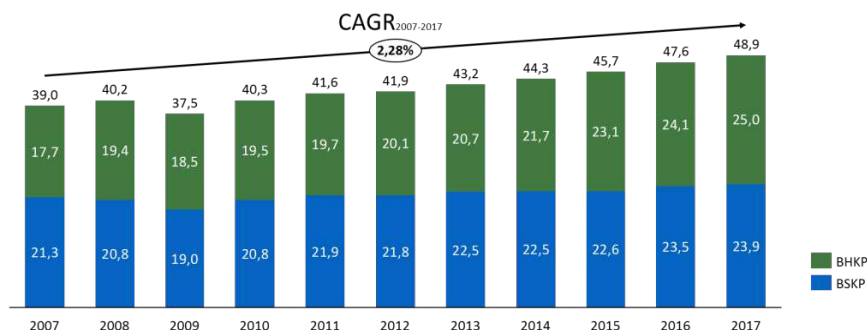
According to IBÁ, Brazilian production of pulp increased to 21.1 million tonnes in 2018, up from 19.6 million in 2017. The Brazilian paper industry also remained stable over this period, with production of 10.5 million tonnes from 2017 to 2018. Additionally, Brazilian production of pulp decreased to 15.0 million tonnes in the first nine months of 2019, down from 15.8 million tonnes in the same period in 2018. Brazilian paper production was stable over the same period, with production of 7.8 million tonnes of paper.

Operating markets

Pulp

According to the Pulp and Paper Products Council, or PPPC, global production of bleached pulp increased from 39.0 million tonnes to 48.9 million tonnes from 2007 to 2017, representing a compound annual growth rate of 2.28%.

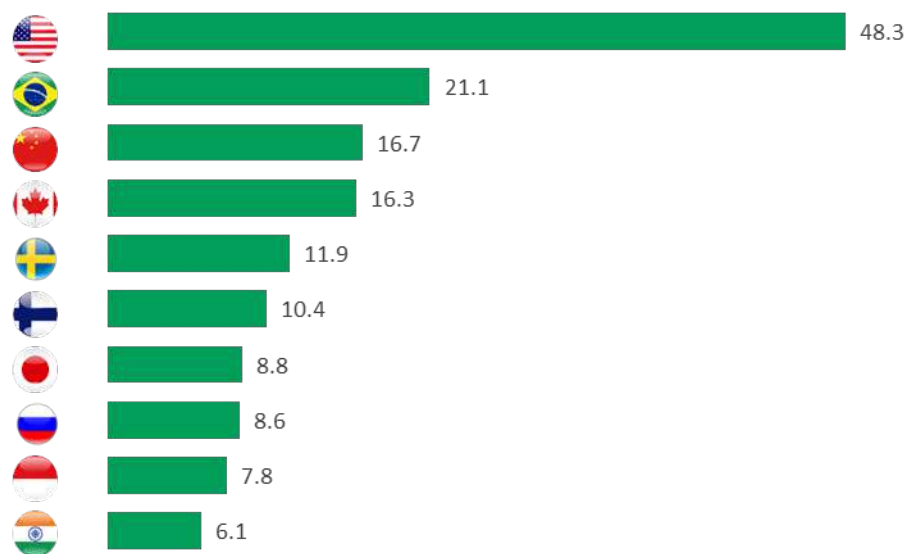
Historical Global Production of Market Pulp, 2007-2017 (million tonnes)



Source: PPPC

Since tree growth is highly dependent on geographic region, certain countries have a natural advantage for pulp production. Regions with favorable climate for faster tree growth hold significant cost efficiency over other countries, since this allows them to produce wood in shorter growth cycles. Some of these countries include Brazil, Finland, Canada and Indonesia, where high-quality, fast-growing wood can be found.

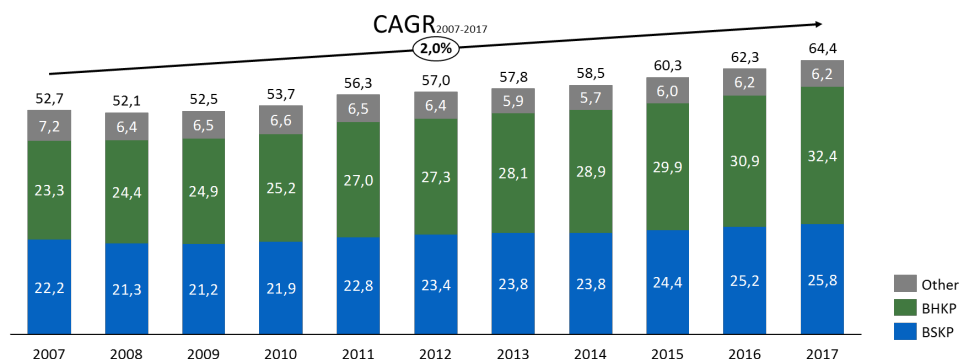
Top Market Pulp Producing Countries (2018, million tonnes)



Source: IBÁ

According to Hawkins Wright, the global demand for pulp reached 64.4 million tonnes in 2017, of which 50% was for hardwood pulp and 40% was for softwood pulp. During the last decade, the demand for pulp grew at an annual rate of 2.0%, with the demand for hardwood pulp and softwood pulp having grown at compound annual rates of 3.3% and 1.51%, respectively.

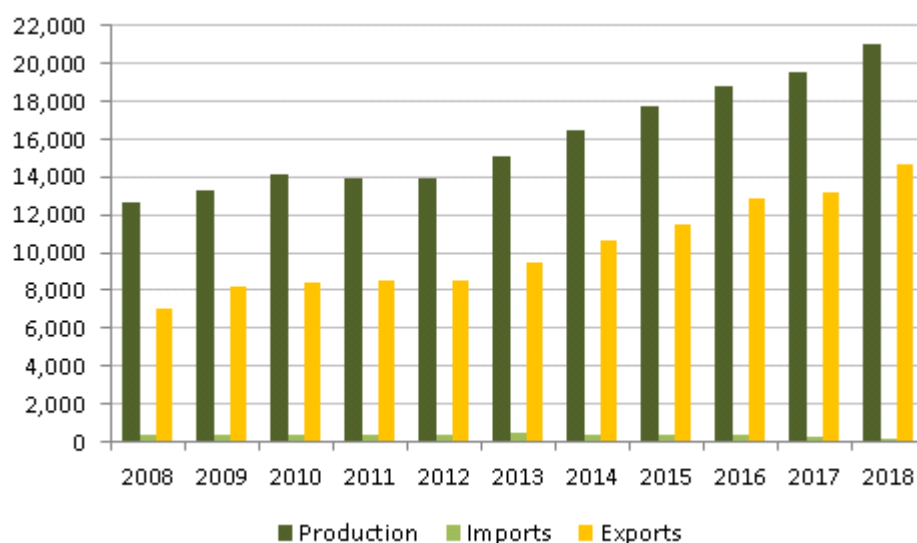
Historical Global Demand for Market Pulp, 2007-2017 (million tonnes)



Source: Hawkins Wright

In 2018, Brazilian pulp production, which includes hardwood pulp (from eucalyptus), softwood pulp (from pine), and high-yield pulp, was 21.1 million tonnes, 8.0% greater than the value for 2017. Export volume reached 14.7 million tonnes, an increase of 11.5% compared to 2017. As shown in the chart below, Brazilian pulp production increased by 8.3 million tonnes in the last decade, which represents a compound annual growth rate for the period of 5.2%.

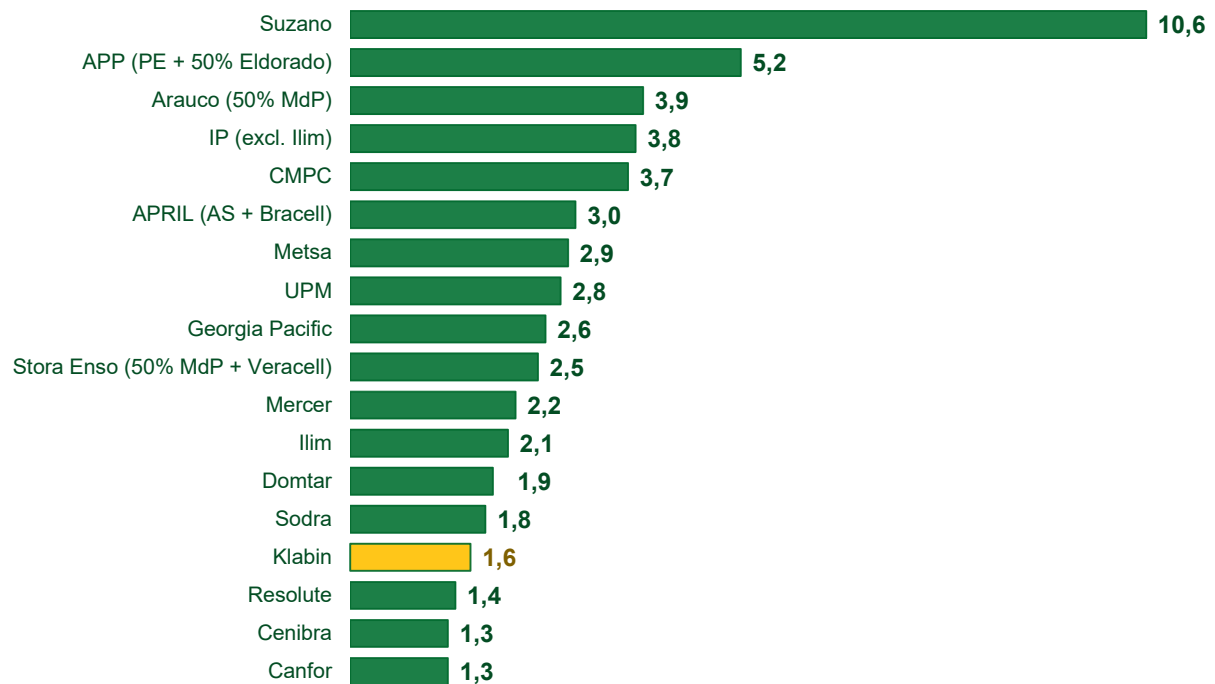
Brazilian Production of Pulp, 2008-2018 (thousands of tonnes)



Source: IBA.

While domestic consumption remained stable in the last decade, production growth is mostly explained by a significant increase in Brazilian pulp exports, especially to Asia, which has invested in non-integrated paper mills and which has experienced increasing demand for pulp for tissues, toilet paper and other related products. With these results, Brazil consolidated its position in the global market pulp space, occupying first place among the world's largest producers.

Total Market Pulp Production Capacity by Player (2019, million tonnes)



Source: HawkinsWright (Apr/2019); Includes BSKP, BHKP, UKP and Mechanical Pulp

Source: Hawkins Wright

Paper

The paper market has four main segments: graphic paper, packing paper, specialty paper and tissue paper. These segments are further divided into more specific sub-segments, as seen below. As of today, we are active mainly in the cartonboard, kraftliner and specialty segments, the last of which includes our trademark liquid paper.

Printing & Writing	Packaging Paper	Specialty Paper	Tissue Paper
Used in books, newspapers, forms, magazines, and other related applications	Includes corrugated packing, industrial bags, food containers and shipping containers	Recycled paper, adhesive paper, decorative paper and paper with security features	Mainly hygienic and medical applications
Printing	Cartonboard	Water Resistant	Paper Towels
Writing	Containerboard	Labels	Toilet Tissue
Newsprint	Kraftliner	Metallic Paper	Table Napkins

Kraft paper is a high-elasticity liner with high-tear resistance used mostly for packaging industrial products, and along with containerboards, one of Klabin's main paper products. A combination of kraftliner and containerboard is used to produce corrugated boxes, a widely used shipping and packaging product in Brazil and all around the world.

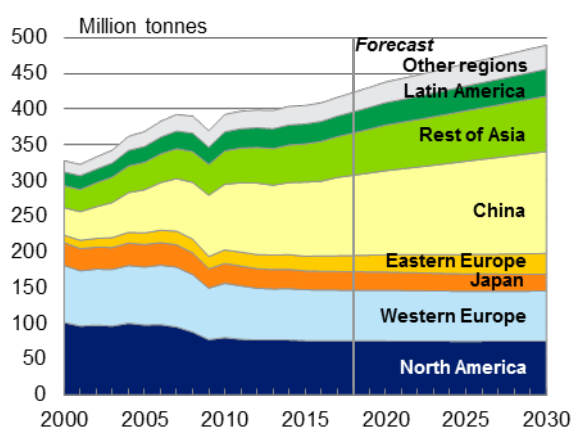
The process of transforming basic paper inputs into commercial-use products is known as conversion. It consists of two main activities: (i) cutting industrial-size reels of paper to consumer-oriented sizes, known as cut-size, and (ii) the assembly of higher-capacity paper products, such as corrugated boxes. Conversion is one of the main activities of several key paper product players, including Klabin.

Growth prospects vary significantly depending on the type of paper product.

Growth prospects also vary between mature markets and emerging markets. Mature markets, such as the USA, Western Europe and Japan, tend to have slower growth rates, due lower population growth, ease of access to digital media and television and a general reduction in the grammage (average density) of paper.

Demand by Region

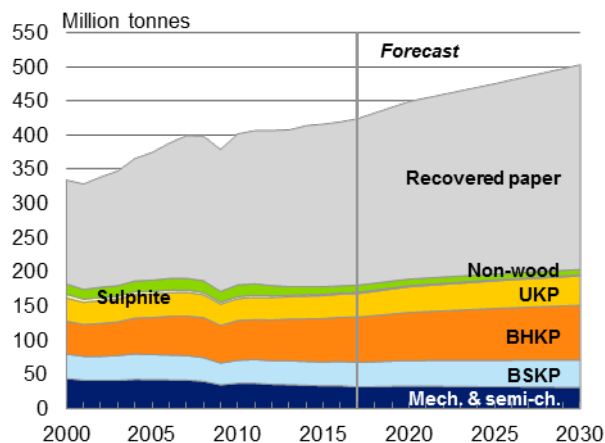
(2000-2030)



Source: Pöyry

The usage of different types of paper has changed significantly over time, with containerboard gaining increased importance in the global consumption of paper and with newsprint, printing and writing paper gradually losing space to digital means of communication.

World Consumption of Papermaking Fiber by Product Area 2000-2030

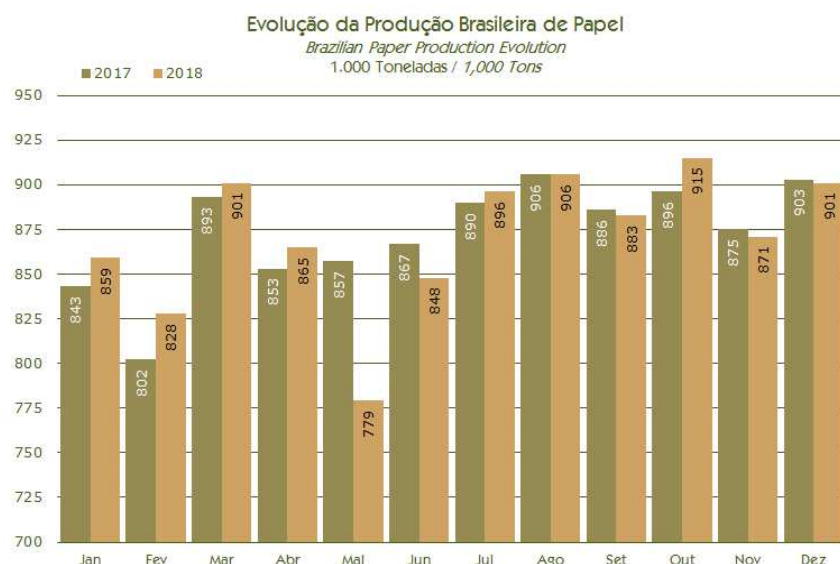


Source: Pöyry

Despite the fact that paper prices are linked to pulp prices, they are generally less volatile and more linked to macro trends. Key paper price factors include general economic activity, capacity expansion (which determines paper supply) and currency exchange rate fluctuations.

Brazilian paper production in 2018 totaled 10.5 million tonnes, 0.2% lower than in the previous year. The main reason for the decrease in the production is related to the reduction of export sales, which were 4.6% lower than the volume registered in 2017.

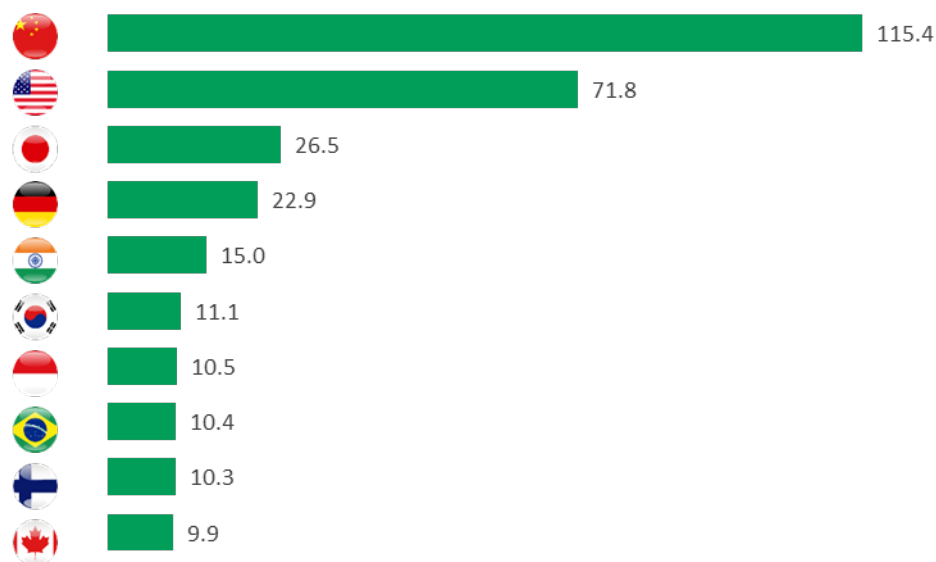
Historical Production and Consumption of Paper in Brazil (million tonnes)



Source: IBÁ

While the Brazilian pulp industry is export-oriented, the Brazilian paper industry is focused on its domestic market, which was responsible for absorbing more than half of the paper produced in Brazil in 2018. Despite the focus on its domestic market, Brazil is positioned as the eighth-largest paper producer globally.

Top Paper Producing Countries (2018, million tonnes)

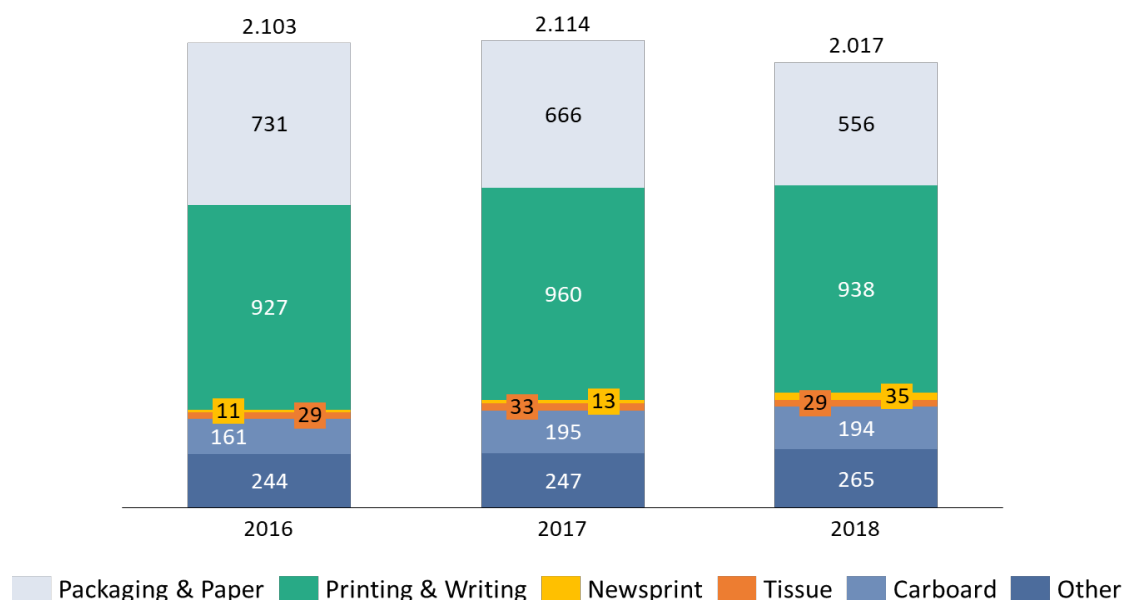


Source: IBÁ

The production of cartonboard paper in Brazil was 747 thousand tonnes for 2018, 3.6% higher when compared to the 721 thousand tonnes in 2017. Of these, 553 thousand tonnes were destined to the domestic market, 5.1% higher than the 526 thousand tonnes in 2017. The production for packaging and wrapping paper in Brazil was 5.371 thousand tonnes in 2018 and 5.485 thousand tonnes in 2017. Of these, 1.770 thousand tonnes and 1.781 thousand tonnes, respectively, were destined to domestic consumption.

National players produce both commodity-grade, higher-grammage paper, such as cartonboard and kraftliner, and higher-value paper, such as coated printing paper and specialty paper. The country is a net exporter of most types of paper, with the exception of newsprint and a small amount of specialty papers.

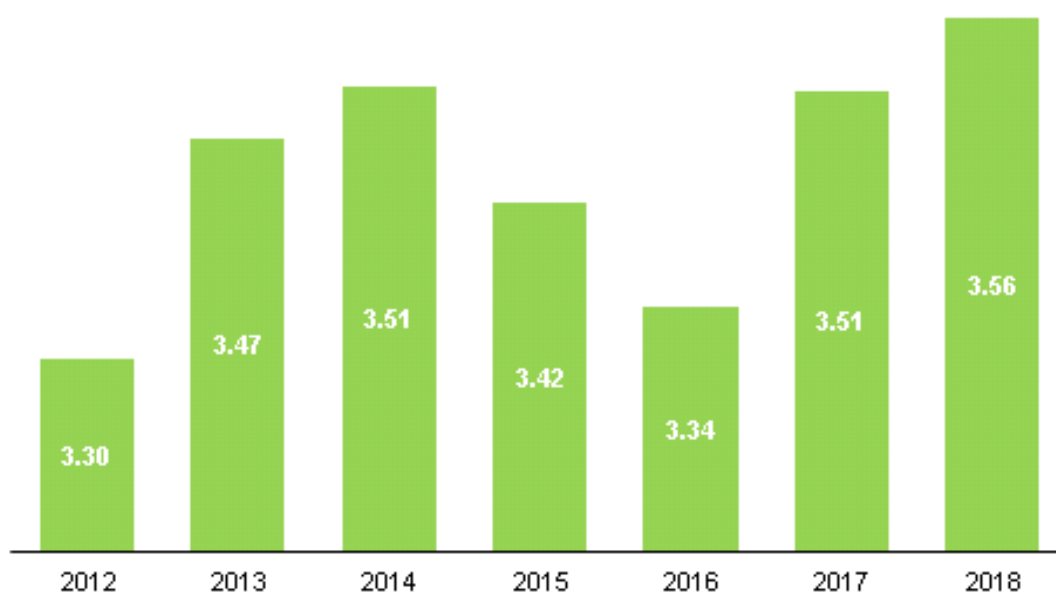
Net Paper Exports by Product ('000 tonnes)



Source: IBÁ

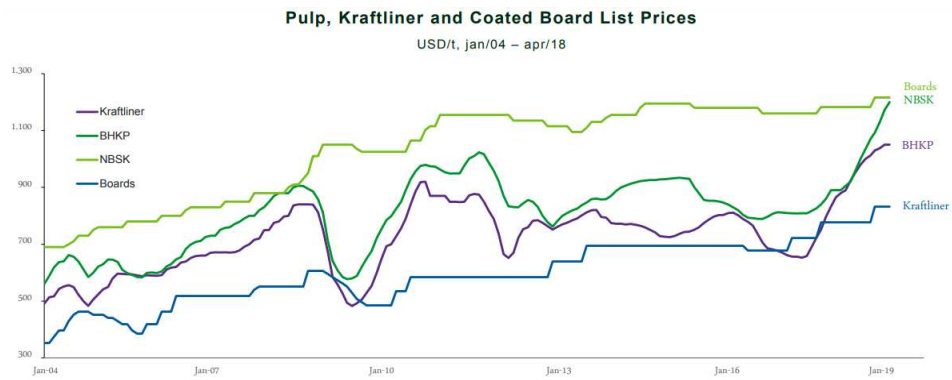
Packaging has seen an increase in the number of shipments of boxes, accessories and sheets of corrugates boards over the last year. The volume reached 3.6 million tonnes in 2018, representing a 2% increase when compared to 2017.

Shipment of Boxes, Accessories and Sheets of Corrugated Board (million tonnes)



Source: ABPO

Pulp and Packaging Grades Prices



BHKP - Bleached Hardwood Kraft Paper; EU – Foex / NBSK - Northern Bleached Softwood Kraft; EU – Foex / Cartões - SBS - Solid Bleached Sulfate board, 16pt folding carton; US – RISI / Kraftliner - Unbleached Kraftliner, 200g, Open Market; US - RISI

Business

The following discussion of our business should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2018, 2017 and 2016 and our unaudited interim individual and consolidated financial information as of and for the nine-month periods ended September 30, 2019 and 2018, included elsewhere in this offering memorandum, and our unaudited interim individual and consolidated financial information as of and for the three-month period ended March 31, 2020 and our audited consolidated financial information as of and for the period ended December 31, 2019 dated February 6, 2020, incorporated by reference in this offering memorandum, as well as with the information presented under “Presentation of Financial and Other Information,” “Summary of Financial and Other Information” and “Selected Consolidated Financial Data and Other Information.” The following discussion contains forward-looking statements that are based on management’s current expectations, estimates and projections and that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in the sections “Forward-Looking Statements and Associated Risks” and “Risk Factors.”

The Issuer

Klabin Austria is a company incorporated under the laws of Austria. The issuer is a wholly-owned trading company of the Guarantor.

The Guarantor

We are the largest producer, exporter and recycler of packaging paper in Brazil according to IBÁ and internal estimates, and one of the largest integrated paper producers in Latin America according to internal estimates, based on our production capacity in 2018 of two million tonnes of packaging paper. We are also the only Brazilian company to simultaneously sell hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp. We recorded a profit of R\$84 million and a loss of R\$726 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$187 million, R\$532 million and R\$2,482 million for the years ended December 31, 2018, 2017 and 2016, respectively. Our Adjusted EBITDA was R\$3,358 million and R\$2,891 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$4,024 million, R\$2,738 million and R\$2,287 million for the years ended December 31, 2018, 2017 and 2016. We recorded cash flow from operating activities of R\$1,902 million and R\$2,125 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,787 million, R\$1,793 million and R\$1,203 million for the years ended December 31, 2018, 2017 and 2016.

We produce several types of paper, packaging products and pulp in 17 plants in Brazil and one plant in Argentina for the domestic and international markets.

Our coated boards are utilized in the production of cardboard packaging for consumer products in a wide range of sectors, including food (both natural and processed), electronic and electrical products, utensils, sanitation and cleaning products, footwear, personal hygiene and beauty products, canned and bottled beverages, equipment and clothing, among other products.

Our corrugated boxes are also utilized by a diverse range of international customers for the packaging of raw and processed foods, chemicals and related products, flowers, beverages, tobacco products, metallurgy, perfume and cosmetics. Certain domestic purchasers also utilize our corrugated boxes for the packaging of exports such as meat, poultry, fruit and tobacco. We produce industrial bags, primarily for use in the civil construction industry (for the packaging of raw materials such as cement, lime and clay) as well as for the packaging of seeds, chemical products, food, animal feed and minerals. Sales of industrial bags to the civil construction industry alone account for over 56% of sales volumes of this business unit in 2018.

In the first quarter of 2016, we began operating our new pulp plant, or the Puma Plant, located in Ortigueira, Paraná, with the first pulp produced on March 4, 2016, certified by FSC. The Puma Plant has an annual production capacity of 1.5 million tonnes of pulp per year, including bleached hardwood pulp (eucalyptus) and bleached softwood pulp (pine), a portion of which is converted into fluff pulp. The Puma Plant is the only industrial unit in the world designed to manufacture these three fibers and is the first softwood fluff production facility in Brazil, enabling our customers to economize on import and foreign exchange costs. Fluff is an important input used in the production of

sanitary products (such as baby and adult diapers, as well as sanitary pads). In addition, we export softwood and fluff pulp to more than 28 countries, taking advantage of the growth of the global diaper and adult incontinence markets.

We believe that we are the only Brazilian producer of liquid packaging board, which is used for packaging liquids, and have supplied all of the liquid packaging board in Brazil for Tetra Pak International S.A., or Tetra Pak, which has been our largest client in this market segment. In 2015, we entered into an agreement to sell hardwood pulp to Fibria Celulose S.A., or Fibria. Tetra Pak and Fibria were responsible for approximately 23%, or R\$1,740 million, and 32%, or R\$2,333 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and 33%, or R\$3,261 million, and 30%, or R\$2,503 million, of our net sales revenue in 2018 and 2017, respectively. Tetra Pak was responsible for 13 %, or R\$959 million, and 11%, or R\$822 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$1,083 million, or 11%, and R\$1,261 million, or 15%, of our net sales revenue in 2018 and 2017, respectively. Fibria was responsible for 10%, or R\$780 million, and 21%, or R\$1,511 million, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,178 million, or 22%, and R\$1,241 million, or 15%, of our net sales revenue in 2018 and 2017, respectively. By mutual agreement with Fibria we have terminated our agreement with them and agreed on a transition period during which we will directly assume marketing activities, mostly in Europe, and which ended in 2019.

The balance of our clients is diversified, with no other single client individually representing a material portion (over 10%) of our net sales revenue.

We organize our business operations into the following four business units, which are our operational segments corresponding to our principal production processes and main products:

- *Papers Unit*, which manufactures coated boards, including liquid packaging board, kraftliner, sack kraft and recycled paper, which accounted for R\$2,542 million, or 34%, and R\$2,301 million, or 32%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$3,177 million, or 32%, R\$2,951 million, or 35%, and R\$3,090 million, or 44%, of our total net sales revenue in 2018, 2017 and 2016, respectively;
- *Conversion Unit*, which manufactures corrugated boxes and industrial bags, and accounted for R\$2,220 million, or 29%, and R\$2,118 million, or 29%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,852 million, or 28%, R\$2,675 million, or 32%, and R\$2,428 million, or 34%, of our total net sales revenue in 2018, 2017 and 2016, respectively;
- *Pulp Unit*, which manufactures hardwood, softwood and fluff pulp, which accounted for R\$2,613 million, or 35%, and R\$2,571 million, or 36%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$3,680 million, or 37% of our total net sales revenue in 2018; R\$2,422 million, or 29%, of our total net sales revenue in 2017 and R\$1,252 million, or 18%, of our total net sales revenue in 2016; and
- *Forestry Unit*, which produces both pine (softwood) and eucalyptus (hardwood) logs, and which accounted for R\$199 million, or 3%, and R\$246 million, or 3%, of our net sales revenue for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$316 million, or 3%, R\$330 million, or 4%, and R\$324 million, or 4%, of our total net sales revenue in 2018, 2017 and 2016, respectively.

For the nine-month period ended September 30, 2019 and for the year ended December 31, 2018, we sold 2,400 thousand tonnes and 3,189 thousand tonnes, respectively, of pulp, paper and packaging products (excluding wood, which has a distortive effect when measuring volume), operating at full capacity, and recorded net sales revenue of R\$7,568 million and R\$10,016 million, respectively. Approximately 46% of our production is exported to approximately 82 countries on five continents and, as of September 30, 2019, we and our subsidiaries had 14,297 employees and generated approximately 20,000 direct and indirect jobs.

History

We commenced our operations in 1899 when the Klabin and Lafer families founded Klabin Irmãos & Cia. in the State of São Paulo.

Today, we believe that we are a leader in Brazil in the manufacturing of paper and packaging products, operating through 17 plants in Brazil and one unit in Argentina, and are also the only Brazilian company to simultaneously sell hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp. Our line of products comprises pulp, papers and boards for packaging, corrugated boxes, industrial bags and wood logs.

Moreover, we benefit from the commitment, experience and insight of our founding controlling shareholders, the Klabin family, which has directed our growth throughout our 121 years of existence.

Our shares have been listed on the B3 since 1979 and were listed on the Level 2 segment of corporate governance of B3 in 2014, in connection with which we have adopted enhanced disclosure and corporate governance policies and procedures. We also maintain a Level I American Depositary Receipts program for trading of our American depositary receipts, or ADRs, over-the-counter in the United States.

Our Business Structure

In 2003, we centered our businesses on the manufacturing of paper and cardboard for packaging and paper packaging, the current focus of our business. In 2016, we also began operating the Puma Plant, located in the City of Ortigueira, Paraná. This plant has a production capacity of 1.5 million tonnes of pulp, including bleached hardwood pulp (eucalyptus) and bleached softwood pulp (pine), most of which is converted into fluff pulp. The Puma Plant is the only industrial unit in the world designated to manufacture these three kinds of fibers. Currently our products include pulp (hardwood, softwood and fluff); paper (kraftliner, coated boards, and recycled papers); corrugated cardboard; liquid packaging board and industrial bags. We are also active in the forestry sector through our sale of wood logs.

In addition, we developed the Klabin Pulp and Paper Logistic Unit for integration with the Puma Plant to allow for the use of both railroad and road transportation to the port of Paranaguá, which enables the transportation of the Puma Plant's total pulp production, reducing costs and enhancing vertical integration of the production value chain. Notably, our railways consist of seven GE diesel-powered locomotives that transport materials between our facilities. The locomotives have an estimated life span of 20 years and are able to haul an estimated 60,000 kfg, or 71 wagons, of cellulose at a maximum velocity of 65 km/h. Overall, the railway transports 900,000 tons/year from the Puma Plant. Finally, the Puma Plant is currently connected to the Parana Central Railroad Station via a 23.5 km-long railroad extension.

We believe that we are a pioneer and the leader in the production of kraftliner paper in Latin America, in addition to being one of the largest producers and exporters of packaging paper. We export our products to over 80 countries and use our production of kraftliner, together with recycled papers, to supply our corrugated cardboard plants.

Our coated boards are produced using a mix of hardwood (eucalyptus) and softwood (pine), lending strength and optimal printing and packaging quality. All our coated board plants are certified by the FSC.

We are also the Brazilian leader in the corrugated cardboard sector, and in 2018, we had the largest production capacity in the domestic market, according to ABPO. Our packaging serves all segments of the economy and provides protection to products during shipment.

We believe that we are also a leader in the production of industrial bags, recognized for our quality and for serving our customers, and we have adapted our products to various market sectors, particularly civil construction, food, chemical products, and agri-business.

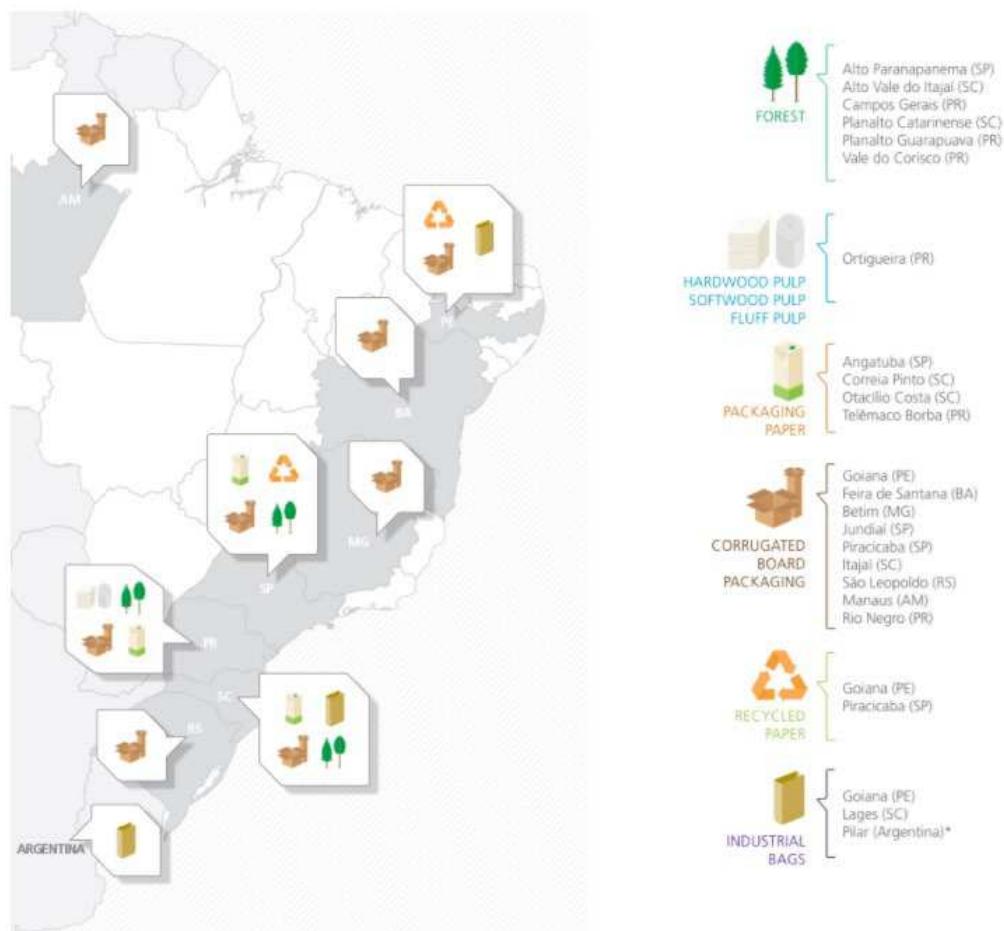
In addition to the paper sector, our Forestry Unit is active in the sale of wood logs from forests planted for sale to the plywood and sawmill industries. Our forests are certified by the FSC, and in 1998, we believe that we

became the first pulp and paper company in the southern hemisphere to gain FSC certification, which we obtained for our forestry areas in the State of Paraná.

	For the nine-month period ended September 30,				For the year ended December 31,					
	2019	%	2018	%	2018	%	2017	%	2016	%
	<i>(in millions of reais, except percentages)</i>									
Segment net sales revenue	7,568	100%	7,231	100%	10,016	100%	8,373	100%	7,091	100%
Paper	2,542	34%	2,301	32%	3,177	32%	2,951	35%	3,090	44%
Conversion	2,220	29%	2,118	29%	2,852	28%	2,675	32%	2,428	34%
Pulp	2,613	35%	2,571	36%	3,680	37%	2,422	29%	1,252	18%
Forestry	199	3%	246	3%	316	3%	330	4%	324	4%
Corporate/Eliminations	(7)	0%	(5)	0%	(9)	0%	(5)	0%	(3)	0%

Our Industrial Plants

Our business currently comprises 17 industrial plants in Brazil and one industrial plant in Argentina, as shown on the map below:



The table below shows our industrial plants, their products and capacity:

Business Unit	Mill	Capacity (thousand tonnes)	Products
Pulp	Ortigueira (Paraná)	1,500	Hardwood Pulp/Softwood Pulp/Fluff Pulp
	Total	1,500	
Paper	Monte Alegre (Paraná)	1,000	Coated boards/ Kraftliner
Paper	Otacílio Costa (Santa Catarina)	364	Kraftliner
Paper	Correia Pinto (Santa Catarina)	190	Sack kraft
Paper	Angatuba (São Paulo)	128	Kraftliner
	Total	1,682	
Paper	Goiana (Pernambuco)	168	Recycled Paper
Paper	Piracicaba (São Paulo)	107	Recycled Paper
	Total	275	
Conversion	Betim (Minas Gerais)	62	Corrugated Boxes
Conversion	Manaus (Amazonas)	20	Corrugated Boxes
Conversion	Feira de Santana (Bahia)	60	Corrugated Boxes
Conversion	Goiana (Pernambuco)	140	Corrugated Boxes

Business Unit	Mill	Capacity (thousand tonnes)	Products
Conversion	Jundiaí TP (São Paulo)	75	Corrugated Boxes
Conversion	Jundiaí DI (São Paulo)	98	Corrugated Boxes
Conversion	Piracicaba (São Paulo)	104	Corrugated Boxes
Conversion	Rio Negro (Paraná)	47	Corrugated Boxes
Conversion	Itajaí (Santa Catarina)	101	Corrugated Boxes
Conversion	São Leopoldo (Rio Grande do Sul)	46	Corrugated Boxes
	Total	753	
Conversion	Lages I and II (Santa Catarina)	143	Industrial Bags
Conversion	Goiana (Pernambuco)	10	Industrial Bags
Conversion	Pilar (Argentina)	22	Industrial Bags
	Total	175	

Our Forests

Our principal source of wood is our own forests. Historically committed to sustainable development, we have reserved a portion of our lands for the preservation of native woodlands. We plant our own pine and eucalyptus trees to make our products. We also buy an average of approximately 35% of our total wood volume from third-party farmers located near our forests.

Our production processes are customized based on the type of wood used and the final destination of the fiber, and the technological specifications for each of our mills exceed industry standards.

Our different lines of products, such as pulp, kraftliner, sack kraft paper and coated boards, are developed with: (1) softwood fiber from pine wood; (2) hardwood fiber from eucalyptus; or (3) a mix of both fibers, depending on the characteristics of each specific product, client and end use. We utilize eucalyptus in the production of hardwood, which we believe has better printability characteristics, while we utilize pine in the production of softwood, which provides strength and wet resistance (characteristics that are essential for our packaging business).

The tables below show the size of our land, including the size of our preserved native forests and planted forests, and the average distance from our production mills to our forests as of September 30, 2019. The proximity of our forests to our mills has an important impact in reducing our transportation costs.

Forests	Paraná	Santa Catarina	São Paulo	Total
		<i>(in thousands of hectares)</i>		
Planted Forests.....	180	64	5	248
Eucalyptus.....	80	8	5	92
Pine	100	56	—	156
Preserved native forests	155	72	4	231
Others	50	13	-	63
Total Lands	385	148	9	541

Average Hauling Distance to Mills	Km
Paraná.....	97.8
Santa Catarina	76.5
São Paulo.....	89.7

Sustainability

Both in the domestic and international markets, we have aligned our activities and the services we offer to comply with our sustainability policy. Our sustainability policy is based on operational and energy efficiency, responsible management of resources and long-term commitments to the environment and our stakeholders, acknowledging the United Nations' Sustainable Development Goals, or the SDG, as the primary framework for planning our sustainability-derived targets.

We were the first pulp and paper producer in the southern hemisphere to obtain FSC certification, which we obtained in 1998 and attests to our management practices that conserve natural resources, provide fair working conditions and encourage healthy relations with local communities. This certification covers sawed and treated pine and eucalyptus wood, as well as the custody chain for our production of coated boards, industrial bags, corrugated boxes and recycled paper.

Industry Overview

Wood pulp is one of the main raw materials used in the manufacture of paper and paperboard products and one of the most abundant raw materials in the world. Pulp can be manufactured from a number of raw materials (e.g. wood, bagasse and bamboo) and is classified according to the type of wood or fiber from which it is made, the manner in which the wood or fiber is processed, and whether it is bleached. Bleached pulp is used for a variety of purposes, including printing and writing papers, specialty papers and tissue, while unbleached pulp is used in the production of wrapping paper, corrugated containers and other paper and cardboard materials.

There are two main types of wood pulp that can be produced: (1) hardwood pulp, which is produced using hardwood trees (e.g. eucalyptus, aspen, birch and acacia) and are generally better suited to manufacturing coated and uncoated printing and writing papers, tissue and coated packaging boards; and (2) softwood pulp, which is produced using softwood trees (e.g. pines and fir) and is generally used in the manufacture of papers that require durability and strength, such as kraftliner, newsprint, catalogues, boards and lightweight coated paper. Fluff pulp is also produced from softwood, but with different bulk and water absorbency characteristics, enabling it to be used in applications such as napkins, diapers and hygiene products.

The pulp manufacturing process determines the suitability of pulp for particular end uses. Mechanical pulp refers to pulp processed to leave in some lignin and other organic materials holding the wood fibers together, whilst chemical pulp refers to pulp made using chemical processes to dissolve the lignin. The most common amongst the different chemical processes for chemical pulp is the kraft process, which is the one used by Klabin to produce its pulp.

The kraft process converts wood into pulp by treating wood chips with a mixture of hot water, sodium hydroxide and sodium sulfide. This initial treatment compound is known as white liquor. The production process also creates a significant amount of black liquor, a residual component from the initial process of pulp production which is used to produce steam and generate energy. This allows some pulp mills to be self-sufficient in terms of electricity.

According to IBÁ, Brazilian production of pulp increased to 21.1 million tonnes in 2018, up from 19.6 million in 2017. The Brazilian paper industry remained stable over this period, with production of 10.5 million tonnes from 2017 to 2018. Brazilian production of pulp decreased to 15.0 million tonnes in the first nine months of 2019, down from 15.8 million tonnes in the first nine months of 2018. Brazilian paper production increased 1% in the first nine months of 2019, with production of 7.8 million tonnes of paper.

Our Strengths

We believe that our competitive strengths are the following:

Vertically integrated, low-cost producer of paper and packaging products.

We are the largest producer of packaging paper in Brazil according to IBÁ and internal estimates, and one of the largest integrated paper producers in Latin America according to internal estimates, based on our production capacity in 2019 of two million tonnes of packaging papers. We are also the only Brazilian company to simultaneously sell hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp. Given our fully vertically integrated operations and the strategic location of our operating facilities in Brazil, we believe our production costs for our pulp, paper and packaging products are among the lowest in the world. More specifically, our low production costs are a result of the following:

- We have low raw material costs, primarily because of the relatively short growing cycles of our eucalyptus trees (seven years from seedlings to trees ready for harvest) and of our pine trees (15 years from seedlings to trees ready for harvest), which represent a significantly shorter growth cycle compared

to that of trees used by our competitors outside Brazil, according to Pöyry. In addition, the productivity of both our softwood and hardwood forestry assets is appreciably better than that of our competitors outside Brazil. Moreover, we satisfy our requirements for wood largely from our own forests, obtaining the remainder from third-party suppliers only when necessary.

- We have low operating costs, attributable to our commitment to consistently improve our technology, our efficient operations and our economies of scale.
- We are one of the largest recyclers of paper in Brazil, currently recycling approximately 275,000 tonnes per year, almost all of which is successfully integrated into our production capacity of approximately 755,000 tonnes per year of corrugated boxes.

Diverse product portfolio that mitigates the impact of the paper industry's cyclicalities.

Our vertically integrated operations provide us with the flexibility to adjust our production and sales in the event of changes in market conditions. In addition, by producing pulp and paper products for both the export and the domestic markets, we enjoy the benefits of diversification and are positioned to take advantage of growth in the Brazilian market, as well as the opportunities offered by international markets.

Within our product portfolio, which includes paper and coated boards used for primary packages and converted products used in both primary packages (which have direct contact with the product) and secondary packages (which enclose the primary packages), we have significant exposure to producers of non-durable goods such as food, liquid food, beverages, hygiene and cleaning products, as well as raw materials for the civil construction industry, such as cement and wood. As a result of this exposure, we believe that we are well positioned to take advantage of periods of increased consumer spending in Brazil.

In addition, our ability to develop new, and improve existing, product lines has helped us to maintain and grow our sales in the face of increasing competition. We are increasingly focused on high value-added products with the objective of increasing our operating profit while maintaining a leading position in the domestic market.

Producer of premium quality products suitable for a wide range of end uses.

The premium quality of our products is attributable to our use of advanced manufacturing processes and equipment and our utilization of an optimal mix of eucalyptus fiber (hardwood) and pine fiber (softwood). The mixture of fibers provides an optimal blend of the attributes of each type of fiber.

We believe that the quality of our paper exceeds that of our competitors, as evidenced by its printing quality, smoothness, rigidity and high performance in the cutting, printing, folding and forming processes, which are important characteristics for the production of packages. We have the technical ability to manufacture board that can be used for the different packaging and filling systems of our clients, and our products are therefore suitable for a wide range of end uses.

Solid export base.

We have an established track record of more than 31 years of exporting paper products to a broad range of customers in over 70 countries. In 2018, we were the largest Brazilian exporter of kraftliner and coated boards, according to IBÁ. Our export sales for the nine-month periods ended September 30, 2019 and 2018 totaled R\$3,056 million and R\$3,162 million, respectively, and for the years ended December 31, 2018, 2017 and 2016 totaled R\$4,483 million, R\$3,353 million and R\$2,861 million, respectively, accounting for 40%, 44%, 45%, 40% and 40% of our net sales revenue, respectively. We believe that our competitive advantage as a low-cost producer, our extensive contacts in the international pulp and paper market, and our reputation for quality and service among our customers worldwide will continue to generate international demand for our products. We intend to continue our focus on the export market for growth, competing through high-quality products, competitive costs and customer service. Our net sales from exports are mostly denominated in U.S. dollars.

Financial strength and consistent cash flows.

Our consistent cash flow generation has historically enabled us to obtain adequate financing to improve our operations. In addition to our history of consistent cash flow generation, as an exporter we have had access to both short- and long-term trade finance facilities at competitive rates. These facilities are naturally hedged through our U.S. dollar-denominated export sales.

We recorded a profit of R\$84 million and a loss of R\$726 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and profit of R\$187 million, R\$532 million and R\$2,482 million for 2018, 2017 and 2016, respectively. Our Adjusted EBITDA was R\$3,358 million and R\$2,891 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$4,024 million, R\$2,738 million and R\$2,287 million for 2018, 2017 and 2016, respectively. We recorded cash flow from operating activities of R\$1,902 million and R\$2,125 million for the nine-month periods ended September 30, 2019 and 2018, respectively, and R\$2,787 million, R\$1,793 million and R\$1,203 million for 2018, 2017 and 2016, respectively.

Experienced and professional management team.

Our management team has considerable industry experience and knowledge. Unlike certain of our competitors whose businesses are family-operated, our management comprises a mix of executives with extensive experience in the pulp, paper and packaging market as well as selected professionals from other industries. In addition, our compensation metrics are closely aligned with our results, focusing on value creation for shareholders in the short and long term. We have designed and implemented models of competencies to evaluate the performance of management, which has resulted in a succession plan process that is already in place.

The members of our board of directors have extensive experience in areas related to our business, and we have shown continuous improvement in our corporate governance practices, particularly our adherence to the ABRASCA Code of Self-Regulation and Good Practices for Public Companies, or ABRASCA Code, and the implementation of a code of conduct applicable to all of us.

High organic growth potential.

We have substantial forests near our mills, comprising a total of 541 thousand hectares, including 248 thousand hectares of planted forests and 231 thousand hectares of preserved native forests (as well as recently cut forests, forests waiting to be cleaned and other lands), as of September 30, 2019.

Through research and development, cloning, hybridization and separation of seeds, we are continuously enhancing the productivity of our forest areas, which we believe to be a significant advantage over our competitors.

High social and environmental standards.

Preserving biodiversity is one of our key environmental responsibilities under our sustainability policy. Since we began operating, we have undertaken extensive efforts to identify and monitor the biodiversity of our forests by identifying species considered rare or at risk of extinction on lists such as those of the International Union for Conservation of Nature, or the IUCN, and the Brazilian Environmental and Natural Resources Institute (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), or IBAMA.

We were recognized by the Rainforest Alliance as “Creator of Sustainable Development Trends,” for the management of our forests. Our sustainable management practices also led us to become the first company in the Americas paper and cellulose sector to obtain FSC certification (in 1998), for our forests in Paraná. In 2004, our forest areas in Santa Catarina also received FSC certification, meaning the FSC has certified that our chain of production, from forest management to the manufacture of paper and conversion, occurs in a correct, socially just and economically viable form. The certification also guarantees the traceability of raw materials throughout our production chain. Currently, all of our forest areas and components of our production chain have received FSC certification, supporting our understanding that our activities are in line with the highest social environmental standards.

In addition, with a view to contributing to a fairer society, we develop and support programs for the professional qualification of young persons and that raise environmental awareness in the communities where we operate.

Our Strategies

Our fundamental business objectives are to maximize shareholder value by continuing to achieve steady and sustained growth, keeping our operational costs competitive to maintain our position as a low-cost producer of pulp, paper and packaging products and building on our competitive strengths in order to expand our leadership in the Brazilian and international paper and packaging industries. We are also committed to operating our business in a socially and environmentally responsible manner. The key elements of our business strategy are:

Continue to expand our core business through organic growth.

We have taken several steps to create a solid base for our future growth. We have completed certain debottlenecking, conversion and modernization projects and expansions.

In November 2013, a new sack kraft machine with a capacity of 80,000 tonnes per year was installed in our Correia Pinto Mill. This machine, which was manufactured in Brazil and required a capital investment of R\$240 million, supplies the industrial bags market. We also installed a new machine for the production of recycled paper in our Goiana Mill. With a capacity of 110,000 tonnes per year, this equipment, which commenced operations in 2015, is one of the most modern recycled paper machines in Brazil and yields quality and efficiency gains.

In March 2016, we commenced operations at the Puma Plant, our new pulp mill, which has a production capacity of 1.5 million tonnes per year, including hardwood bleached pulp (eucalyptus) and softwood bleached pulp (pine), a portion of which is converted into fluff pulp. The Puma Plant is the only industrial plant in the world designed to manufacture these three fibers.

Total investment in the Puma Plant was approximately R\$8.5 billion, including infrastructure, taxes and inflation adjustments.

In 2015, we and Fibria announced an agreement for the supply of hardwood pulp produced at the Puma Plant. The agreement established a firm commitment for acquisition by Fibria or its subsidiaries of a minimum of 900,000 tonnes per year of hardwood pulp, for exclusive sale by Fibria or its subsidiaries in countries outside South America. In 2018, after evaluating the market and strategic benefits of, and alternatives to, the agreement with Fibria, and as a mutually agreeable remedy for European antitrust regulatory hurdles to Fibria's merger with Suzano S.A., or Suzano, (which is further discussed below) and as a mechanism for us to expand our own direct reach, mostly in Europe, we agreed to terminate the agreement early. The termination was approved by the European Union antitrust authorities on November 29, 2018. The agreement has been terminated and we have agreed on a transition period during which we will directly assume marketing activities, mostly in Europe, and which ended in 2019.

With the commencement of operations of the Puma Plant we have begun a new stage in our history, moving into new markets and becoming the only Brazilian company to simultaneously produce bleached pulps from hardwood, softwood and fluff produced in a mill entirely designed for this purpose. The Puma Plant reinforces our commitment to the best global sustainability practices by combining high forestry productivity, low operating costs, efficient logistics and cutting-edge environmental technology to produce highly competitive end products.

In April 2018, our new industrial bag machine in Lages, in the State of Santa Catarina, commenced operations increasing our total production capacity for industrial bags to 175 million tonnes per year. Our capital expenditures in respect of our new industrial bag machine totaled approximately R\$65.0 million.

In April 2019, we announced our project for the expansion of capacity in packaging paper, or the Puma II Project, which is anticipated to involve the construction of two paper machines with integrated pulp production in Klabin's industrial unit in the municipality of Ortigueira, in the State of Paraná. The Puma II Project is anticipated to be divided into two phases: the first phase involves the construction of a main fiber line to manufacture non-bleached pulp, integrated with a kraftliner and white kraftliner paper machine. This product is anticipated to be sold using the brand name Eukaliner, with annual production capacity of 450,000 tons. In addition, this phase also includes the

construction of complimentary installations supporting the new lines and recovery and utilities plants. The second phase involves the construction of a complimentary fiber line for the manufacture of non-bleached pulp, integrated with a kraftliner paper machine with annual production capacity of 470,000 tons and the expansion of certain support installations.

The project schedule estimates that each construction stage of the Puma II Project may last up to 24 months and the beginning of the second phase may only occur after the completion of the first phase. Completion of the first phase is expected to occur in the second quarter of 2021, and the completion of the second phase is expected to occur in the second quarter of 2023. The total investment budgeted for the Puma II Project is R\$9.1 billion, subject to currency fluctuations and adjustments for inflation, which will be disbursed between 2019 and 2023. Approximately R\$900 million of the total investment is tax deductible.

Focus on product development and adding value to our customers.

We are focusing our development, production and sales efforts on high value-added products (such as liquid packaging boards, fluff, folding box boards and extensible paper for industrial bags) to meet the current and expected future needs of the domestic market, and to achieve a level of quality and services that will enable us to compete with imported products as well as access new export markets. Through the development of new technologies and improvements in the quality of our products, we believe we can reach more competitive markets and obtain higher sales margins.

Increase our operating efficiencies.

We continue to explore opportunities and implement steps to increase our operating efficiencies. Among other initiatives and projects, we are currently:

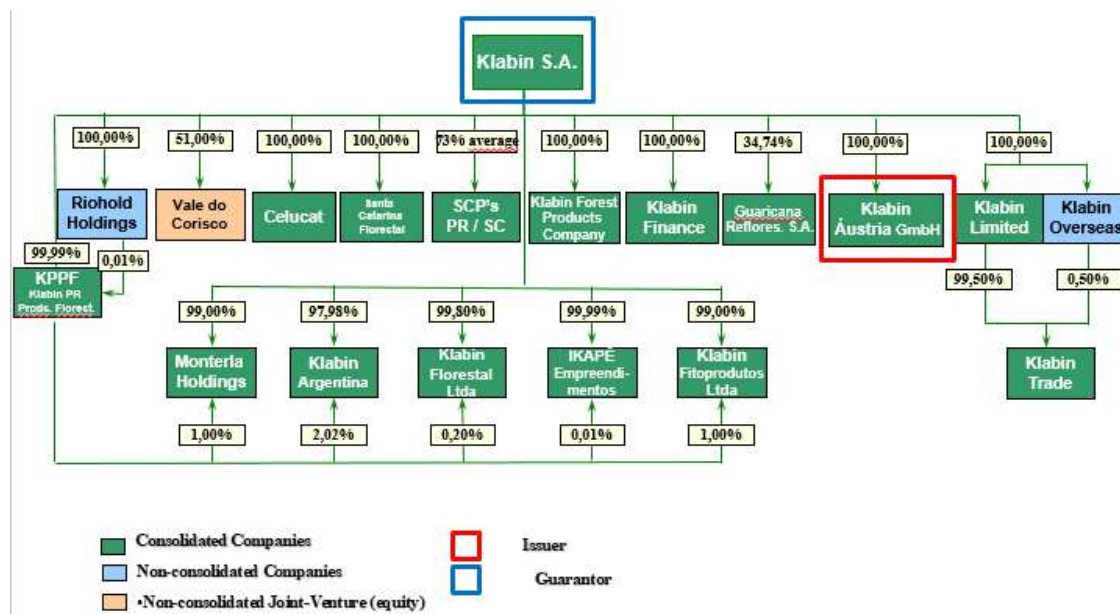
- reviewing all contracted services in order to increase third-party productivity and reduce our operating costs;
- improving logistics, through investments to improve the transportation of wood within and from our forests;
- enhancing our sales and marketing processes, by implementing new information systems and developing a new structured marketing team;
- commencing projects to optimize our consumption of chemicals, energy, water and steam in our main paper mills; and
- further developing our information technology, or IT, platform through investment in new equipment.

Conduct our business in a socially and environmentally responsible manner.

We are committed to producing pulp and paper in an environmentally responsible manner. Our environmental protection efforts include planting and harvesting trees in a manner that preserves biodiversity, using technology that is environmentally sound and using recycled paper on an industrial scale. We have obtained ISO 14001 international certification for our environmental protection efforts, and among other awards and honors, our entire custody chain (commercial plantation, aromatic and medicinal plants, and native forestry) has been certified by the FSC.

Corporate Structure

The chart below presents our corporate structure as of September 30, 2019:



Brief History

We commenced our operations in 1899, when the Klabin and Lafer families founded Klabin Irmãos & Cia. in São Paulo. This company's corporate purpose included the importing and sale of office supplies and typography. The business grew, and four years later we entered the paper production industry. Our first paper-manufacturing unit was constructed in the City of São Paulo. We believe that, by the 1920s, we already ranked among the largest Brazilian paper producers.

Our founders strived for innovation and regularly traveled to Europe in search of new production techniques, resulting in the establishment in 1934 of Klabin do Paraná, which we believe to be the first integrated factory of pulp and paper in Brazil. In that same year, Indústrias Klabin de Papel e Celulose S.A. was incorporated for the purpose of purchasing a large araucaria reforestation area in the western part of the State of Paraná, known as Fazenda Monte Alegre.

The ambitious project developed in Fazenda Monte Alegre resulted in the production of newsprint paper and packaging paper in 1946. In order to obtain local raw material to supply the project, we developed a forest base capable of meeting the demand of the project's factory.

In 2001, we repositioned our operations by ceasing production of market pulp, dissolving grade pulp, newsprint paper and disposable consumer items, and concentrating our business on papers and board for packaging, corrugated boxes, multiwall sacks and envelopes, in addition to wood. The Expansion Project MA-1100 in our Monte Alegre Mill was inaugurated in 2008, and in that same year, our plant capacity increased from 700,000 to 1.1 million tonnes per year.

In 2011, we acquired 51% of the equity of Vale do Corisco, a joint venture specialized in growing and selling wood that owns 107,000 hectares of land, of which 62,000 hectares are of pine and eucalyptus forests in the State of Paraná. With this acquisition, our planted forest area totaled 230,000 hectares, of which 107,000 hectares became available for new industrial projects.

In March 2016, we began operating the Puma Plant, a milestone in Klabin's history due to the scale of the project, which nearly doubled our production capacity. The Puma Plant was built in 24 months, within budget. Total investment was approximately R\$8.5 billion, including infrastructure, taxes and inflation adjustments. The implementation of this project, which commenced operations in 2016, represented an important step for Klabin, as it significantly increased production capacity to meet the expected demand from the pulp markets and enable expansion of packaging paper machines.

Recent Developments

Puma II Project Funding

On October 31, 2019, we entered into new credit facilities with the Inter-American Investment Corporation, or IDB Invest, International Finance Corporation, or IFC, and other banks to finance the Puma II Project for the total amount of up to U.S.\$800 million, as follows:

- *A-Loans and Co-Loans:* Total amount of U.S.\$450 million, with floating interest rate equivalent to Libor plus 1.75%, maturing in 10 years, with a 3-year grace period for the principal amount; and
- *B-Loans:* Total amount of U.S.\$350 million, with floating interest rate equivalent to Libor plus 1.45%, maturing in 7 years, with a 3-year grace period for the principal amount. Eight other commercial banks participated the transaction.

This credit facility has not been drawn upon, which Klabin may do within two years. The facility is fully secured by mortgages and liens on property, plant and equipment and requires an overcollateralization ratio equal to or greater than 130%.

On October 15, 2019, we also entered into a new credit facility with the Finnish Export Credit Agency, or Finnvera, to finance the Puma II Project, in the amount of U.S.\$245 million, with floating interest rate equivalent to Libor plus 0.55%, maturing in 12 years, and with a grace period of 2.5 years. This credit facility has not been drawn upon, which Klabin may do within two years.

On November 6, 2019, we opened a new credit line with the Brazilian Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, to finance the Puma II Project, in an amount up to R\$3 billion, with an interest rate equivalent to IPCA + 3.58% p.a., maturing in 20 years and with a grace period of 2.5 years. We have drawn R\$486,874 thousand from this facility, after the deduction of estimated expenses and commissions payable by us, and we have 2.5 years to draw upon the full balance.

Issuance of 13th Series of Debentures and CRAs

On January 14, 2020, we concluded our 13th issuance of simple debentures in an aggregate principal amount of approximately R\$966.3 million, which we launched on June 15, 2019 and which will mature in June 2029, accruing annual interest at IPCA + 3.5%. These debentures back the 30th issuance of agricultural receivables certificates (*Certificados de Recebíveis do Agronegócio*), or CRAs, of VERT Securitizadora.

Repayments of Debt

On September 27, 2019, we repaid the full U.S.\$96 million that was outstanding under our loan with the Inter-American Investment Bank, or IDB, and on November 18, 2019, we repaid the full R\$2,400 million that was outstanding under the main credit facility we had with BNDES, both loans originally used to finance our Puma I expansion.

On September 30, 2019, we repaid the full U.S.\$75 million that was outstanding under our export prepayment facility with Mizuho Bank, and on December 20, 2019, we repaid the full U.S.\$75 million that was outstanding under our export prepayment facility with Banco Santander.

Licensing Agreement

We are party to a Licensing Agreement with our controlling shareholder, Klabin Irmãos & Cia and Sociedade Geral de Marcas, or Sogemar, pursuant to which we are licensed to use the “Klabin” trademark and six other trademarks related to our paperboard and corrugated cardboard products, in exchange for certain royalty payments, or the Licensing Agreement. On February 4, 2019, we publicly disclosed that we intended to replace the Licensing Agreement by the acquisition of the trademarks from Sogemar in exchange for shares in Klabin delivered in connection with the incorporation of Sogemar into our Company. The proposed transaction was to be subject to the approval of our non-controlling shareholders at a March 14, 2019 shareholders meeting, however, based on certain non-controlling shareholder feedback, Sogemar revoked its authorization for the transaction, and Klabin cancelled the shareholders meeting, prior to it occurring. Accordingly, as of the date of this offering memorandum, the Licensing Agreement remains in effect and otherwise unaltered. However, certain shareholders have expressed their intention to call a new shareholders meeting to discuss the Licensing Agreement, including whether they feel it should be discontinued. We cannot assure you what will be the status of the Licensing Agreement following any such future shareholder meetings and/or votes. Discussions between management and stakeholders on this matter continue. For more information regarding the possible risks associated with any change or termination to our Licensing Agreement, see “Risk Factors—Risks Relating to Us and the Paper and Packaging Industry in General—We are party to a major licensing agreement pursuant to which we are permitted to use our main trademarks.”

Chief Financial Officer and Investor Relations Officer

As notified to the market on March 8, 2019, we appointed Cristiano Cardoso Teixeira (our current chief executive officer) as acting chief financial officer and investor relations officer following the resignation of our former chief financial officer and investor relations officer, Gustavo Henrique Santos de Sousa, pending appointment of a new permanent chief financial officer and investor relations officer. On October 23, 2019, Marcos Paulo Conde Ivo was appointed as permanent chief financial officer and investor relations officer.

Distribution of Dividends

On November 1, 2019, at an extraordinary meeting of our board of directors, our board of directors approved a payment of R\$194 million as dividends and R\$100 million as interest on capital in respect of 2019 interim results. This payment was made on November 14, 2019.

Additionally, on December 17, 2019, at an extraordinary meeting of our board of directors, our board of directors approved a payment of R\$200 million as Interest on capital in respect of 2019 interim results. This interest on capital payment will be made on February 20, 2020.

Wood Supply Agreement

As notified to the market on December 12, 2019, we entered into a wood supply agreement with Suzano S.A., whereby we Klabin acquired approximately 14 thousand hectares of eucalyptus planted forests, 100% FSC® certified (Forest Stewardship Council), in an area located in the southern region of the State of São Paulo, near the border with state of Paraná. This transaction, which does not involve initial cash disbursement, has an estimated value of R\$400 million, with payments to be made according to the amount of wood harvested, between the 2020 and 2026.

Company Information

Our central administrative headquarters are located at Avenida Brigadeiro Faria Lima, 3600, 3rd, 4th and 5th floors, in the City of São Paulo, State of São Paulo, Brazil. Our telephone number at this address is +55 (11) 3046 5800.

Our website address is www.klabin.com.br/ir and the e-mail address of our investor relations manager, Mr. Marcos Maciel, is mmcosta@klabin.com.br. Information on our website is not incorporated into this offering memorandum and should not be relied upon in determining whether to make an investment in the notes.

The headquarters of Klabin Austria is located at Albertgasse 35, 1080, Vienna, Austria. The telephone number at this address is +43 1 7172 8590.

Sustainability Policy

We produce timber, pulp, packaging papers, coated boards, corrugated boxes and industrial bags. Both in the domestic and international markets, every activity that we perform related to our products and services complies with the following principles of sustainability:

- pursue competitive quality, aiming at sustained improvement of results, by continuously researching, developing and enhancing existing and new processes, products and services, to meet the expectations of customers, employees, shareholders, the community and suppliers and other stakeholders;
- encourage collaboration with customers, suppliers, academia and other interested parties in pursuit of innovation for products and processes, as well as improvements in value chain;
- ensure appreciation of forest base by transforming it into sustainable and competitive products;
- ensure sustainable supply of wood to industrial units without harming related natural ecosystems, sourced from our own operations and producers under development programs;
- practice and encourage recycling of cellulose fibers in our production chain;
- avoid and prevent pollution by reducing environmental impacts related to wastewater, solid waste and air emissions, constantly considering these impacts in the maintenance and improvement of productive processes, development and enhancement of products, forest and logistic operations, monitoring of critical suppliers;
- strive to apply more efficient and modern engineering technologies and solutions in the implementation of new projects, protecting human health, natural resources and the environment;
- encourage personal and professional growth of our employees and seek continuous improvement of work, health and safety conditions;
- encourage a culture of dissemination of ethics and develop best corporate governance practices;
- follow United Nations' SDG and guide our actions and investments to strengthen this agenda, acting in favor of positive social and environmental development in places where we operate;
- practice social responsibility with a focus on communities where we operate using private social investment platforms, basing our activities on local development and education;
- comply with legislation and rules applicable to our products, the environment, health and safety; and
- ensure that our operations constantly seek to reduce greenhouse gas, or GHG, emissions.

To ensure appropriate sustainability management, we defined an acceptable level for our operations, taking into account our internal sustainability goals, requirements arising under all certifications we have and our public commitments. Having determined the acceptable level for our operations, we engage with our stakeholders to define environmental, social and governance material risks, impacts and opportunities for interventions.

In April 2018, we updated our executive governance structure based on its growth strategy, enabling us to further develop our sustainability management practices. The previous structure was replaced with a Permanent Sustainability Commission, consisting of five directors and one manager. The Permanent Sustainability Commission meets every three months to define guidelines and policies, assess the need for significant investments, prioritize initiatives and promote discussions and deliberation on sustainability-related topics to be referred to the board of executive officers for final review and approval. With this new structure, we expect to ensure quality and prompt decision-making, leveraging the sustainability management process.

Sources of Revenues

The table below presents the breakdown of our revenues by segment for the years indicated:

Net Revenue by Segment

	For the nine-month period ended September 30,				For the year ended December 31,					
	2019		2018		2018		2017		2016	
	(in millions of reais, except percentages)									
Net revenues to third parties by segment....	7,568	100%	7,231	100%	10,016	100%	8,373	100%	7,091	100%
Paper.....	2,542	34%	2,301	32%	3,177	32%	2,951	35%	3,090	44%
Conversion	2,220	29%	2,118	29%	2,852	28%	2,675	32%	2,428	34%
Pulp	2,613	35%	2,571	36%	3,680	37%	2,422	29%	1,252	18%
Forestry	199	3%	246	3%	316	3%	330	4%	324	4%
Corporate/eliminations ..	(7)	0%	(5)	0%	(9)	0%	(5)	0%	(3)	0%

The table below presents our volume of sales (excluding wood) by segment for the period and years indicated:

Sales Volume by product (thousand tonnes)

	For the nine-month period ended September 30,				For the year ended December 31,			
	2019		2018		2018		2017	
	<i>(in thousands of tonnes, except percentages)</i>							
Pulp	1,049	44%	1002	43%	1,401	44%	1,355	42%
Paper (kraftliner and coatedboards)	782	32%	751	32%	1,021	32%	1,103	34%
Conversion (corrugated boxes and industrial bags)	568	24%	575	25%	767	24%	762	24%
Total.....	2,400	100%	2,328	100%	3,189	100%	3,220	100%

Project Puma

On June 11, 2013, our board of directors approved Project Puma, which included construction of the Puma Plant, with an annual production capacity of 1.5 million tonnes, comprising hardwood pulp, softwood pulp and fluff. The Puma Plant has competitive advantages over other pulp mills in Brazil due to its ability to simultaneously produce bleached pulps from hardwood, as well as softwood and fluff produced in a mill entirely designed for this purpose. Additionally, through the Puma Plant we are able to lower production costs of both fibers and benefit from streamlined inbound and outbound logistics and the production of 276 MWh of energy, of which 126 MWh are used in the Puma Plant's operations, leaving 150 MWh per year of surplus energy.

The implementation of this project, which commenced operations at the end of the first quarter of 2016, represented an important step for Klabin, as it significantly increased production capacity to meet the expected demand from the pulp markets and enable expansion of packaging paper machinery.

The Puma Plant required capital expenditures of R\$8.5 billion, excluding working capital and the effect of any tax rebates. We privately issued mandatorily convertible debentures in the aggregate amount of R\$1.7 billion in January 2014 to partially fund this Project, which were completely converted into units in January 30, 2018. Additionally, in April 2014, we entered into a credit facility with BNDES of up to approximately R\$3 billion and issued privately placed secured and unsecured debentures in the amount of approximately R\$800 million, for an aggregate amount of approximately R\$4 billion.

On May 4, 2015, we and Fibria publicly disclosed an agreement executed for the supply of hardwood pulp produced at the Puma Plant. The contract became effective in the second quarter of 2016 and has a six-year term, and could be renewed by mutual agreement between the parties. It established the commitment by Fibria to purchase a minimum volume of 900,000 tonnes per year in the first four years, with a gradual reduction in the two following

years, for sales in countries outside of South America. The price varied according to the market net average price, excluding South American countries and discounting the freight cost from Paranaguá port (FOB Paranaguá). In 2018, after evaluating the market and strategic benefits of, and alternatives to, the agreement with Fibria, and as a mutually agreeable remedy for European antitrust regulatory hurdles to Fibria's merger with Suzano and a mechanism for us to expand our own direct reach, mostly in Europe, we agreed to terminate the agreement early. The termination was approved by the European Union antitrust authorities on November 29, 2018. The agreement has been terminated and we have agreed on a transition period during which we would gradually assume marketing activities, mostly in Europe, with the phase-out term having ended in August 2019.

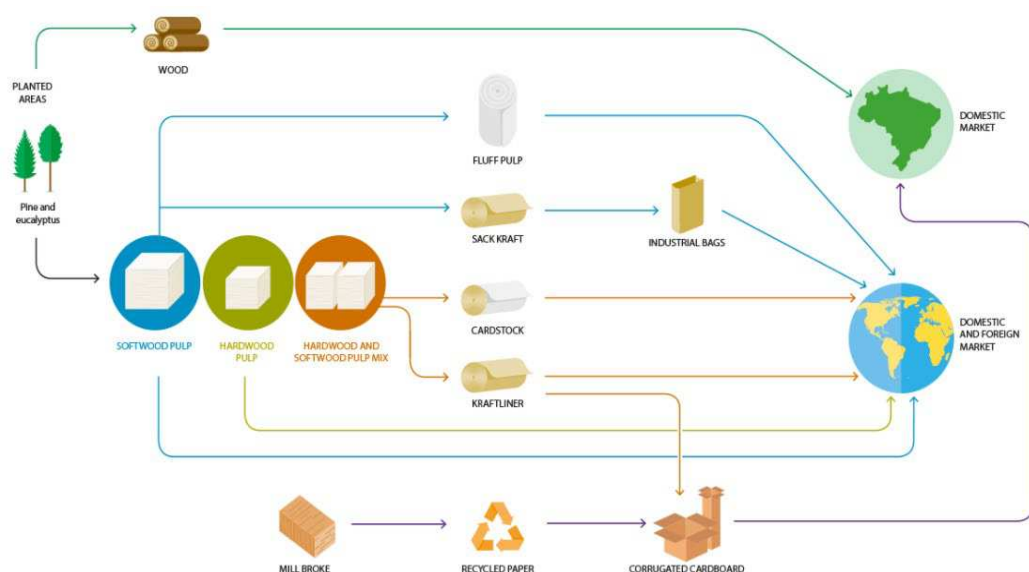
As the only softwood and fluff producer in Brazil, our main objective is the sale of these products in the domestic market, with a focus on children's and geriatric diapers, sanitary pads and nonwoven producers. These sales are mostly made directly, in addition to two distributors that serve smaller customers. Softwood and fluff are also exported to more than 20 countries, taking advantage of the global growth of the child and geriatric diaper market, by way of trading companies, agent representatives and directly to some customers with global distribution agreements.

The global market for hardwood pulp is around 66 million tonnes, and the product is especially sustainable for sanitary purposes (toilet paper, paper towels, napkins), printing and writing (books, commercial printing, catalogues) and special papers.

Our integrated business model and production capacities:



The following chart illustrates our actual integrated manufacturing system:



Below is a description of the operations of each of our business units:

Forestry Unit

In addition to supplying raw materials to our paper plants, we believe that our Forestry Unit is one of the largest Brazilian domestic suppliers of wood logs from planted forests certified for sawmills and plywood mills.

In the nine-month period ended September 30, 2019, we had a total of approximately 541 thousand hectares of forests, including approximately 231 thousand hectares of preserved native forests (as well as recently cut forests, forests waiting to be cleaned and other lands) and approximately 248 thousand hectares of planted forests, of which approximately 149 thousand hectares were in our own lands or held through partnerships, and approximately 94 thousand hectares were in third-party land.

In 2018, we had a total of 501 thousand hectares, including 216 thousand hectares of preserved native forests and 239 thousand hectares of planted forests, of which approximately 150 thousand hectares were in our own lands and through partnerships, and approximately 89 thousand hectares were in third-party land (development program). All of our planted wood undergoes mechanized harvesting processes to help ensure better productivity, reliability, and safety, with fewer losses of wood and at a lower cost.

In 2017, we had a total of 495 thousand hectares, including 214 thousand hectares of native forests preserved and 227 thousand hectares of planted forests, of which approximately 147 thousand hectares were in our own lands and through partnerships, and approximately 83 thousand hectares were in third-party land (development program).

Our sales volume of wood logs for sawmills and plywood mills totaled 1,362 million tonnes for the nine-month period ended September 30, 2019, 18% less than for the same period in 2018. Our net sales revenue from the sale of wood logs in our forestry segment decreased 19% to R\$199 million for the nine-month period ended September 30, 2019, compared to R\$246 million for the nine-month period ended September 30, 2018.

Our sales volume of wood logs for sawmills and plywood mills totaled 2.1 million tonnes in 2018, 19% less than in 2017. Our net sales revenue from the sale of wood logs in our Forestry segment decreased 5% to R\$316 million in 2018, compared to R\$330 million in 2017.

We produced approximately 11,366 thousand tonnes of pine and eucalyptus logs and chips and waste for energy production in the first nine months of 2019 and 11,680 in the same period of 2018. Of this total, 1,362 thousand tonnes were sold to sawmills and planer mills, with the remainder being transferred to our plants in the states of Paraná, Santa Catarina and São Paulo. We produced approximately 15,656 thousand tonnes of pine and eucalyptus logs and chips and waste for energy production in 2018 and 16,060 thousand tonnes in 2017. Of this total, 2,109 thousand tonnes were sold to sawmills and planer mills, with the remainder being transferred to our plants in the states of Paraná, Santa Catarina and São Paulo.

In the area of genetic improvement, we achieved progress in our research master plan, the main objective of which is to increase the quantity of fiber per hectare planted per year. To that end, we have developed partnerships with universities and research institutions in Brazil and abroad, the goal of which is to understand the ecophysiology of species in various environments.

Also in the second quarter of 2017, Klabin inaugurated the new technology center in Telêmaco Borba, Paraná. With laboratories capable of producing a wide range of forestry products and conducting simultaneous simulations of the production lines at industrial units, the center seeks to anticipate trends and to develop new technologies and sustainable applications. Klabin's technology center will focus on five research fields: wood quality; development of new products and applications for pulp; development of new products and applications for packaging paper; new forestry technology; and the environment and sustainability. To support the center's work, Klabin also structured a local and international network of partnerships with technology incubators, universities and prominent research centers.

Pulp Unit

In March 2016, we began operating the Puma Plant, a milestone in Klabin's history due to the scale of the project, which nearly doubled our production capacity. The Puma Plant was built in 24 months, within budget. Total investment was approximately R\$8.5 billion, including infrastructure, taxes and inflation adjustments.

The Puma Plant has an annual production capacity of 1.5 million tonnes of pulp per year, including bleached hardwood pulp (eucalyptus) and bleached softwood pulp (pine), a portion of which is converted into fluff pulp. The Puma Plant is the only industrial unit in the world designed to manufacture these three fibers. The Puma Plant's production contributes significantly to the global supply of fluff pulp, which total approximately 6 million tonnes, an important input used in the production of sanitary products (such as baby and adult diapers, as well as sanitary pads), enabling our customers to economize on import and foreign exchange costs.



On May 4, 2015, we together with Fibria informed the market of the agreement executed for the supply of hardwood pulp, which has been produced in the new pulp plant, in Ortigueira in the State of Paraná.

The contract became effective in the second quarter of 2016 and had a six-year term and could be renewed by mutual agreement between the parties. It established the commitment by Fibria to purchase a minimum volume of 900,000 tonnes per year in the first four years, with a gradual reduction in the two remaining years, for sales in countries outside of South America. The price varied according to the market net average price, excluding South American countries and discounting the freight cost from Paranaguá port (FOB Paranaguá). In 2018, after evaluating the market and strategic benefits of, and alternatives to, the agreement with Fibria, and as a mutually agreeable remedy for European antitrust regulatory hurdles to Fibria's merger with Suzano and as a mechanism for us to expand our own direct reach mostly in Europe, we agreed to terminate the agreement early. The termination was approved by the European Union antitrust authorities on November 29, 2018. The agreement has been terminated and we have agreed on a transition period during which we will directly assume marketing activities, mostly in Europe, and which will end in 2019.

Papers Unit

With productive capacity of 2.0 million tonnes per year of paper and coated boards, we are the domestic market leader in packaging paper. We have four raw fiber paper production plants in Brazil, located in the City of Telêmaco Borba in the State of Paraná, in the Cities of Otacílio Costa and Correia Pinto in the State of Santa Catarina, and in the City of Angatuba in the State of São Paulo. We believe that our Monte Alegre mill is the largest paper plant in Brazil, with a production capacity of 1.1 tonnes per year. In addition to our raw fiber paper plants, we maintain two recycled paper production plants in the Cities of Piracicaba, in the State of São Paulo, and Goiana, in the State of Pernambuco. All of our paper and coated board plants have obtained the FSC chain of custody seal.

In the first nine months of 2019, we sold approximately 782,000 tonnes of paper, including papers for corrugated boxes and coated board, an increase of 9% compared to the same period in 2018.

In 2018, we sold approximately 979,000 tonnes of paper, including papers for corrugated boxes and coated board, a decrease of 7% compared to 2017.

In 2017, we sold approximately 1,049,000 tonnes of paper, including papers for corrugated boxes and coated board, a decrease of 4% compared to 2016.

Kraftliner

In our kraftliner segment, we offer a complete line of papers for corrugated boxes, including raw fiber and kraftliner and white-top liner paper, as well as papers with recycled fibers for use as pulp and also testliner papers. The kraftliner we produce, which is used to manufacture corrugated boxes, supplies all of the kraftliner required by our nine corrugated boxes packaging plants. We also sell our kraftliner in the domestic market and to manufacturers in over 80 countries. The sack kraft paper we produce supplies all of the sack kraft paper required by our industrial bag and sack mills at Lages in the State of Santa Catarina, Goiana in the State of Pernambuco and Pilar in Argentina.

In the first nine months of 2019, our sales of paper for corrugated boxes (kraftliner, white top liner and recycled paper) decreased 6% to approximately 257,500 tonnes, compared to the same period in 2018, comprising approximately 107,200 tonnes sold in the domestic market and approximately 150,300 tonnes sold in export markets.

In 2018, our sales of paper for corrugated boxes (kraftliner, white top liner and recycled paper) increased 4.3% to approximately 366,000 tonnes, compared to 2017, comprising approximately 143,000 tonnes sold in the domestic market and approximately 223,000 tonnes sold in export markets.

Despite our improvements in the product mix, our sales of paper for corrugated boxes (kraftliner, white top liner and recycled paper) decreased 12% to approximately 351,000 tonnes in 2017, comprising approximately 102,000 tonnes sold in the domestic market and approximately 249,000 tonnes sold in export markets, compared to approximately 399,000 tonnes in 2016.

To maintain our competitive advantage and meet our customers' needs, we are continuously investing in the mix of various paper weights to satisfy the most demanding markets in Brazil and worldwide. Our technology helps us to manufacture stronger products with optimal print quality.

Our recycling plants are located in the Cities of Goiana in the State of Pernambuco and Piracicaba in the State of São Paulo. These plants supply our corrugated box plants and are also sold in the Brazilian and export markets.

As part of our strategic plan, in 2015, we announced the operational start-up of Paper Machine 24, installed in the Goiana Plant, in Pernambuco, at an investment of approximately R\$377 million. With this new machine, the Goiana Plant tripled its recycled paper production, allowing us to produce an aggregate of 265,000 tonnes/year of recycled paper.

Coated Boards

In our coated boards product line, we sell liquid packaging board, folding box board, and carrier board. Our coated boards are produced using a mix of hardwood (eucalyptus) and softwood (pine), affording greater strength to the packaging in addition to superior print quality, thus adding greater value to the product. According to IBÁ, we are one of the largest producers and exporters of coated boards in Brazil.

In the first nine months of 2019, the Brazilian coated boards market, excluding liquid packaging board, totaled 391 thousand tonnes, a decrease of 1.8% from the same period in 2018, according to IBÁ. In the same period, our sales volumes of coated boards including liquid packaging board, increased 17% to 524 thousand tonnes, with 313 thousand tonnes sold in the domestic market and 212 thousand tonnes sold in the export market.

In 2018, the Brazilian coated boards market, excluding liquid packaging board, totaled 545 thousand tonnes, an increase of 3.6% from 2017, according to IBÁ. In 2018 our sales volumes of coated boards including liquid packaging board, decreased 12% to 613,000 tonnes, with 395,000 tonnes sold in the domestic market and 218,000 tonnes sold in the export market.

In 2017, the Brazilian coated boards market, excluding liquid packaging board, totaled 526 thousand tonnes, stable when compared to 2016, according to IBÁ. In 2017 our sales volumes of coated boards including liquid packaging board, increased 1% to 698,000 tonnes, with 398,000 tonnes sold in the domestic market and 299,000 tonnes sold in the export market.

We believe that our FSC certification provides us with a competitive advantage in the sale of our coated boards, given that this certification is increasingly required by customers in the international markets, particularly in the food packaging sector.

Conversion Unit

We believe that we are a leader in the domestic market for corrugated cardboard packaging and the largest industrial bag converter in Brazil. For the nine-month period ended September 30, 2019, our sales volumes of converted products decreased 1% to 568,000 tonnes, compared to 575,000 tonnes for the same period of 2018. The net sales revenue generated by our conversion unit increased 5% to R\$2,220 million for the nine-month period ended September 30, 2019, compared to R\$2,118 million on the same period of 2018.

In 2018, our sales volumes of converted products increased 1% to 767,000 tonnes. The net sales revenue generated by our conversion unit increased 7% to R\$2,852 million in 2018, compared to R\$2,675 million in 2017. In 2017, our sales volumes of converted products increased 8% to 762,000 tonnes. The net sales revenue generated by our conversion unit increased 10% to R\$2,675 million in 2017, compared to R\$2,428 million in 2016.

Corrugated Boxes

We believe that we have the largest nominal installed production capacity for corrugated boxes in Brazil based on our understanding of the market. This packaging serves all economic sectors, completely protecting the products being transported; our production chain is FSC certified, and our plants are ISO 9001 and ISO 14001 certified.

According to data released by the ABPO, Brazilian shipments of corrugated boxes totaled approximately 2.7 million tonnes in the first nine months of 2019, which was 0.6% more than in the same period of 2018. Shipments totaled 3.563 million tonnes in 2018 which was 1.63% more than in 2017 and 3.506 million tonnes in 2017 which was 5.07% more than in 2016.

In the first nine months of 2019, our sales of corrugated boxes and sheets (by volume) decreased 0.8% to 452,900 thousand tonnes, compared to 456,700 thousand tonnes in the same period of 2018. Our net sales revenue from the sale of corrugated boxes and sheets totaled R\$1,592 million for the period, an increase of 6.8% compared to the same period in 2018.

In 2018, our sales of corrugated boxes and sheets (by volume) increased 1% to 609,500 tonnes, compared to 606,000 tonnes in 2017. Our net sales revenue from the sale of corrugated boxes and sheets totaled R\$2,008 million in 2018, an increase of 6% over 2017.

In 2017, our sales of corrugated boxes and sheets (by volume) increased 9% to 606,000 tonnes, compared to 558,000 tonnes in 2016. Our net sales revenue from the sale of corrugated boxes and sheets totaled R\$1,903 million in 2017, an increase of 14% over 2016.

In line with Klabin's consistent growth strategy, in 2016, we announced an investment of R\$181 million in the acquisition of Embalplan, whose plant is located in the municipality of Rio Negro in the State of Paraná, and industrial installations for the production of corrugated boxes from Hevi Packaging Amazônia Ltda., or the Hevi Embalagens, located in the City of Manaus, the State of Amazonas. Both acquisitions resulted in an increase in our total production capacity of corrugated boxes by 70,000 tonnes per year.

Industrial Bags

Based upon anecdotal information from competitors and customers, we believe that we are the largest converter of industrial bags in Brazil, offering products that combine strength, porosity, and elasticity with stretchable, high-consistency paper, serving civil construction, food, chemicals, agribusiness, and other sectors.

The domestic cement industry is the primary consumer of our industrial bags. Brazilian cement sales decreased by 6% in 2017 compared to 2016, according to SNIC, primarily as a result of the Brazilian *real* estate market crisis.

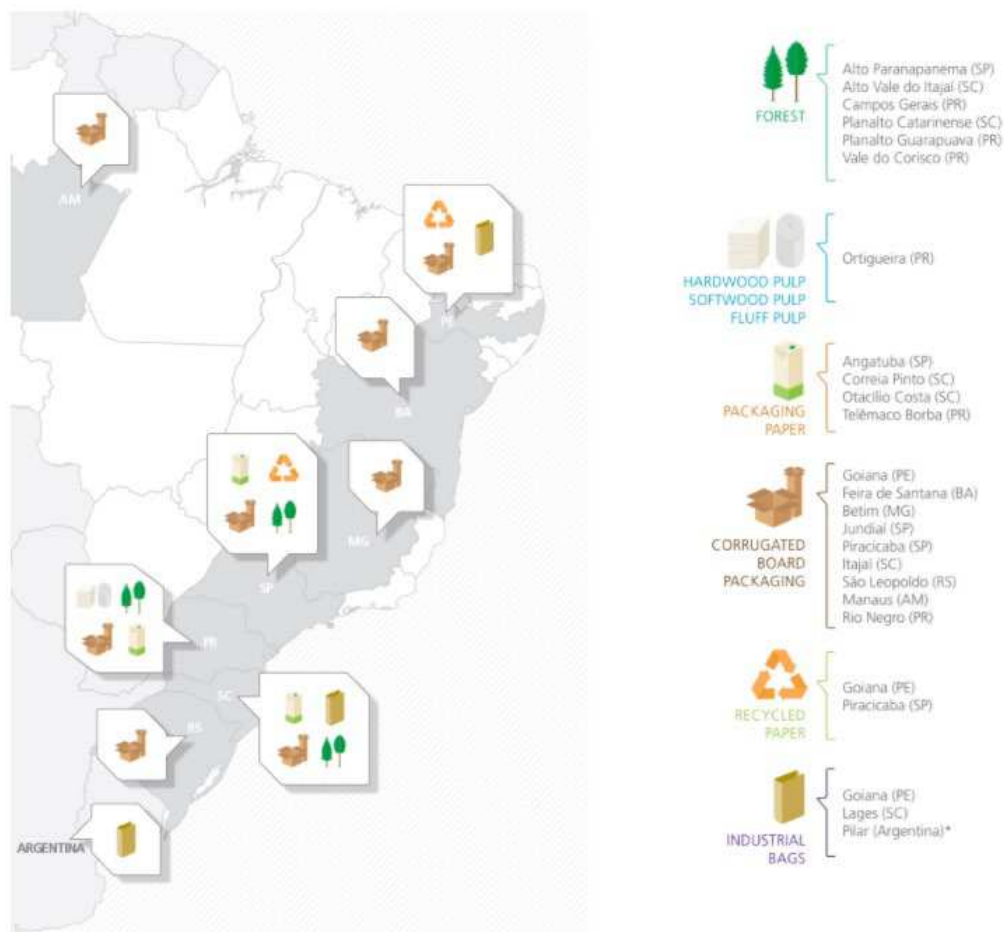
With three plants in Brazil, our two Lages Mills and our Goiana Mill, in addition to one plant located in Argentina, our industrial bag operations have a combined production capacity of 175,400 tonnes per year. In the first nine months of 2019, we sold an aggregate of approximately 115,500 thousand tonnes of industrial bags in Brazil and in international markets, a decrease of 2.2% compared to 118,100 thousand tonnes in the same period in 2018. In 2018, we sold an aggregate of approximately 157,000 tonnes of industrial bags in Brazil and in international markets, an increase of 1% compared to 155,000 tonnes in 2017. In 2017, we sold an aggregate of approximately 155,000 tonnes of industrial bags in Brazil and Argentina, an increase of 4% compared to 150,000 tonnes in 2016. In 2017 and 2016, our net sales revenue from sales of industrial bags remained stable at R\$717 million.

In the industrial bags market, we maintained our sales volumes by entering into new segments, such as fertilizers, food and coffee, as well as our strategy to allocate increased production capacity to growing markets such as Mexico and the United States.

In April 2018, our new industrial bag machine in Lages, in the State of Santa Catarina entered into operation and is expected to increase the total capacity of production of industrial bags to 175 million tonnes. Our capital expenditures in respect of our new industrial bag machine totaled approximately R\$65.0 million.

Our Industrial Plants

Our business currently comprises 17 industrial plants in Brazil and one industrial plant in Argentina, as shown on the map below:



The table below shows our industrial plants, their products and capacity:

Business Unit	Mill	Capacity (thousand tonnes)	Products
Pulp	Ortigueira (Paraná)	1,500	Hardwood Pulp/Softwood Pulp/Fluff Pulp
	Total	1,500	
Paper	Monte Alegre (Paraná)	1,000	Coated boards/ Kraftliner
Paper	Otacílio Costa (Santa Catarina)	364	Kraftliner
Paper	Correia Pinto (Santa Catarina)	190	Sack kraft
Paper	Angatuba (São Paulo)	128	Kraftliner
	Total	1,682	
Paper	Goiana (Pernambuco)	168	Recycled Paper
Paper	Piracicaba (São Paulo)	107	Recycled Paper
	Total	275	

Business Unit	Mill	Capacity (thousand tonnes)	Products
Conversion	Betim (Minas Gerais)	62	Corrugated Boxes
Conversion	Manaus (Amazonas)	20	Corrugated Boxes
Conversion	Feira de Santana (Bahia)	60	Corrugated Boxes
Conversion	Goiana (Pernambuco)	140	Corrugated Boxes
Conversion	Jundiaí TP (São Paulo)	75	Corrugated Boxes
Conversion	Jundiaí DI (São Paulo)	98	Corrugated Boxes
Conversion	Piracicaba (São Paulo)	104	Corrugated Boxes
Conversion	Rio Negro (Paraná)	47	Corrugated Boxes
Conversion	Itajaí (Santa Catarina)	101	Corrugated Boxes
Conversion	São Leopoldo (Rio Grande do Sul)	46	Corrugated Boxes
	Total	753	
Conversion	Lages I and II (Santa Catarina)	143	Industrial Bags
Conversion	Goiana (Pernambuco)	10	Industrial Bags
Conversion	Pilar (Argentina)	22	Industrial Bags
	Total	175	

Our Forests

Our principal source of wood is our own forests. Historically committed to sustainable development, we have reserved over 40% of our lands for preserved native woodlands. One of the pioneers in the adoption of the sustainable development concept, we believe that we were the first company in the pulp and paper sector in the Southern Hemisphere to receive FSC certification in 1998. We plant our own pine and eucalyptus trees to make our products. We also buy approximately 35% of our total wood volume from third-party farmers located near our forests.

Our production processes are customized based on the type of wood used and the final destination of the fiber, and the technological specifications for each of our mills exceed industry standards.

Our different lines of products, such as pulp, kraftliner, sack kraft paper and coated boards, are developed with softwood fiber, from pine wood; with hardwood fiber, from eucalyptus; and with a mix of both fibers, depending on the characteristics of each specific product, client and end use. We use eucalyptus in the production of hardwood, which has better printability characteristics, while we use pine in the production of softwood, which provides strength and wet resistance (characteristics that are essential for our packaging business).

The tables below show the size of our land and forests, the size of our planted forests as of September 30, 2019 and the average distance from our production mills to our forests. The proximity of our forests to our mills is an important factor in determining our transportation costs.

Forests	Paraná	Santa Catarina	São Paulo	Total
	<i>(in thousands of hectares)</i>			
Planted Forests.....	180	64	5	248
Eucalyptus.....	80	8	5	92
Pine	100	56	—	156
Native preserve forests	155	72	4	231
Others.....	50	13	—	63
Total Lands	385	148	9	541
Average Hauling Distance to Mills				Km
Paraná.....				98
Santa Catarina				76
São Paulo.....				90

Our markets

In the first nine months of 2019, we produced 1,435 thousand tonnes of paper and coated boards, which accounted for 31% of Brazil's total production of packaging paper of 4,636 thousand tonnes. In 2018, we produced 1,923 thousand tonnes of paper and coated boards, which accounted for 32% of Brazil's total production of packaging paper of 6,110 thousand tonnes.

The table below shows the Brazilian production of paper during the years indicated:

	For the nine-month periods ended September 30,		For the Years Ended December 31,		
	2019	2018	2018	2017	2016
	<i>(in thousands of tonnes)</i>				
Total Brazilian Production of Paper	7,829	7,750	10,443	10,471	10,335
Brazilian Production of Paper for Packaging and Coated board	4,636	4,545	6,110	6,206	6,104

Source: IBÁ 2019

Our paper and conversion production is sold mainly to the food market (64%), while the remaining portion is divided among other market segments: consumer goods (16%), construction (8%) and other (12%).

Forests

In the first nine months of 2019 we sold 1,362 million tonnes of pine and eucalyptus wood logs in the domestic market. In 2018, we sold 2,109 million tonnes of pine and eucalyptus wood logs in the domestic market. We sell wood logs that are converted to products for various segments, such as moldings, furniture, packaging, panels, and veneers. Our customers primarily sell their products in the U.S., European, and domestic markets.

We sell our wood through our own sales team based in the states of Paraná and Santa Catarina.

Papers

Our kraftliner and white-top liner paper customers, both domestically and abroad, are largely companies that manufacture corrugated boxes. Our customers supply boxes for various sectors, including food, chemical, and derivative products, fruit, flowers, poultry, beverages, tobacco products, metallurgy, perfume, and cosmetic products.

Most of our foreign customers in Latin America are highly active in the fruit market, particularly in Argentina, Chile, and Ecuador, with Ecuador being one of the largest banana exporters in the world. Our strategy in focusing on those markets is driven by the fact that food products, particularly fruit, are packaged in products generally certified as safe for direct contact with foods and free of heavy metals, the sale of which products we believe to be a major distinguishing factor for us.

Following our strategy to enhance our market share in Latin America, we have been gradually reducing our share of exports to Europe. Customers in Europe are essentially suppliers of boxes to the industrial sector for which the use of raw-fiber kraftliner paper is of less importance. Domestically, we have expanded our presence in the paper market, with our main distinguishing factor being the supply of products certified as safe for direct contact with food as well as FSC-certified products. We believe we are the largest kraftliner producer in Brazil, based on data provided by Pöyry.

Our coated boards segment comprises the production of cardboard packaging for consumer products in a wide range of sectors, such as: food (natural or prepared, which may include dried, oleaginous, frozen, and refrigerated); electronic and electrical products; utensils in general; sanitation and cleaning products; footwear; personal hygiene and beauty products; canned and bottled beverages, parts, and equipment and; articles of clothing, among others.

According to IBÁ, the Brazilian market for coated board, excluding liquid packaging board, totaled 553,000 in 2018, 526,000 in 2017, and 505,000 tonnes in 2016. We achieved coated board market shares of approximately 30% in each year.

Conversion

Corrugated Boxes and Boards

Purchasers of corrugated boxes are among the most diverse in the industry and include producers of food, chemicals, and derivative products, fruit, flowers, poultry, beverages, tobacco products, metallurgy, perfume and

cosmetics. Sales of corrugated boxes in the domestic market are also used by the export, meat, poultry, fruit, and tobacco sectors.

According to the ABPO, in the first nine months of 2019, shipments of boxes, sheets, and accessories increased 0.57% to 2.7 million tonnes compared to the first nine months of 2018. In 2018, shipments of boxes, sheets, and accessories increased 1.12% to 3.5 million tonnes compared to 2017. In 2017 shipments of boxes, sheets, and accessories increased 5.07% to 3.5 million tonnes, compared to 3.3 million tonnes in 2016.

Industrial Bags

We produce industrial bags, primarily for use in the civil construction industry (cement, lime and clay). Sales of industrial bags to this market account for approximately 78% of our sales volumes through this business unit. Other targeted segments include seeds, chemical products, food, animal feed, and minerals.

Logistics and distribution

Our products are sold in Brazil and exported to over 70 countries through local agents, through trading companies specializing in paper, and through direct sales coordinated by our own sales team at our São Paulo headquarters. We focus our export sales on Europe, South America, North America, the Middle East, Africa, and Asia. We supply our products primarily through roadways in Brazil and by maritime transportation for our export markets and the majority of our logistics operations, both in Brazil and abroad, are outsourced to third parties.

Pulp

Of the annual hardwood production capacity of the Puma Plant, 900,000 tonnes was sold in each of 2018, 2017 and 2016 through a distribution agreement entered into with Fibria. Through this agreement we provided Fibria a minimum of 900,000 tonnes of hardwood pulp annually, which was sold exclusively by Fibria in countries outside South America. The price was the market net average price, excluding South American countries and discounting the freight cost from Paranaguá port (FOB Paranaguá). In 2018, after evaluating the market and strategic benefits of, and alternatives to, the agreement with Fibria, and as a mutually agreeable remedy for European antitrust regulatory hurdles to Fibria's merger with Suzano and as a mechanism for us to expand our own direct reach, mostly in Europe, we agreed to terminate the agreement early. The termination was approved by the European Union antitrust authorities on November 29, 2018. The agreement has been terminated and we have agreed on a transition period during which we will directly assume marketing activities, mostly in Europe, and which will end in 2019.

In the softwood and fluff markets, our strategy is to sell fluff primarily in the domestic market. These sales are mostly made directly, in addition to two distributors that serve smaller customers. Softwood and fluff are also exported to more than 20 countries through trading companies, agent representatives and directly to some customers with global distribution agreements.

Papers

In the domestic market, we sell a variety of paper products, such as corrugated boxes, to paper tube manufacturers, sandpaper manufacturers and manufacturers of non-stretchable bags, through an internal sales team based in our headquarters in São Paulo.

For logistics support for sales in the European market, which are made on "delivered duty unpaid terms," we maintain a subsidiary in Austria. Shipments are coordinated from our office on a just-in-time basis to all European customers, except for sales within Greece and Portugal, which are arranged under cost, insurance and freight – CIF incoterm to the port of destination. Sales on the international market are through local agents, solely dedicated to our products in the major markets. Certain markets, such as Latin American countries, are served directly by the sales team headquartered in Brazil. International customers are primarily corrugated boxes manufacturers.

The sales of coated boards (rolls and sheets) are concentrated in our São Paulo office. Global sales are arranged through our own sales representatives, sales agents, and trading companies, and reach various segments of the paper packaging industry for consumer products. Our competition, which is also worldwide, consists of domestic producers (from the respective regions serviced) and international producers (pan-regional). Domestic sales are

served from our Monte Alegre and Angatuba mills, and support inventory at various locations of strategic interest. In the case of external factors (some special finishes), the material may continue directly from the beneficiary to the customer, or to inventory and then on to the customer.

In 2009, Klabin opened a sales office in the United States to improve customer service in that country and support sales growth.

On June 22, 2016, we formed a wholly owned subsidiary based in Austria, Klabin Austria, with the objective of improving the management of our exports, internalizing distribution logistics activities in Europe, inventory management and maintenance, payment of suppliers and receivables from clients.

Conversion

The sales of our products, both domestically and abroad, are arranged by our internal sales team.

Corrugated Boxes and Boards

Our sales teams of converting products (boxes, boards, and corrugated boxes accessories) are headquartered at the São Paulo office. This department is supported by our regional sales department, which operates with its own team and sales representatives, allowing us to succeed in this highly competitive segment.

Almost all sales are directed to the domestic market, covering the entire country and distributed through our eleven converting units located in eight states: three in São Paulo, two in Pernambuco and one in each of Rio Grande do Sul, Santa Catarina, Minas Gerais, Bahia, Amazonas and Paraná.

Industrial bags

Industrial bags are distributed from our Lages I, Lages II and Goiana mills to the domestic and export markets. We serve the Argentine market through our Pilar Mill.

Raw Material

We use several kinds of raw material for the production of our final products. Below is a description of the main raw materials we use.

Wood

We use eucalyptus in our production of hardwood pulp, and pines and others in the production of softwood pulp. Historically, approximately more than 71% of the wood used in our production is derived from our own planted forests.

Waste Paper

We believe that we are one of the largest producers of recycled paper in Brazil, and we have an internal policy to recycle paper in our production processes whenever it is economically and technically viable. We use waste paper in the manufacturing of recycled paper that is then turned into corrugated boxes.

Chemical Substances

We use a wide range of chemical substances in our production process of paper and mainly pulp. In our mills, substantially all of the chemical substances we use to produce pulp is recovered and reutilized. All of the residues are treated through primary treatment, secondary treatment and, in certain cases, through tertiary treatment, before they are released into bodies of water.

The use of certain chemical substances is also controlled by the Brazilian Army, Federal and State Police Departments, and companies that use such chemical substances are required to be registered with these authorities. The use of any such chemical substances without proper licenses may result in fines or suspension of activities among other penalties.

Water

Our production of pulp and paper requires substantial volumes of water, though efforts are undertaken to reduce the required volume. Water is treated before it is used in the industrial process. The maximum possible volume of water is recirculated to reduce the total consumption of liquid. The water resulting from the pulp and paper production process in the form of effluent is treated before it is returned to the bodies of water. Conversion does not consume significant amounts of water, with the consumption in these installations being limited to cooling and other secondary uses. Our use of water in our mills corresponds to the standard practices of the pulp and paper industry in other countries.

Supplies

It is our corporate policy to engage in advance planning for the purchase of our high value and/or strategic supplies, which we purchase periodically pursuant to commercial supply agreements negotiated with third parties. Our local purchasing units are located within our mills in accordance with production requirements and data generated by our Material Requirement Planning, or MRP, system, and are connected to our supply office in São Paulo. Purchase requirements and terms are set forth in the relevant supply agreement with each supplier.

Purchase and Supply of Raw Material

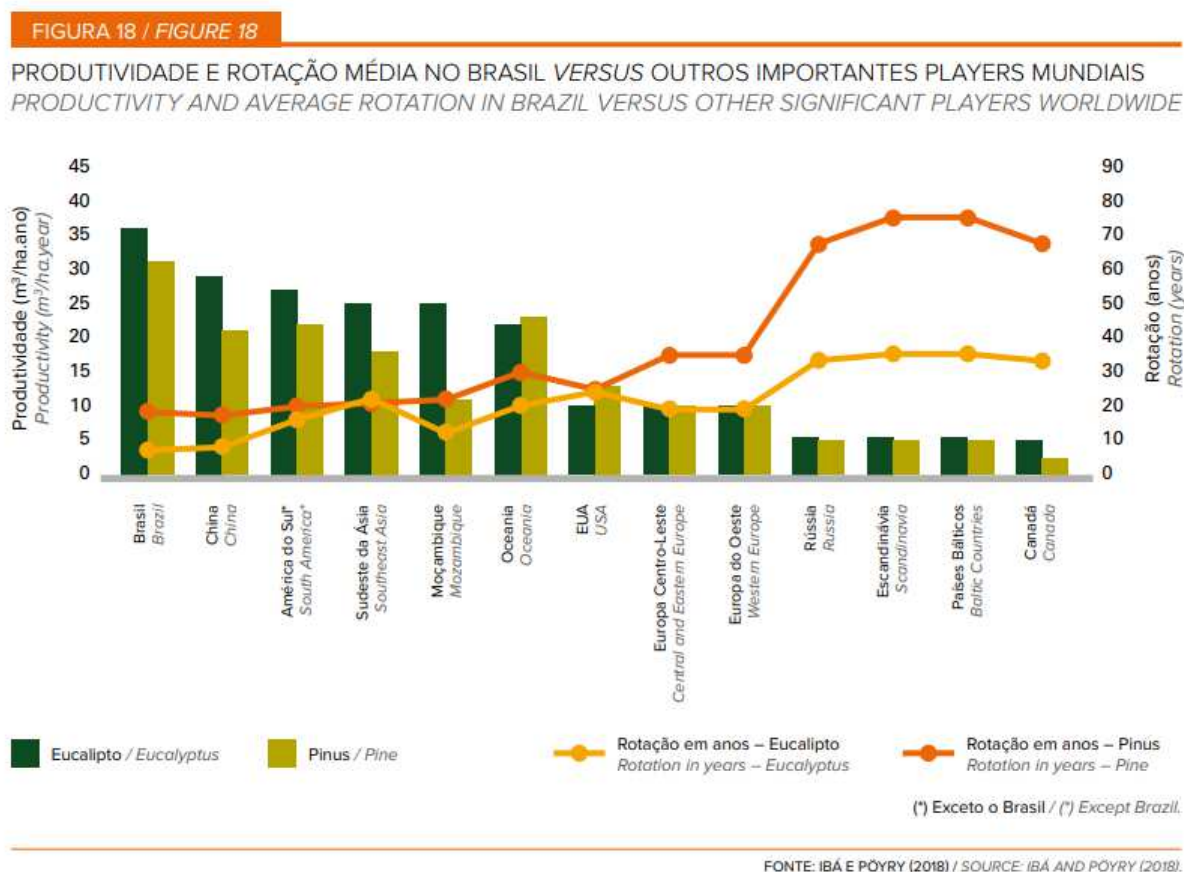
The table below shows a list of our main raw material suppliers and respective share in total raw material purchases as of September 30, 2019:

Raw Material	Suppliers	% of supply in our total Raw Material purchase
Chemical Products.....	Kemira, Solenis, Basf, Companhia Brasileira do Estireno, Ecolab, Archroma, DAG, Contech, Inquibra	24.4
Electric Energy	Copel, CPFL, Elektro, NC Energia, Comerc, Brennand, BTG Pactual, Tambaú, Casa de Pedra, Tamboril	18.1
Fuel Oil and Diesel.....	Petrobras Distribuidora S.A., RAIZEN COMBUSTIVEIS S.A., Braskem SA, Resitol	16.5
Caustic Soda/Chlorine	Olin Brasil, Tricon Energy	6.0
Starch.....	Cargill, Ingredion, CVale, Syral	3.2
Natural Gas.....	COMGAS, SULGAS, SCGás, GASMIG, COPERGAS, Sigás	3.4

Our Forestry Segment

Brazil is predominantly a tropical country and the largest part of its territory is located to the north of the Tropic of Capricorn. In most parts of Brazil, soil and climate are favorable for the cultivation of forests. The advantage of the natural resources of Brazil in the paper and cellulose industry resides principally in the brevity of growth cycles for certain types of trees. The Brazilian forest industry requires less time and smaller areas, having therefore a lower production cost of fiber than similar American and European companies. This is because trees grow faster in the Brazilian climate, enabling our trees to be cut more quickly than trees in other countries, resulting in a higher yield.

The table below shows the competitive advantage of Brazilian producers of wood production in comparison to other parts of the world as of 2018:



Source: Relatório 2019 – IBÁ

Reforestation projects in the forest product segment began after our introduction, in 1904, of eucalyptus originally brought from Australia. Eucalyptus was initially used in the production of wood and ties for railways.

Extensive cutting of forests in most developed Brazilian states decreased the sources of supply of Brazilian wood. This scenario led to the introduction at the end of the 1940's and in the early 1950's, of pine and other conifers, which are non-native trees. In 1966, Brazilian reforestation accelerated significantly due to incentives granted by the Brazilian government, pursuant to IBAMA. Currently, practically all of the wood used in Brazil in paper and cellulose production comes from reforested land. Although tax incentives granted by the Brazilian government were terminated in December 1987, reforestation projects have continued since that time so as to guarantee an adequate supply of wood.

FSC Certificate

We believe that we were the first company in the paper and cellulose sector in Latin America to officially receive FSC certification, after a detailed audit carried out by *SmartWood*, which attested our high standards of environmental conservation and social and economic sustainability. This certification opened new sales prospects for our products in the main international markets, namely for sawed and treated pine and eucalyptus wood. The certification also covers the custody chain for the production of pulp, coated boards, industrial bags, corrugated boxes, and recycled paper.

As of December 31, 2018, 82,304 hectares of our properties are certified in the States of Paraná and Santa Catarina and almost 11,970 hectares have been restored in partner-producer areas.

As of December 31, 2017, more than 66,183 hectares of our properties have been certified and almost 7,000 hectares have been restored in partner-producer areas.

Planted Forests

Our planted forests located near our pulp mills in the south and southeast of Brazil, in the states of Paraná, Santa Catarina and São Paulo, total approximately 248,000 hectares of pines, araucaria and eucalyptus. In the first nine months of 2019, we planted approximately 16,340 hectares on both our and third-party lands. In 2018, we planted approximately 29,910 hectares on both our and third-party lands.

Through our own forestry research team, which is dedicated to micro propagation, vegetative propagation, soil studies and statistic control, we have been planting forests based on selected clones and improved seeds, resulting in elevated productivity and reliability for the performance of cellulose fibers.

Brazil has large areas of planted forests that, due to soil conditions, water resources, intensity of solar light and climatic conditions, enable the production of wood in shorter time frames and in relatively smaller areas when compared to countries in North America and Europe. The favorable conditions of Brazilian planted forests enable the production of pulp at lower cost, resulting in generally higher profit margins. In Brazil, native forest wood is not used for the production of pulp and paper.

Eucalyptus is a kind of wood particularly well adapted for the production of pulp in Brazil, due to its fast growth cycle and the quality of its fibers. Eucalyptus trees from Brazilian industrial forests may be cut after seven years of planting, enabling three cuts within a period of 21 years, without requiring a new plantation, as opposed to periods of 12 to 15 years for the cutting of rigid wood trees in countries like Spain and Portugal or of 20 to as much as 90 years for the cutting of other kinds of species of rigid wood trees found in North America and Scandinavia.

Preserved Native Forests

We control approximately 231,044 hectares of preserved native forests, made up of subtropical forests, intermingled with planted forests, which give our projects a mixed character of highly productive plantations and a genetic bank for the conservation of biodiversity. These areas constitute a natural defense system, maintaining the stocks of native flora and fauna, in the interest of the environment and the protection of forest and societal interests. We also develop conservation and environmental education programs in these areas.

Preserving biodiversity is one of our environmental responsibility practices as provided for in our sustainability policy. Since the start of our operations, we have undertaken extensive efforts to identify and monitor the biodiversity of our forests by identifying species considered rare or at risk of extinction on lists such as that of the IUCN and IBAMA. Combined with monitoring activities, various procedures and programs have been adopted to protect those areas, such as:

- no activities that cause an impact in production areas adjacent to preserved areas;
- removal of planted species, monitoring of natural regeneration, and, if necessary, restoration of areas; and
- controlled application of chemical products, preventing risks to the protected areas.

One example of those protections is the Private Natural Patrimony Reserve (*Reserva Particular do Patrimônio Natural*), or RPPN at Fazenda Monte Alegre, in the City of Telêmaco Borba, State of Paraná, with an area of 3,852 hectares.

Capital Expenditures

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures” for a discussion of our capital expenditures and expansion projects. See also “Summary—Recent Developments” form more information regarding our prospective expansion plans.

Main Equipment

Characteristics of the production process

We are a highly integrated, vertically aligned producer. Our demand for wood is met primarily through our own forests, which are planted and managed by us. We produce pulp and paper, and at our own production mills, a portion of the paper we produce is converted to bags and corrugated boxes, with the remainder sold on the domestic and export markets. We are the only Brazilian company to simultaneously supply hardwood pulp (eucalyptus), softwood pulp (pine) and fluff pulp to the market. We are also the largest Brazilian exporter of kraftliner paper, according to IBA, and we also supply the Brazilian market with coated boards, especially as packaging for liquid foods, refrigerated foods, and general use. We export coated boards to Europe, Asia, North America, and Oceania. We also use recycled papers in manufacturing corrugated boxes.

The processes we use are the typical ones used by the sector, adapted to each plant’s specific conditions, with respect to the type of wood and end purpose of the fiber. The technology comes primarily from the northern hemisphere, from Germany, Sweden, Finland, and the U.S. The major global suppliers of equipment for our sector have established plants in Brazil, which is a major center for the pulp and paper industry.

In the production process, the most important pieces of equipment include the digesters (to manufacture pulp), the recovery boiler (to recover chemicals and generate steam), the turbo generators (to produce energy), the paper production machinery and dryers.

The production units are shut down approximately ten days each year for major maintenance and inspection of our equipment, particularly equipment operating under pressure and temperature conditions, such as digesters and boilers. During these shutdowns, worn-out equipment is replaced and technological improvements made, with a view to enhancing performance, ensuring operational safety, and increasing productivity. Also, preventive and corrective maintenance is performed on a monthly basis, on individual equipment and on the paper machinery.

Forestry

We produce wood logs from planted eucalyptus and pine forests. We begin the production process by obtaining seedlings through plant propagation (cloning) or seeding, which is carried out at forest nurseries managed either by us or third parties. Seedling production normally takes between three and five months.

After soil preparation and initial fertilization, seedlings are planted. During the forest planting stage fertilization is necessary, with control measures applied to prevent damaged plants and leaf-cutting ants. The planting stage takes approximately one year for eucalyptus and three years for pine. After this period, the forest is consolidated and monitoring of the areas is needed in order to prevent accidents that might harm productivity.

At cutting age (between six and seven years for eucalyptus and about 15 years for pine) the forest is harvested, using machinery to cut, haul, and process the wood. The wood logs that are produced are loaded and transported by trucks to log yards located at the mills.

Our forestry operations also produce wood logs sold to regional industries such as sawmills and plywood mills.

Throughout the entire process, rigorous environmental and social criteria are applied in order to encourage sustainable production of our planted forests. These activities include precautions to protect the soil, water, biodiversity, and communities in the managed areas. Our forest management is certified by the FSC.

In forestry development, the main equipment used is soil preparation machinery (tractors with implements). During the harvest process, the equipment is grouped into modules consisting of a directional feller, a skidder, a shovel, and two processors.

Pulp

In the production of market pulp (at the Puma Plant), fibers from the bleaching process are sent to the dryer, where the suspension of fiber in low consistency is arranged on a screen to drain excess water and undergo sheet formation. This sheet is pressed between rollers for further water removal before entering the dryer. At the end of the drying process, the sheet has market standard moisture content. The sheet then cut into smaller sheets and rolled into bales, before being packed and sent for shipment. The pine pulp sheet can be rolled into bales (like in the eucalyptus process) or processed into fluff reels.

Papers

We use eucalyptus and pine fiber to produce packaging paper. Pulp production requires separation of the fibers from the other components comprising the wood, particularly lignin, which binds the cells to one another and provides stiffness to the wood. The wood, in the form of chips, is treated in pressurized containers, called digesters, that use caustic soda and other chemical products. This is the chemical or kraft process, the most widely used in the pulp industry.

After passing through the digesters, the pulp fibers are separated from the solubilized wood components. The fiber, which is still brown in appearance, is transported directly to paper machinery or for bleaching. The solubilized components form what is called black liquor, which is removed in the process of recovering the chemical products and burning the organic components (lignin and other wood components), thus generating steam and energy.

Bleaching is the process used to continue the delignification that began with the cooking, lending the pulp a whitish appearance. Oxidizing agents, such as oxygen, ozone, and peroxides, are used to remove the residual lignin from the fibers and leave white pulp paste.

Transformation of the pulp to a flat, thin, and cohesive structure-paper occurs through a series of equipment and operations, which together we call the paper machinery. The process starts with treating the fibers, a phase known as the mass preparation phase, in which the fibers pass through equipment that develops the physical properties of the fibers, separates impurities, and produces mixtures with other types of fibers and additives used in paper manufacture, such as mineral content, amides, glues, and colorings. Each type of paper has a different formula, depending upon the purposes of its end use. This phase occurs in a watery medium and, after these treatments, the fiber suspension is sent to the paper machine, to acquire the final specifications, such as weight (mass of fiber per unit of area), drying, and surface finish.

The principal equipment of our pulp and paper production is listed below.

Recycled Paper

Principal Equipment	Unit	Latest Technology Upgrades	Installed capacity
Paper Machine 21	Piracicaba (São Paulo)	2015	850 t/d
Paper Machine 17	Goiana (Pernambuco)		2100 t/d
Paper Machine 24	Goiana (Pernambuco)	2015	1968 t/d

Monte Alegre Mill

Principal Equipment	Year of Start of Operations	Latest Technology Upgrades	Manufacturer	Installed capacity
Continuous Digester I.....	1978	1984/1986/2012	Voith	850 t/d
Continuous Digester II.....	1988	2007	Kvaerner	2100 t/d
Recovery Boiler I.....	1977	1997/2000/2003	Gotaverken/Anthony Ross	1968 t/d
Recovery Boiler II.....	2007		CBC	1700 t/d
Turbo generator 7.....	1978		2010 ABB	27.0MWh/h
Turbo generator 8.....	2008		Siemens	71.5MWh/h
Paper Machine 7.....	1979	1989/1997/1998/2000/2002	Voith/Valmet	900 t/d
Paper Machine 9.....	2007		Voith	1240 t/d

Otacilio Costa Mill

Principal Equipment	Year of Start of Operations	Latest Technology Upgrades	Manufacturer	Installed capacity
7 Batch Digesters.....	1975	1986/1998	Hércules/Jaragua	980 t/d
Recovery Boiler.....	1998		CBC	1100 t/d
Turbo generators				
TG3 – 1.993.....	1993		Ahstrom/	32MWh/h
TG4 – 1.998.....	1998		ABB	
Paper Machine 13.....	1975	1997	Voith	680 t/d
Paper Machine 12.....	1967	1998	Voith	250 t/d
Paper Machine 11.....	1953	1998	Voith	120 t/d

Correia Pinto Mill

Principal Equipment	Year of Start of Operations	Latest Technology Upgrades	Manufacturer	Installed capacity
8 Digesters.....	1969	1992	Jaragua/CBC	500 t/d
Recovery Boiler.....	1992		CBC	850 t/d
Turbo generator 3.....	1993		Siemens	23MWh/h
Paper Machine 1 (gross production).....	1969	1990/1993/2001/2005	Beloit/Voith	376 t/d
Paper Machine 23 (gross production).....	2013		Voith	320 t/d

Market Cellulose and Fluff

Principal Equipment	Unit	Latest Technology Upgrades	Installed capacity
Digester (Eucalyptus and Pinus).....	Ortigueira (State of Paraná)	2016	4,225 t/d
Recovery Boiler.....	Ortigueira (State of Paraná)	2016	4,225 t/d
Turbo generators.....	Ortigueira (State of Paraná)	2016	4,225 t/d
Dryer Machine (Eucalyptus and Pinus)	Ortigueira (State of Paraná)	2016	4,225 t/d

Conversion

Corrugated Cardboard Boxes and Boards

The manufacture of corrugated boxes packaging is a thermal-chemical-mechanical process. The paper is processed by various types of machinery until it attains packaging condition. During this process the paper is combined in layers, mechanically corrugated, cut, creased, printed with water-based ink, and folded.

The process starts by combining several layers of paper in such a way as to create a stiff board. In this phase, one or two layers are combined with the others, in alternation, and only later do they undergo the corrugation process. For that, the paper receives an application of amide-based glue and is heated. This corrugation lends stiffness to the

cardboard panel. Corrugations may be of various depths, yielding various thicknesses to the corrugated boxes (approximate measurements, depending upon the thickness of the paper):

- corrugation “E”: 1.3 mm thick;
- corrugation “B”: 2.8 mm thick;
- corrugation “C”: 3.8 mm thick; and
- corrugation “A”: 4.5 mm thick.

It is also possible to prepare cardboard with two stages of corrugations giving it extra stiffness. Normally corrugations “C” is combined with “B” (most common) and “A” with “C.” Next, the corrugated sheets are transformed into packaging. During that process the sheets are printed with flexographic ink (water based). The paper used in manufacturing corrugated sheets is produced especially to be converted to packaging and may be of the “raw fiber” type (Kraft) or recycled fiber. Various paper weights are used, ranging from 100 to 420 g/m², depending upon the strength required by the product to be packaged.

Principal Equipment

Corrugators: These transform spools of paper into sheets of corrugated cardboard. They normally produce sheets of cardboard with levels of corrugations B, C, E, AC, and CB.

Presses: These transform sheets of corrugated cardboard into packaging. We have a state-of-the-art set of presses, including those of the “rotating cut-crease” type (which use forms to cut and crease the cardboard, yielding unfolded packaging as a final product) and “gluer-folders” (which produce cuts and creases using adjustable tools, with no need for forms, providing, as end product, folded packaging with glued tabs). Our presses are capable of producing printings in up to five colors and reticulated to form polychrome.

Other Equipment

- staplers, gluers, accessory machinery, and palletization;
- utilities (boilers, starch glue kitchens, press balers, scrap punches, etc.); and
- effluent treatment stations.

Industrial Bags

Industrial bags are processed using various pieces of equipment up to the packaging stage. The paper is printed in flexography using water-based ink, cut, glued with amide vegetable glue or polyvinyl acetate, combined in layers, folded, and sealed to receive valves, counting, and packaging for shipping to the end customer.

Printing or pre-printing process

Bag paper on spools is placed on an unwinding rack and passes through rolls and through the printing device where the ink application occurs, which may be of one to eight colors, depending upon the design and layout provided by the customer. Next, the paper passes through a drying and re-spooling system. The spools are identified and returned to inventory until the tubing process begins.

Tubing process

The tubing process is started by laying out the spools on the unwinding racks; the first sheet may be pre-printed or printed directly in this process. Next, the paper passes through rolls that correct the positioning for the application of glue between the sheets, cutting (punching) and application of lateral glue to allow for tube formation. After this, it passes to the tube-forming table and then to the separation head. The tubes continue along a conveyor belt and to the exit table where they are counted and grouped into batches. After formation, the tube batches continue along automated belts to the glue application table.

Gluing process

The tubes are laid out on the application table, which is powered automatically, and pass through the creasers, openers, and tube cap formers. The glue is applied to the top and bottom caps, and valves are also applied to the top caps. The caps are closed and then, drying and pressing are initiated. The bags are counted and stacked in batches that continue on to palletization, which may be manual or automated.

Pallet fastening process

In this process, the released pallets are wrapped in plastic or, by customer request, fastened and sent out for shipping, completing the shipment in accordance with the scheduled dates.

Research & Development

Our management believes that technical innovation is a key factor for our success and competitiveness, and our policy is to make continuous investments in research and development, covering all of the technical aspects of the phases of our business, from seeds to end users. Our research and development facilities consist of laboratory facilities situated on-site at the factories, with the objective of optimizing the pulp manufacturing process, developing new products and monitoring environmental controls, as well as laboratory facilities in forest regions that conduct research regarding genetic improvement of trees, fertilization and conservation of soil, and forested ecosystems. In addition to the development of new products, conducted with the assistance of our marketing department, these facilities are also actively working to ensure compliance with environmental laws and regulations.

In 2017, Klabin inaugurated the new technology center in Telêmaco Borba, Paraná. With laboratories capable of producing a wide range of forestry products and conducting simultaneous simulations of the production lines at industrial units, the center seeks to anticipate trends and to develop new technologies and sustainable applications. Its construction is part of a plan to invest R\$70 million in research, development and innovation over three years (through 2017), which also includes the acquisition of equipment, the revamping of forestry research labs and the training and recruiting of technicians and researchers.

In addition to improving products, it is anticipated that research will focus on discovering new applications for products already produced by us, the extraction of commercially valuable chemicals from wood and by-products generated in the pulp and paper production process itself, following biorefinery in order to take full advantage of the raw materials used by us and open new business lines.

In September 2018, we announced the approval of an R\$32 million investment for our research and development program, involving the construction of a Pilot Mill Complex, at the Monte Alegre Unit, in Telêmaco Borba (Paraná).

We seek to generate value throughout our production chain, making it more efficient, sustainable and capable of contributing to increased productivity and product quality. To achieve this goal, we focus our efforts in the five main areas discussed below.

Forest-based development

Through forest-based development, we aim to increase the productivity of plantations and improve the quality of the raw material and wood properties, such as density and fiber content, bringing together knowledge related to soils and climate where we operate, impacts of climatic variations, water use, the study of pests and diseases that can affect plantations and other aspects capable of impacting the forestry business.

Pulp development

Through pulp development, we seek continuous improvement in our hardwood pulp (made from eucalyptus), softwood (made from pine) pulp and fluff pulp.

Line of papers

With respect to our paper products, we aim to increase the quality of cardboard, sack kraft and kraftliner paper with the development of properties that contribute to the process of reducing paper weight, improving print quality and developing applications that confer barriers to water, air, vapors and oils, for example.

New forest-based technologies

We seek to focus on new technologies related to forests, such as the multiple use of wood components (celluloses, hemicelluloses, lignin or extractives), with a view to developing new possibilities for our products and markets in the medium term (five to 10 years). We have invested both in the biorefinery line (biofuels) and in the development of products based on lignin and the wood's hemicellulose and in the application of the cellulose fibers themselves in their micro and nano fractions - microfibrillated and nanofibrillated cellulose.

Reduction of environmental impacts

With respect to the environment, we seek to focus on environmental issues, from climate change to reducing the use of process inputs such as energy, water, steam and chemicals. This front is linked to minimizing the impact of our operations on the environment, while contributing to sustainability.

For example, with respect to energy, we produce our own energy and use approximately 89% of renewable sources in our energy matrix. Our energy generation also exceeds consumption at all of our plants, which makes us self-sufficient in energy and allows us to sell the surplus to Brazil's electricity grid.

Environment

Environmental aspects related to some of our SDG, such as water, energy, climate change and biodiversity are a major focus of our management. Our Environmental Committee, comprising directors and representatives of industrial operations, defines goals for energy, water, emissions, waste and other indicators related to our operations, that are deployed in specific targets for each business.

We make continuous investments in the mitigation of the impact of our operations on the environment. These investments also benefit us since they reduce the marginal costs of production due to the increase of efficiency in the use of raw materials, also safeguarding our forests from diseases.

The Brazilian constitution grants current powers to both the federal and state governments to implement laws and regulations regarding environmental matters. Recently, the Brazilian Supreme Federal Court (*Supremo Tribunal Federal*), or STF, has ruled that municipalities can also enact their own regulations to establish standards and limitations in order to protect the environmental. (RE No. 194704/MG). In this regard, environmental regulations of the states and municipalities in which we carry out our industrial activities, in addition to the generally applied rules, present certain specific provisions that are applied to our activities. The standards are established in the environmental licenses (preliminary licenses, installation licenses and operational licenses) issued by environmental agencies for each company or mill. The licenses are subject to renewal and may, therefore, be amended from time to time. We are in full compliance with the limits established in our current operational licenses, and as such, we do not expect to be materially affected by any such stricter conditions.

Liquid effluents, solid residues and air emissions comply with all applicable laws and regulations of the states in which we carry out our industrial activities. Therefore, we do not expect significant ongoing expenses for the purpose of complying with existing or proposed environmental laws and regulations of which we are aware. However, environmental regulations may change in the future and more currently restrictive standards may be adopted by the states or municipalities in which we operate, and our compliance with those rules and regulations may involve significant expense.

Quantity of Air Emissions

Over the years, Klabin has been constantly investing in reducing the consumption of fossil fuels and also increasing the energy efficiency of industrial plants. These investments have made Klabin's energy matrix more renewable and based predominantly on the use of renewable fuels - such as wood and black liquor, for use in boilers.

Avoiding and preventing pollution by reducing environmental impacts related to aspects such as atmospheric emissions is one of the key features of our sustainability policy. With the increased use of renewable fuel in our energy matrix, we are contributing to a reduction in GHG emissions. We present our results through the emissions inventory prepared according to the methodology of the GHG Protocol, a world-recognized standard.

In 2018, we reduced the consumption of non-renewable fuels for energy generation by 7%, mainly through ongoing efforts to reduce the consumption of fuel oil (a decrease of 12% in 2018 compared to 2017) and diesel (a decrease of 31% in 2018, in relation to 2017).

Liquid Effluents

Water is crucial for the pulp and paper manufacturing process. Approximately 99% of the water source used by Klabin comes from surface water (rivers) located near our mills. After the water is used in the manufacturing process, the effluents are submitted to mechanical, biological and chemical treatments before they return treated to the rivers. We have efficient effluent treatment plants to ensure that all generated effluent is treated and returned to the water body in accordance with the legal parameters for each unit. Some of these effluent treatment plants have technologies to control the variations in organic load of these effluents so that the process variations do not affect the quality of the final effluent, such as tanks and emergency lakes where the effluent is sent to be incorporated into treatment plants without affecting the quality of treatment. The characteristics of the effluents are constantly monitored through chemical, physical and biological analysis. We also monitor the characteristics of the ecosystems surrounding our mills.

Our consumption of water is consistent with the sector average: between 25 to 26 cubic meters per tonne of pulp produced. In particular, our Puma Plant, which was designed with state-of-the-art technology and implements the concept of low consumption circuit, reuses 83% of the water in its operations. Our total water consumption in 2018 was 109,413,520 m³, with more than 99.74% coming from surface water sources. In addition, 90% of the water consumed at the Puma Plant is eventually returned to the river.

We reuse water in different ways. To increase the total amount of water reused, data is collected from water circulation pumps or line meters measuring water return to water treatment stations, or direct returns to the process. In the first nine months of 2019 the recycled water flow represented about 3 times the volume of collected water. This evidences our commitment to search for technologies to recycle water in the productive process, thus reducing the need for greater use of natural resources.

Water Resources

Brazilian environmental legislation requires that the following uses of water resources obtain authorizations from public authorities: (i) obtaining water from a body of water for consumption, including public supply or productive process; (ii) obtaining water from an underground source for final consumption or productive process; (iii) disposal of sewage waste and other liquid or gaseous residues, whether treated or not, into a body of water for dilution, transportation or final disposal; (iv) utilization of hydroelectric resources; and (v) other uses that alter the system, quantity or quality of the water existing in a body of water.

Failure to obtain the relevant authorization to use water resources, or the use of water resources in violation of the conditions established in the granted authorization may result in administrative sanctions, in addition to civil liability. In the administrative sphere, Brazilian Federal Law No. 9,433/97 establishes that the violation of any law or regulation related to the use of water resources or the nonfulfillment of requests made by the competent governmental authorities shall be sanctioned with warnings, fines ranging from R\$100 to R\$10,000 (depending on the gravity of the offense), embargo until the wrongdoer becomes compliant with the requirements of the authorization, and repeal of the authorization, as well as the obligation to repair any environmental damage caused.

Solid Residues

Pursuant to Federal Law No. 12,305/2010, or the National Solid Waste Policy, companies are required to properly manage the solid waste resulting from their activities, including the recycling of materials and the final disposal of hazardous waste.

Inadequate disposal of waste may result in criminal and administrative sanctions in addition to the obligation to repair or indemnify damage to the environment and affected third parties, even if the solid waste management is carried out by third parties hired for such purpose, such as its transportation, treatment and final disposal. The administrative sanctions applicable for inadequate disposal of waste and the nonfulfillment of certain obligations, such as the requirement to maintain a solid waste management plan (*Plano de Gerenciamento de Resíduos Sólidos*), include warnings and fines ranging from R\$5,000.00 to R\$50,000,000.00.

We have identified productive uses for solid residues resulting from the pulp and paper manufacturing process. Hazardous waste at Klabin can be used for three purposes: recycling, use as fuel (the predominant use) or incineration. In each process, we comply with the relevant norms and laws. In 2018, hazardous waste corresponded to 0.11% of total waste generated, a reduction of approximately 54% compared to 2017, surpassing our target of 50%.

The Puma Plant brought to Klabin innovation standards in the management of natural resources used in our industrial processes. The Solid Waste Processing Center in Ortigueira, in the State of Paraná, which also serves the Monte Alegre Unit, in the neighboring municipality of Telêmaco Borba, is one of the examples of improvement of our management in this area. Responsible for processing industrial waste, it prevented that approximately 70% of the industrial waste was destined to industrial landfill. These residues are transformed into several by-products, many for agricultural application. Much of the waste goes through a composting process and, in this way, is transformed into a rich substrate being used in forests and other agricultural crops, improving the quality of the soil.

To address the National Solid Waste Policy and the published call to the packaging sector to develop an agreement to adopt a reverse logistics system, we became a member of a coalition formed by several companies that is planning and implementing reverse logistics systems for non-hazardous packaging waste.

We believe we are one of the largest paper recyclers in Brazil. The Goiana unit has the largest recycled paper machine in Brazil (Mp24), with a production capacity of 110 thousand tonnes per year. Our total recycling capacity is 275 thousand tonnes per year (RISI, 2018).

Furthermore, our solid waste processing center at the Puma Plant has the capacity to process approximately 23,000 tonnes monthly and recycle 94% of the waste from the Puma Plant's operations. In 2018, it recycled 72% of the waste produced by the Puma Plant and Monte Alegre's plant's operations.

Preservation of Forests

All of the wood we use comes from planted forests and not native forests and, in general, the land used by us is located in areas previously degraded by agriculture or cattle-raising activities. Each year, we plant for our own future use more trees than we actually cut. The cultivation techniques seek to preserve the health of our forests. Our policy is more restrictive than the statutory requirements established in Brazilian legislation, according to which about 40% of our lands can only be cultivated with native species of trees, therefore excluding eucalyptus and pines. We also supply seeds and technical assistance to surrounding communities for several purposes, especially the planting of forests.

We were among the first companies to use mosaic forest management. Our mosaic system preserves about 48% of native forests and conserves biodiversity, because the planted pine and eucalyptus trees are interspersed with stretches of preserved native forests. We also use 89% renewable sources, such as wood, wood chips and pulp, and the production cycle reuses a maximum of resources and waste in the production chain itself.

Special Protected Areas

According to Federal Law No. 12,651/2012, or the Brazilian Forest Code, Permanent Preservation Areas, or APPs, are areas reserved for the maintenance of forest or other native vegetation. Due to their location and importance, the vegetation found in APPs may not be removed, even within urban areas. If degraded, such vegetation should be preserved or recovered.

In addition, the Brazilian Forest Code provides that all property located in rural areas shall maintain a native vegetation cover denominated Legal Reserve, or RL. The percentage of property that should be maintained as a RL varies according to the type of vegetation and the region in which the farm is located. In most regions, 20% of the

property must be maintained as RL, however, forests located in the Legal Amazon region, as described below, require a RL of 80%, and the *cerrado* biome in the Legal Amazon region requires a RL of 35%. The Legal Amazon region corresponds to eight Brazilian states located in the Amazonic region (i.e., Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Mato Grosso and Tocantins) and part of Maranhão state.

The destruction, deforestation, damage or exploitation of any forest or native vegetation and native species planted in RL or APP, without permission of the relevant environmental authority, may result in a fine of R\$5,000 per hectare or a fraction thereof. Moreover, pursuant to Federal Law 9.605/1998, the act of preventing or impeding the natural regeneration of forests and other forms of vegetation is an environmental crime that is punishable by imprisonment of six months to a year.

The Brazilian Forest Code also introduced the Environmental Rural Registry (*Cadastro Ambiental Rural*) to promote environmental regulation of rural land, which is a public registry system enabling the owners or possessors of rural lands to certify their intent to comply with environmental regulations related to their rural property, including their compliance with APP and RL requirements.

Any non-compliance with environmental regulations may subject the rural land's owners or possessors to administrative, civil and criminal liabilities, including warnings and fines, and the relevant APP, RL or project may not obtain rural credit.

Environmental Licensing

Applicable Brazilian environmental legislation requires that environmental licenses be obtained whenever there is construction, installation, expansion or operation of any enterprise that uses natural resources, causes natural degradation, or pollutes or has the potential to pollute the environment.

Environmental impact studies are later submitted to federal and state authorities for their respective verification, as well as being presented to the population of the communities affected by the enterprise through public hearings.

The competent authority to issue and conduct the environmental licensing will be IBAMA in the following cases:

- for companies located or developed collectively in Brazil and a bordering country, territorial waters, the continental platform, the exclusive economic zone, indigenous land or conservation units belonging to the Brazilian government;
- for companies located or developed in two or more states;
- when direct environmental impacts exceed the territorial limits of Brazil or one or more states; and
- for companies related to radioactive material or that use nuclear energy.

State authorities will be responsible for granting licenses in the following cases:

- for companies located or developed in more than one city or in conservation units belonging to a state or the Federal District;
- for companies located or developed in forest and other forms of natural vegetation of permanent preservation;
- when direct environmental impacts exceed the territorial limits of one or more cities; and
- for companies delegated by the Brazilian government to states or the federal district, through a legal instrument or agreement.

The relevant municipal environmental authority, after consultation with federal and state authorities, has the authority, when applicable, to grant licenses to companies performing activities that have a local environmental impact.

Municipal environmental authorities may also perform those functions that have been delegated to them by a state, legal instrument or agreement.

The process for the licensing of an enterprise with a significant environmental impact generally follows three steps:

- Preliminary License: determines the environmental feasibility of the project, approving its conception and location and establishes the basic requirements and environmental conditions to be satisfied during the following steps of the implementation of the project;
- Installation License: authorizes the installation or construction of the facility and contemplates the compliance measures and other environmental conditions to be satisfied before the facility starts operating; and
- Operational License: authorizes the start of the operations of the facility and establishes the compliance measures and environmental conditions that should be satisfied during the operational phase.

Environmental licenses are valid for a specific period of time and their renewal must be timely requested (generally, the renewal request must be filed within 120 days prior to the expiration date). If a license renewal is timely requested, its effectiveness is automatically extended until the enactment of a final opinion of the environmental agency regarding that request. Conversely, if the renewal request is not timely filed, the license expires. Moreover, their effectiveness depends on the compliance with the conditions established by the relevant environmental agency in such licenses.

Operation licenses granted by the relevant state-level environmental bodies are currently in effect with respect to our Monte Alegre, Betim, São Leopoldo, Jundiaí, Itajaí, Goiana, Angatuba, Otacílio Costa, Correia Pinto, Piracicaba, Lages, Rio Negro, Manaus, Ortigueira and Feira de Santana Mills.

Other authorizations

In addition to the environmental licensing procedure, Brazilian legislation sets forth required environmental standards that must be met, including obtaining specific permits and authorizations, such as (i) authorization for water supply regarding capture and disposal of effluents; (ii) permission for vegetation removal; (iii) certificate of approval for disposal of industrial waste; (iv) authorization for the use of hazardous products; and (v) neighborhood impact studies analyzing urban zoning and land use, air quality and other nuisances. Failure to obtain any required authorizations may subject the company to penalties as discussed below under “—Environmental Liability.”

Environmental Compensation

Pursuant to Federal Law No. 9,985/2000, for environmental licenses related to activities with significant environmental impact (as determined by the relevant authority according to its environmental impact assessment and report), companies are required to create and maintain “conservation units.” Conservation units are specified areas of land and natural resources (as determined by the relevant authority) marked for preservation where environmental impacts from corporate actions are restricted.

In order to create and maintain such conservation units, companies shall invest at least 0.5% of the total investment amount, not including the costs related to environmental programs. Such amount will be determined by the relevant environmental authority, taking into account the projected environmental impact of the relevant activity, as well as its total cost.

Environmental compensation is required for licensing the project, and failure to comply can lead to fines ranging from R\$500 to R\$10,000,000.

IBAMA’s Federal Technical Register

The National Environmental Policy, established by Federal Law No. 6,938/1981, provides that individuals and legal entities that engage in potentially polluting activities must be registered in the IBAMA’s Federal Technical

Register (*Cadastro Técnico Federal*) an online registry that monitors such activities. Registration with the CTF is required for the development of pulp and paper industry activities.

Individuals and entities that register with CTF are required to provide IBAMA with annual reports comprising details on the activities performed, including the management of solid waste generated, pursuant to IBAMA's Normative Ruling No. 06/2014.

Failure to register may result in the imposition of fines, ranging from R\$150 up to R\$9,000. In addition to registration, a specific fee, known as the Environmental Control and Inspection Fee (*Taxa de Controle e Fiscalização Ambiental*), or the TCFA must also be paid to IBAMA on a quarterly basis for any activity with an environment impact. The fee varies from R\$128.80 to R\$5,796.73 per quarter, depending on the potential pollution and level of natural resources used in the course of the relevant activity. Failure to pay the TCFA may result in a fine of 20% over the amount due, plus interest at the rate of 1% per month of delay, without prejudice to the obligation to pay such fee.

Protection of Wildlife

Our forest scheme is a “mosaic” shape, where planted areas are mixed with preserved native forests, which maintains the biodiversity of the region, enabling the preservation of native flora and fauna. Of the many species that live in our forests, we highlight the *catetos*, deer, *sucuaranas*, small cats (*jaguaririca*, *gato-do-mato* and *gato-maracajá*), *porcos-do-mato*, *cotias*, *quatis*, *bugios*, *macacos-prego* and *tamanduás-bandeira*, among others.

The fauna living in our forests is studied and protected by our specialists, with support given by Brazilian Universities (including *Estadual de Londrina*, *Estadual de Ponta Grossa*, *Federal do Paraná*, among others), the Curitiba Zoo, the Museum of Natural History of Paraná and IBAMA.

We are adopting strategies to monitor and preserve the various species of plants and animals existing in our native forests. For every 100 hectares of forests planted, over 90 hectares of native forest are preserved. We also have an RPPN located at our Fazenda Monte Alegre mill comprising 3,852 hectares. In the State of Santa Catarina, we are in the final phase of financing and regulation with the Federal Land Reform Agency (*Instituto Nacional de Colonização e Reforma Agrária*), or INCRA, for the Serra da Farofa RPPN Complex, comprising 4,987 hectares.

Through constant monitoring, diagnostics are being performed to verify the quantity and quality of populations, threatened species, and inhabitants, in addition to the monitoring of emissions and corrective actions for variances. Based on surveys, the management plan for forest units is prepared annually and includes biodiversity data, to reduce negative impacts and expand positive ones, as well as restoring areas to improve the environmental conditions of native reserves by increasing resources for fauna and flora. Procedures that have been adopted include, for example, not engaging in activities with impact in production areas adjacent to preserved areas.

Recycling

We believe that we are one of the largest paper recyclers in Brazil. We have two recycled paper units, reducing the volumes of waste disposed at dumps and landfills and thereby returning materials to the recycling chain, while also demonstrating the excellent functioning of reverse logistics in the pulp and paper sector.

Environmental Liability

Federal Law No. 6,938/1981 establishes strict liability for the recovery of environmental damages or, if not possible, compensation or indemnity for such damages, with joint and several liability established among all those directly or indirectly contributing to environmental degradation, regardless of the degree of participation in the damage.

Each party involved may be held liable for the full amount of the damages. Environmental civil liability is based on strict liability, such that one may be held liable irrespective of negligence, intention or fault, so long as there is a causal link (or chain of causation) between the damage caused and the activities (or omissions) that occurred. Therefore, upon the existence of environmental damage, the activities that contributed to such damage will be examined.

Brazilian environmental legislation provides for criminal and administrative penalties for individuals and entities that commit environmental crimes or violations, in addition to establishing the obligation to repair the environmental damage that was caused.

At the administrative level, penalties for the commission of environmental crimes and infractions include:

- the imposition of fines at the administrative level which may reach R\$50 million, depending on the polluting party's financial condition and credit record, as well as the seriousness of the facts of the case and the polluting party's compliance history. Fines may be doubled or tripled for repeated breaches;
- suspension or prohibition of the development's activities, and/or
- the loss of tax benefits and incentives.

Environmental damage results in direct and indirect, joint and strict liability. This means that the obligation to repair the environment may affect all those who directly or indirectly caused the damage, irrespective of the fault of each intervening party. Therefore, developers may be held liable for any environmental damage caused by third parties they hired to carry out any services (including, for example, the treatment and disposal of solid waste, segregation of trash collection and final disposal of waste, weed removal, cutting down trees or soil moving).

In addition, environmental legislation provides for the piercing of the corporate veil of the controlling shareholder whenever there is an obstacle to indemnify for damages caused to the environment.

Insurance

Our industrial units, distributed throughout several Brazilian states, have facilities and equipment used for the production of pulp and paper and the conversion of paper / coated carton board into packages. The policies guarantee that the insurance for all facilities are "Operational Risk" policies, with coverage that includes risks of fire, lightning, explosion, electrical damage, floods, windstorms, hail, hurricanes, cyclones, tornados, smoke, machinery breakdown and business interruption (loss of profits) in all our sites. Nevertheless, there are certain types of risks that may not be covered under the policies we purchase, such as war and unavoidable and unforeseen external circumstances (factory strikes, for example), which may cause the interruption of certain activities.

Our industrial and commercial facilities and equipment of greater importance to our business are insured against damages, following an internal assessment that takes into account the relation between the risk involved and the probability of damage to our respective assets, through our operational risk management program. In addition, this operational risk management program allows us to identify the need for critical back-up material for immediate replacement and recommendations to improve and mitigate of our risks. Our insurance coverage for our manufactured products, such as paper, coated boards and corrugated boxes, also includes coverage for their storage and transportation. The transportation insurance policies cover domestic and international maritime, railway, highway and air transportation and risks such as fire or explosion, crashes, damages to freight, transportation and unloading, damage caused by rain, and collapse or forced landings, among others.

Additionally, we have a General Liability policy to cover any claims involving property or physical damage from third parties, and we are insured against both our domestic and international clients. We are also insured against financial damage, such as, customer default in sales in the domestic and foreign markets.

We maintain forest insurance policies for all forestry bases in Brazil, that covers for damage by fire, lightning, explosion, aircraft crashes, hurricane and weather conditions, such as, hail, cold winds, frost, drought, and excessive rain.

Considering that our insurance policies provide insurance in relation to our products from our forest bases and up until final delivery to client, we believe that our insurance policies are in accordance with best market practices.

Forests

In addition to contracted insurance policies, our forests are in favorable geographical locations and are distributed over disparate areas and our preventive measures against fire and other risks have proven to be highly effective over the decades.

We maintain an efficient structure for the prevention and fighting of fire and diseases, with the purpose of protecting our forests. This structure involves surveillance of all actions inside our forests, through the use of surveillance towers, by the operation and efficacy of firefighting vehicles and by maintaining and cleaning of border divisions and internal fire breaks. See “Risk Factors—Risks Relating to Us and the Paper and Packaging Industry in General—We are subject to stringent environmental requirements, and compliance with existing and future regulations could require significant capital expenditures and increase our operating costs” and “Risk Factors—Risks Relating to Us and the Paper and Packaging Industry in General—Our insurance coverage may be insufficient to cover our losses, and does not cover certain damage, such as from forest diseases” for a discussion of certain risks relating to our forests.

Legal and Administrative Proceedings

Currently, we are party to approximately 1,843 administrative and judicial proceedings, mainly involving tax and contributions, indemnification and labor obligations. As of September 30, 2019, these proceedings represented a total contingency of approximately R\$4,230 million, of which we have provisioned R\$61.1 million, in accordance with the probability of loss as determined by our external counsel. Additionally, as of September 30, 2019, we also had a total of R\$112.7 million in judicial deposits.

The following is a summary of our material judicial and administrative proceedings:

Labor Proceedings

As of September 30, 2019, we were a defendant in approximately 1,477 labor claims, which represented a total contingency of approximately R\$457 million, in respect of which we provisioned R\$42.9 million. These proceedings primarily relate to claims filed against us for unhealthy or dangerous working conditions, overtime pay and claims alleging our joint, several or subsidiary liability in suits filed against our third-party contractors or service providers.

Finally, we signed eighteen Adjustment of Conduct Terms (*Termos de Ajustamento de Conduta*) with the Public Office Prosecutor that oblige us to adopt measures in order to avoid overtime, irregular outsourcing and moral harassment, to provide employment security for employees that hold positions in unions and to those on leave, to comply with environmental legislation and to make the hiring of individuals with disabilities feasible, in accordance with the minimum quota determined by law.

Public Civil Actions

We are the defendant in a class action, brought by the Public Prosecutor’s Office of Ponta Grossa, state of Paraná, requesting collective damages and changes to the Monte Alegre Mill in order for it to comply with employment safety rule NR12. On September 30, 2019, the total amount of the claim was approximately R\$90 million, of which we believe R\$1 million has a possible chance of loss and R\$89 million has a remote chance of loss. It was agreed with the Public Prosecutor’s Office that Klabin would submit a technical report indicating compliance with rule NR 12 on 3 machines. At the hearing with the Public Prosecutor’s Office, the decision was not made on the merits, due to the fact that the Brazilian government is discussing the possibility of changes in the NR 12 rule. We are awaiting expert analysis on this.

We are also party to a class action initiated by the Public Prosecutor’s Office of Goiana, state of Pernambuco, seeking to limit overtime by workers on the Goiana unit and requesting collective damages. After hearing the Public Prosecutor’s Office, it was agreed that Klabin would limit overtime in the Goiana unit to two extra hours per day. On September 30, 2019, the total amount of the claim provisioned was R\$300,000 based on a prognostic of probable chance of loss, considering collective damages that will have to be paid for overtime that does not meet the two-hour limit.

Civil Proceedings

As of September 30, 2019, we were a defendant in approximately 132 civil judicial suits and we are currently party to three arbitral proceedings, which represented a total contingency of R\$139 million, in respect of which we provisioned R\$7.6 million. These suits are mainly in relation to indemnification for moral and material damages or civil accidents.

We have civil responsibility insurance that reduces the total contingency related to these events.

Environmental Proceedings

We are party to a public civil action filed by the Fishermen's Association of the State of Paraná (*Associação dos Pescadores Ambientais do Paraná*), or APAP, requesting the removal of our factory's pipe for the release of emissions into Tibagi River, as well as for the removal of burned charcoal residues used by Klabin until 1998 from the Tibagi River bed. Despite the favorable opinion of the Public Prosecutor's Office on our defense, the lawsuit was partially decided against us, with respect to the claim regarding removal of the burned charcoal residues. The decision was upheld by the *Tribunal de Justiça do Estado do Paraná* and the special appeal (*recurso especial*) in progress in the STJ was rejected. The total amount of the claim is R\$15 million, subject to a possible adaptation of the environmental recovery costs demanded by the court, and we believe our risk of loss is probable, although there is no estimated amount for payment at this point. The execution process is expected to move forward soon. A final decision has been handed down, ordering Klabin to remove the burnt coal deposited on the Tibagi River. Klabin continues to maintain that the order is unenforceable and, in addition, liable to cause environmental damage. For now, it is impossible to estimate how the order will be implemented and the related costs.

We are party to a public civil action filed by APAP requesting the revitalization of soil and permanent areas of preservation affected by the leakage of caustic soda used to treat factory effluents, as well as indemnification for a riverside population. We were served on August 3, 2017, by which date we had already begun revitalizing affected soil and establishing permanent preservation areas. We believe there was no water pollution and that the indemnification claims will not succeed. We currently await a judicial decision regarding the technical reports presented in September 2018. The total amount assigned to this claim is approximately R\$5 million, subject to a possible revision of the environmental recovery costs demanded by the court, and we believe our risk of loss is remote.

We are party to a public civil action filed by APAP requesting indemnification for material and moral damages for the death of fish due to the reduction of the water flow of the Tibagi River, where Klabin maintains a dam with a company called *Consórcio Energético Cruzeiro do Sul*. The injunction requested by APAP was rejected and a conciliation hearing was conducted after we presented our defense, but it was unsuccessful. The judge is currently considering the preliminary technical points raised by Klabin in defense. The total amount assigned to this claim is approximately R\$50 million and we believe our risk of loss is remote.

We have signed three terms of commitment with the Public Office Prosecutor that oblige us to comply with environmental legislation.

Additionally, we signed an undertaking with the Environmental Institute of the State of Paraná (*Instituto Ambiental do Paraná*) on December 1, 2008 which obliges us to adopt measures to ensure compliance with applicable environmental laws.

Tax Proceedings

We are a party in approximately 234 tax proceedings in which we are challenging the constitutionality and legality of the collection of certain taxes. We have also been issued tax deficiency notices and are a defendant in administrative proceedings filed by tax authorities for the purpose of collecting taxes and assessments allegedly due. From the total amount of the tax proceedings, we are a defendant in 194 lawsuits and a claimant in 40 tax proceedings, which represent a contingency of R\$839 million.

Our tax and administrative proceedings as of September 30, 2019 totaled approximately R\$4,230 million, in respect of which we provisioned R\$10.7 million.

Our principal material tax proceedings are described below:

IPI tax credits

We and Aracruz Celulose S.A. are co-defendants in an Annulment Action filed by the Brazilian government seeking to overturn the final decision in an Appeal, in particular in relation to the application of SELIC interest rate, and the use of IPI tax credits pursuant to Resolution CIEX No. 2/79 (which was the original subject of dispute in the appeal). The total amount of the claim is R\$101.8 million. Based upon the advice of our external counsel, we believe our risk of loss in relation to this proceeding is possible.

Income tax and social contributions

We are party to a federal administrative tax assessment issued by the Brazilian federal revenue service disputing the income tax and social contributions tax amounts due as a result of (i) royalty expenses deductions, (ii) expenses personal guarantees, (iii) amortization of goodwill arising from the acquisition of Klamasa Participações S.A. and Igaras Papeis e Embalagens S.A., or Igaras, and (iv) use of tax credits. The total amount of this claim is approximately R\$1.3 billion. Based upon the advice of our external counsel, our chance of loss in relation to this proceeding is possible.

We are also party to a federal administrative tax assessment issued by the Brazilian federal revenue service, disputing the income tax and social contributions tax amount due as a result of miscalculations of such taxes due to improper deductions arising from exchange rate fluctuation. The total amount of this claim is approximately R\$232 million. Based upon the advice of our external counsel, our chance of loss in relation to this proceeding is possible.

We are party to six proceedings related to social security contributions in connection with the agribusiness activities. We filed a writ of mandamus against the Brazilian federal revenue service contesting the constitutionality of the new social security contribution levied over the gross revenue from our sales, as provided in article 22-A of Law No. 10.256/2001. In 2008, the Brazilian federal revenue service filed five administrative proceedings against us to avoid the prescription of its claims, alleging our failure to pay the tax amounts due. All five administrative proceedings are pending, awaiting a decision on the writ of mandamus. As of September 30, 2019, the total amount of this claim is approximately R\$363.8 million, and we believe our risk of loss is possible.

We are the plaintiff in a lawsuit seeking to (i) annul a federal administrative tax assessment issued by the Brazilian federal revenue service for our alleged failure to pay income and social contribution taxes due on capital gains arising from a corporate restructuring involving Norske Skog Pisa Ltda. and Lille Holdings S.A. and (ii) secure interim relief against the decision that increased the fine from 75% to 150%, under the allegation that the alleged tax evasion was willful. The total amount of this claim is approximately R\$88.7 million and we believe our risk of loss is possible. Notwithstanding the above, we have also offered to provide a guarantee for the amount under dispute in the federal administrative tax assessment. Additionally, as a result of this tax proceeding, a criminal proceeding was also filed against us, but has since been suspended, pending a decision in the administrative proceeding.

The Brazilian federal revenue service issued a tax assessment alleging we had used undue tax credits arising from forest and general expenses between July 2012 and December 2012 and requesting the payments of social contribution taxes PIS and COFINS. The total amount of the claim is approximately R\$115 million and we believe our risk of loss is possible.

We are the plaintiff in a lawsuit aiming to secure our rights to use tax credits arising from PIS and COFINS paid in excess to offset our currently owed taxes. The competent trial court has ruled in our favor and a decision on the appeal filed by the opposing party is still pending. The approximate total amount of the claim is R\$115.5 million and we believe our risk of loss regarding the administrative proceeding is remote.

We are party to a federal administrative tax assessment issued by the Brazilian federal service for our alleged failure to pay PIS and COFINS taxes. The approximate total amount of the claim is R\$59.9 million and we believe our risk of loss is remote.

We are also party to a federal administrative tax assessment issued by the Brazilian federal revenue for our alleged failure to pay COFINS taxes. The approximate total amount of the claim is R\$53.6 million and we believe our risk of loss is possible.

We are also party to a federal administrative tax assessment issued by the Brazilian federal revenue for ineligibility for compensation due to an inconsistency with the criteria set forth by the Social Investment Fund (*Fundo de Investimento Social – FINSOCIAL*), criteria for adjustment to credits in 2017. The approximate total amount of the claim is R\$115 million and we believe our risk of loss is possible.

Services Tax

We are party to seven foreclosures and one administrative proceedings issued by the tax authorities of the municipality of Lages, in the State of Santa Catarina, charging services tax (*Imposto sobre Serviços*), or ISS, on our revenues from manufacturing and printing of custom paper packages. The approximate total amount of this claim is R\$959 million and we have offered real estate property to guarantee this amount. According to our external counsel, we believe our risk of loss is possible.

A similar proceeding was filed against us by the tax authorities of the municipality of Rio de Janeiro, charging ISS on our revenues from manufacturing and printing of custom paper packages for the period between 1996 and 2001. In March 2010, we filed an annulment action disputing this tax assessment. We are currently producing evidence to support our claim that ISS is not applicable to such activities. The total amount of this claim is R\$219 million and we have offered a bank guaranty to guarantee this amount. Based upon the advice of our external counsel and recent STF precedent confirming our understanding, we believe our risk of loss in relation to these proceedings is possible.

Employment

Human Resources

We and our subsidiaries had 14,297 employees and generated approximately 20,730 direct and indirect jobs. The table below sets forth the number of employees, as of the dates indicated:

	As of September 30,		As of December 31,		
	2019	2018	2017	2016	
Pulp	984	830	815	808	
Forestry.....	3,949	4,015	3,964	3,186	
Papers.....	3,562	3,627	3,616	3,616	
Recycled Paper	402	409	416	415	
Corrugated boxes.....	3,643	3,707	3,834	3,933	
Industrial Bags (Brazil).....	1,158	1,134	1,152	1,119	
Industrial Bags (Argentina)	128	137	125	130	
Corporate.....	904	879	821	775	
Other.....	10	8	7	3	
Total.....	14,740	14,746	14,750	13,985	

Source: Company

We use workers employed by third-party subcontractors and service providers for many of our forestry operations, such as harvesting, security, and transportation. The table below sets forth the number of third-party subcontractors, as of the dates indicated, who provide services to us and our subsidiaries on an ongoing basis:

	As of September 30,	As of December 31,		
	2019	2018	2017	2016
Pulp	822	829	739	816
Forestry.....	2,696	2,178	2,023	1,844
Papers.....	1,702	1,412	1,646	1,224
Recycled Paper.....	65	78	21	40
Corrugated boxes.....	406	356	338	411
Industrial Bags (Brazil).....	141	163	129	139
Industrial Bags (Argentina)	0	3	1	15
Corporate.....	152	77	67	71
Other.....	0	0	0	0
Total.....	5,984	5,096	4,964	4,560

Source: Company

Labor Relations

We have significantly invested in our employees' development, wellness and safety, as we understand they are essential for achieving our strategic goals. In 2019, we conducted an employee engagement survey and improved programs to foster a high performance culture, talent pipeline, succession planning and diversity. We also aligned our competencies model with our culture evolvement and business strategy.

Our human resources department was placed under the leadership of a new director in 2012 and was also renamed people & management to emphasize the importance of people as active agents in searching for results and in giving us sustainability.

In 2013 we started a new program called Klabin's Business School, another recent and very successful initiative that has partnerships with educational institutions to offer business courses and e-learning training.

This training program is organized in "learning paths" according to the stages of the person's career. This means that each employee is at a different stage of his or her career and receives specific training focused on technical, behavior or management leadership skills to be stimulated and developed. The school's program is modular and certain courses serve as prerequisites for others.

The classes we organized during the first years of the school had the support of institutions such as FGV, *Escola Superior de Propaganda e Marketing*, or ESPM, and *Instituto de Ensino e Pesquisa*, or Insper.

In 2017, we launched two new initiatives as part of Klabin's Business School: (i) Leadcast, a program focused on the development of management and leadership skills, and (ii) Klabin Business School for Families, an online platform specifically created for our employees' family members.

The growth in the value of our company is strongly related to our ability to attract, retain and develop good leaders and employees. For this, we maintain Klabin's Human and Organizational Development Program aiming to continually raise the bar for the level of competence of our management. There are two main approaches in the program:

- *Leadership development* – Focused on all our key leaders (including directors, managers, coordinators, engineers and some specialists), this program aims to develop management skills considered strategic to our objectives. It includes: (i) a process of 360-degree assessment of individual competence; (ii) discussion and mapping of results; and (iii) feedback and development plans for each participant. This plan may include: training, mentoring, behavioral training on-the-job (and off-site) experiences, among others, to promote ongoing skill development. Based on this process, a management succession planning process has begun to identify and nurture the most talented employees in order to protect our future, enabling us to continue our operations and support our growth strategies.

- *Team development* – structured programs on demand, for all levels of our company. The goal is to support groups to become teams, achieving better results through the development of behavioral aspects and people management skills.

In 2018, we started a new program for our leaders, Rumos 2.0, focused on innovation, operational efficiency and leadership skills. There were more than 180 employees in eight classes during this period and other actions are planned to include all eligible managers.

In relation to our e-learning platform, from September 2018 to September 2019, we had more than 11,900 active users and access by 8,634 employees. In addition, the platform was accessed approximately 175 thousand times, with 99,303 completed trainings. There are more than 700 items available in various media, with videos, courses, polls, forums and articles.

During 2019, we invested approximately R\$9 million in training programs and from September 2018 to September 2019 more than one million training hours and 400,000 participations were held.

Benefits and Compensation

We provide several benefits to our employees, such as medical and dental assistance, life insurance, contributory pension plan, meal and food program, subsidy for medication, transportation and daycare reimbursement.

The total amount of direct remuneration paid to our employees during the first nine months of 2019 was R\$733 million, in addition to R\$61 million paid in unemployment benefits, or FGTS, and R\$220 million in other benefits. In 2018, the total amount of direct remuneration was R\$989 million, in addition to R\$83 million paid for FGTS and R\$305 million in other benefits.

Our compensation plan is competitive with those in the pulp and paper market. This remuneration is linked to merit and the achievement of annual individual and company goals.

We have incentive compensation linked to overall results, focused on short- and long-term results, with aggressive targets.

The short-term incentive compensation is based on our profit-sharing program. It is present in all our units and is based on certain of our performance indicators, such as: (i) EBITDA, (ii) revenue, (iii) costs, (iv) production volume, (v) sales, and (vi) quality of products and processes, among others.

The long-term incentive is based on a mechanism of granting matching shares to every share acquired by the employees as part as their bonuses and tied to minimum length of service.

Complementary Retirement Program

We have a contributory pension plan for our employees through an agreement with Bradesco Vida e Previdência S/A. This plan was devised to provide a complementary retirement allowance when the employee becomes 55 years old.

Information Technology

We acknowledge information as a critical asset of the organization, thus our information technology department is viewed as a strategic department for gaining a competitive advantage.

Generation of value supported by the IT department comes from three different perspectives, as listed below:

- *Operational excellence.* An important part of our operations is financial management of the IT area, evaluating, understanding, and analyzing the area's costs through benchmarking processes with other leading market companies, both within and outside the sector.

- *Improvement.* We are constantly working to review and improve business processes, seeking optimization, simplification, and standardization. This process is carried out jointly among the business areas and uses the concept of continuous improvement.
- *Differentiation.* We seek differentiation both in internal and external processes through the use of IT. We have engaged in various integration processes with customers and suppliers to benefit from and enhance the efficiency of the entire value chain.

Evolution among suppliers in recent decades has allowed the use of strategic partnerships in the IT department (outsourcing), allowing us to focus our efforts on activities that generate a competitive advantage and leave more operational activities to partners.

Along with these changes, we took on the task of strategic sourcing and are making certain strategic decisions:

- *Integrated Management Software.* We are an SAP client and have received visits from several companies as a case study in its successful implementation and utilization.
- *Business Intelligence Software.* We are also benchmarking in quality, content, and scope of the BI system using SAP solutions such as BW and BO.

Certifications

We were recognized by the Rainforest Alliance as “Creator of Sustainable Development Trends,” for the management of our forests. Our sustainable management practices also led us to become the first company in the Americas from the paper and pulp sector to obtain FSC certification (in 1998), for our forests in Paraná. In 2004, our forest areas of Santa Catarina also received FSC certification.

FSC certifies that the chain of production of packing, from the forest handling through the manufacture of the paper to the conversion, occurs in a correct, socially just and economically viable form. The certification also guarantees the traceability of raw materials throughout the productive chain.

Focusing on the varied and rational use of our forests, we also promote activities that allow the sustainable exploitation of its rich natural resources. In 1999, we became the first company in the world to receive certifications for non-lumber forest products, restricting the handling of medicinal plants and monitoring the safekeeping of therapeutic and natural resources, for production in our therapeutic products program.

We have recently enhanced the forest certification level with respect to our forests in Paraná, obtaining certification from the Programme for the Endorsement of Forest, of which the Brazilian System of Forest Certification (*Programa Brasileiro de Certificação Floresta*), or Cerflor, is an affiliate. The Cerflor is a program of forest certification management and custody chain certification for forest commodities.

14 of our 17 plants in Brazil, located across eight states, are certified by ISO 14,001 and operate under the concepts of the norm of environment management. The two recently purchased units in Rio Negro and Manaus are still in the process of obtaining this certification. In all the units, the pointers of environmental performance present advances year upon year with the implementation of standardized procedures, including selective garbage collection, separation of residues and company organization. All the involved professionals are trained to act preventively in the control and attendance of environmental urgencies.

The Puma Plant, in particular, was implemented following an environmental, health and safety, and social action plan designed to adhere to FSC, IFC, and equity principles guidelines and standards, as well as best international industry practices. Additionally, an outside consultant conducts periodic reviews of the Puma Plant and provides an environmental and social project monitoring report. Furthermore, the Puma Plant was the first of the sector in Brazil to be certified for norm ISO 50001 due its good practices in energy management.

We also possess certifications for norms ISO 22,000, ISO 9001, OHSAS 18,001 and for the Isega Institute of Germany.

Social Responsibility

In the communities where we operate, we provide more than job opportunities. We prepare people to be better professionals and citizens, offering access to health care, social assistance, culture and technical and environmental education.

Social Responsibility Programs

Our operations can have direct and indirect influence in the socioeconomic dynamics of communities by promoting income growth through the distribution of taxes in the municipalities where we operate, by developing socio-environmental and socio-educational programs, by generating direct and indirect jobs and by altering local dynamics, leading to the empowerment of communities.

Social Responsibility Programs connect the assessment and mitigation of actual and potential impacts related to our activities with stakeholders' needs and expectations.

Our relationship with neighboring communities is guided by dialogue. In 2018, we invested in initiatives for local empowerment and socio-environmental-cultural development projects, including:

- cultural incentive initiatives, including sponsorship of exhibitions and cultural preservation associations;
- projects and entities focused on the education of youths and adolescents living in social risk situations;
- projects and entities focused on inclusion of and accessibility for the disabled; and
- environmental monitoring, protection, renewal and educational initiatives.

Environmental, Social and Governance Recognition

In 2019, we were included for the seventh consecutive year in the B3's Corporate Sustainability Index, or ISE, in recognition for our environmental, social, governance and management practices, with high scores in most performance criteria in an evaluation based on FGV methodology. This positions us as above average among companies with best sustainable management practices. The company was also recognized by the Environmental Paper Company Index, or EPCI, issued every two years by the WWF - World Wide Fund For Nature – one of the world's largest organizations dedicated to environmental conservation, with a score of 90.5%, our best performance in this Index. In the same year, we also received an award from *Guia Exame de Sustentabilidade* for "Most Sustainable Company of the Pulp and Paper Sector". In addition, Klabin maintained its status of Best Emerging Markets performer in the *Vigeo Eiris* ranking of the 100 most advanced companies in Emerging Markets.

In 2018, we were included for the sixth consecutive year in the B3's ISE, obtaining high scores in most performance criteria in the evaluation methodology. We were also recognized by the Carbon Disclosure Project, or CDP, in the Leadership category of its annual Climate, Water and Supply Chain platforms, and in the Management category of its Forest report. In addition, Klabin maintained its status of Best Emerging Markets performer in the *Vigeo Eiris* ranking (the 100 most advanced companies in Emerging Markets).

In 2017, we were also included for the second time in the EPCI, issued every two years by the WWF - World Wide Fund For Nature. We performed exceptionally well in the research, which addressed issues such as our company's influence on forest ecosystems, GHG emissions and water pollution during the production process and the environmental management system. In addition, we were recognized by the CDP in the Leadership category of its annual Forests reports, and in the Management category of its Climate Change and Water platforms. In 2017, we also received an award from *Guia Exame* for "Most Sustainable Company of the Pulp and Paper Sector" and were recognized for the 5th consecutive year as one of Brazil's most sustainable companies by the ISE.

Environmental Responsibility

We were the first pulp and paper company in the Americas to receive the International Certification from the FSC, in 1998. The issue of climate change is considered of strategic importance for us, and we constantly invest in a sustainable energy matrix, giving priority to the use of renewable natural resources.

Our commitment to the conservation of natural resources and the constant reduction of the use of non-renewable resources is guided by an environmental management system certified by ISO 14001 and supported by our sustainability policy.

Forestry Support

The Forestry Support program, which has existed since 1984 and is now considered strategic to our economy, seeks to expand and diversify income in rural areas through the development of pine and eucalyptus forests in idle and marginal areas of rural properties, which will subsequently be supplied to us as raw materials. With mutual benefits for both parties, such as, for example, research and planting techniques disseminated to producers, the activity /contributes to the stabilization of rural populations, as well as promoting plant recovery in the incentive areas.

Overview of the Issuer

The issuer was established under the name Klabin Austria GmbH as an Austrian limited liability company (*Gesellschaft mit beschränkter Haftung*) on February 15, 2016. It is registered with the Austrian register of companies (*Firmenbuch*) under registration number FN 448327 f and has a registered share capital of €35,000. The legal entity identifier (LEI) of the Issuer is 984500578YEA8DD41B09.

The Issuer's business address is Albertgasse 35, 1080 Vienna, Austria. The phone number of the Issuer is +43 1 7172 8590. Klabin Austria has no corporate website separate from that of Klabin, being www.klabin.com.br.

The nature and purpose of the Issuer's business is:

- (a) to carry on all or any of the businesses of manufacturers, distributors, merchants of, agents for and dealers in, importers, exporters, factors and merchants of forest products, such as but not limited to fluff pulp, bleached softwood kraft (BSK), kraftliner, sackkraft, paper boards of any kind and any composition, waste paper, testliner, fluting, medium, wood logs, wood chips, packages for any purposes and other products;
- (b) to carry on all or any of the businesses of wood merchants, importers, exporters, designers, manufacturers, manufacturers' agents and representatives, buyers, sellers, distributors, factors, wholesalers, retailers, growers, agents, brokers and shippers of and dealers in hard and soft woods; to deal in paper cellulose, and any other product related to wood and/or paper pulp; and to buy, sell, manufacture and deal in all plant, machinery, tools, implements, apparatus, articles and things capable of being used in the foregoing businesses or which may be conveniently dealt with in connection with such businesses;
- (c) to acquire, purchase, obtain, register, sell and/or grant licenses in respect of trademarks, brand names, including but not limited to the products described above in Austria or in any other country;

Klabin Austria is also authorized and entitled to make all arrangements and take all such actions that are necessary and helpful to achieve the purpose of business set out above, in particular including to establish branches and subsidiaries in Austria and abroad.

See "Management—Management of Klabin Austria" for more information regarding the issuer's managers.

Management

Our Management

We are managed by our board of directors and our board of executive officers.

Board of Directors

Our board of directors is comprised of no fewer than 13 members and no more than 18 members and their respective alternates. Our board of directors meets on an ordinary basis once every two months and extraordinarily when necessary.

The responsibilities of our board of directors include the establishment of our corporate strategy, the general management of our business, the appointment of our executive officers and the approval of our debt policy. The members of our board of directors have amassed significant experience in areas such as politics, economics, business, accounting, research and development.

The members of our board of directors and their respective roles, titles and alternates are elected at a general shareholders' meeting for a one-year mandate and may be reelected. The members of our board of directors may not be appointed to our or any of our subsidiaries' boards of executive officers. The business address of each director is at the main office of Klabin at Avenida Brigadeiro Faria Lima, 3600, 3rd, 4th and 5th floors, in the City of São Paulo, State of São Paulo, Brazil.

Of the current 14 members of our board of directors, seven were appointed by our controlling shareholder, Klabin Irmãos & Cia. and seven are independent directors (in accordance with the ABRASCA Code and the requirements from the Level 2 segment of corporate governance of B3). The current term of office of the members of our board of directors expires in April 2020 or until their successors, to be elected at our general shareholders' meeting that will be held in April 2020.

The names of the members of our board of directors are set forth in the table below. Each was elected on April 30, 2019 for a one-year term:

Name	Age
Daniel Miguel Klabin	88
Armando Klabin	85
Horácio Lafer Piva	61
Israel Klabin*	91
Paulo Sergio Coutinho Galvao Filho	57
Roberto Klabin Martins Xavier	49
Roberto Luiz Leme Klabin **	62
Joaquim Pedro Monteiro de Carvalho Collor de Mello**	40
Sergio Francisco Monteiro de Carvalho Guimarães**	55
Vera Lafer	81
Amaury Guilherme Bier**	58
José Luis de Salles Freire**	70
Mauro Gentile Rodrigues da Cunha**	47
Pedro Oliva Marcilio de Sousa**	46

* Current Chairman of our board of directors

** Independent director (in accordance with the ABRASCA Code and the requirements from the Level 2 segment of corporate governance of B3)

Below is a brief description of each member of our board of directors:

Daniel Miguel Klabin, born in 1929, is an engineering graduate of the National School of Engineering of the University of Brazil (currently the Federal University of Rio de Janeiro). Mr. Klabin has served in the following capacities: president of DARO Participações S.A., managing partner of Klabin Irmãos & Cia., managing partner of DAMARO Comercial Agropecuária Ltda., manager of DARAM Participações Ltda., member of the strategy committee of the Brazilian Chapter of CEAL (Business Council of Latin America) since 1990, member of the permanent business committee of the Foreign Ministry, founder and first president (1998), current NATO vice-

chairman and member of the board of trustees of the Brazilian Center for International Relations (*Centro Brasileiro de Relações Internacionais* – CEBRI), member of our board of directors (chairman in 1981, 1987, 1993, 1999, 2005, and 2011), and member of the supreme council and benefactor of the Trade Association of Rio de Janeiro (*Associação Comercial do Rio de Janeiro* – ACRJ) since 2008.

Armando Klabin, born in 1932, is a mechanical engineering graduate of the National School of Engineering of the University of Brazil (1955) (currently the Federal University of Rio de Janeiro), and a post-graduate of IMEDE – Program of Executive Development – PED2 (1972), Lausanne, Switzerland. During his career, he has occupied different offices, respectively: chief executive officer of Dawojobe Participações S.A., managing partner of Klabin Irmãos & Cia., member of our board of directors, president of Companhia Sisal do Brasil (COSIBRA), controlling partner of Aqüicultura do Nordeste Ltda (Aqüinor), chief executive officer of Ibitiguaia Agropecuária Ltda. – Fazenda Paraíso (State of Minas Gerais) and Estância Miranda (State of Mato Grosso do Sul). In addition, he served as chief executive officer of the following institutions: Sociedade Israelita Brasileira ORT and Brigada Mirim Ecológica in Ilha Grande, chairman of the board of directors of Colônia de Férias Henrique Lemle and member of the executive board of FGV.

Horácio Lafer Piva, born in 1957, graduated in economics and holds a postgraduate degree in business administration, and serves on the boards of directors of Klabin, Martins S.A., Tarpon S.A., Cataratas S.A., Baumgart Group and TCP S.A. Mr. Piva presides over the board of IBÁ and served as Former president of Fiesp / Ciesp, Sebrae, the Brazilian Association of Pulp and Paper (*Associação Brasileira de Papel e Celulose*), Association for Assistance to Disabled Children (*Associação de Assistência à Criança Deficiente* – AACD), DNA Institute Brazil and the Thematic Council of Economics of CNI. He is a member of the board of Symphonic Orchestra Foundation of the State of São Paulo (*Orquestra Sinfônica do Estado de São Paulo* – OSESP), Brazilian Company of Research and Industrial Innovation (*Associação Brasileira de Pesquisa e Inovação Industrial* – Embrapii), Fernando Henrique Cardoso Foundation – FFHC, SP Management and Health Committee, IT and Brasilpar – Financial Services.

Israel Klabin, born in 1926, is a civil engineering and mathematics graduate of the University of Brazil (currently the Federal University of Rio de Janeiro) and Institut de Sciences Politiques. In his career, Mr. Klabin has been chief executive officer of Glimdas Participações S.A., managing partner of Klabin Irmãos & Cia., president of the Brazilian Foundation for Sustainable Development (*Fundação Brasileira para o Desenvolvimento Sustentável*) and member of our board of directors.

Paulo Sergio Coutinho Galvão Filho, born in 1960, is a business graduate of PUC-SP (concentration in finances). Specialization in the University of California, San Diego University – Extension – Structure of the Financial Market and Harvard Business School – Owner/President Management Program (OPM) – Executive Education Program. Paulo has held various titles: vice-president of GL Holdings S.A., managing partner of Klabin Irmãos & Cia, manager of GL Investimentos e Participações Ltda., GL Asset Gestão de Ativos Ltda., GL Agropecuária Ltda., and GEPEL Rural Ltda., and shareholder and member of the board of directors of Drogasil S.A. and of Klabin.

Roberto Klabin Martins Xavier, born in 1968, is a shareholder and director of LKL Participações S.A. and of Esli Participações S.A., shareholder managers of Klabin Irmãos & Cia, and part of the Klabin Group. Roberto is also a shareholder and director of Levine Part S.A. and the alternate member of our board of directors.

Roberto Luiz Leme Klabin, born in 1955, is an attorney at law educated at the USP with a specialization in business administration at Mackenzie University. During his career, Mr. Klabin has been the managing partner of KL & KL Participações Ltda., RK Hotéis e Turismo Ltda., and Caiman Agropecuária Ltda. Roberto has also been the chairman of Fundação SOS Mata Atlantica, chairman of Fundação SOS Pantanal, member of our board of directors, member of the administrative board of Hospital Israelita Albert Einstein, member of the advisory board of Rede Nacional de Combate ao Tráfico de Animais Silvestres (Renctas), member of the advisory board of Instituto Econsenso and member of the advisory board of Fundo Brasileiro para a Biodiversidade (FUNBIO).

Joaquim Pedro Monteiro de Carvalho Collor de Mello, born in 1978, graduated with a degree in international relations from Georgetown University and an MBA from Harvard Business School. Acts as deputy member of the board of directors and investor relations officer of Monteiro Aranha S.A., or Monteiro Aranha. Worked as COO and chief executive officer of Organização Arnon de Mello, New Investments VP of MASA Participações, VP of Astor Group. In 2013, he founded the asset management Charles River.

Sergio Francisco Monteiro de Carvalho Guimarães, born in 1962, serves as director of Monteiro Aranha and Monteiro Aranha Participações S.A., and has been a member of the board of Klabin S.A, since March 2005 and member of the board of Monteiro Aranha S.A, since June 2011.

Vera Lafer, born in 1936, has been a manager and shareholder of VFV Participações S.A., managing partner of Klabin Irmãos & Cia., manager and partner in VL Participações Ltda., Novo Horizonte Agropecuária Ltda., VEMI Participações Ltda., Kla Gama Agropecuária Ltda., and Lavesube Comércio e Representações Ltda. Ms. Lafer also serves as a member of our board of directors.

Amaury Guilherme Bier, born in 1961, is an economist graduate of the University of São Paulo and has been a professor at the Faculty of Economics and Administration of the University of São Paulo. He was a member of the board of directors of Instituto Hermes Pardini S.A., member of the fiscal council of Instituto FHC and member of the board of directors of Paschoalotto Serviços Financeiros S.A. Currently, Mr. Bier is managing partner of Gávea Investimentos Ltda., an investment bank where he joined as a partner in January of 2004, and in October of 2007 became president. Amaury is also a member of the investment committee for long-term funds of Gávea Investimentos, the risk committee and the executive committee. From 2002 to 2004 he was executive director of the World Bank, IFC and MIGA (late 2002 to early 2004) and executive secretary of the Ministry of Finance (from April 1999 to November 2002). Amaury had held other positions of seniority within the Brazilian federal government, notably as Secretary of Economic Policy of the Ministry of Finance (between 1998 and 1999) and chief economist of the Ministry of Planning and Budget (1996-1998). In the private sector, he was chief economist at Citibank Brasil (from early 1994 to mid-1996) and a partner at consulting firm Kandir & Associados (from 1992 to 1993).

José Luis de Salles Freire, born in 1948, is a founding partner of TozziniFreire Advogados. In addition to supervising the corporate/mergers and acquisitions area, José Luis Freire advised clients in mergers and acquisitions, matters of corporate law, tax planning, compliance and on various topics related to capital markets and publicly-held companies. At the end of 2016, he retired from TozziniFreire. Due to his extensive experience, he remains directly involved in the coordination of complex projects for national and international companies in various sectors. A national authority in legal and compliance issues and in the management of professional services companies, he is frequently invited to write and speak, both in Brazil and abroad. Mr. Freire graduated from the Faculty of Law of the University of São Paulo (USP), in 1971, with an extension degree in Business Administration from the FGV, from 1972 to 1974. He obtained a master's degree in Comparative Law from New York University (NYU) in 1976, and attended the Academy of American and International Law, organized by The Center for American and International Law, USA, in 1975. President of the board of directors of the Center for the Study of Law Firms (CESA), vice-president of the executive board of the Institute for International and Comparative Law do Center for American and International Law, member of the committees Corporate & International Trade and Banking & Finance of Pacific Rim Advisory Council (PRAC), member of the International Bar Association (IBA), member of the Inter-Pacific Bar Association (IPBA), member of the New York State Bar Association (NYSBA), a member of the American Bar Association (ABA), former president of the Center for the Study of Law Firms (CESA), former counselor for São Paulo Stock Exchange (B3), former president of the World Law Group (WLG) and former member of the executive committee and legal counsel of the American Chamber of Commerce (AMCHAM).

Mauro Gentile Rodrigues da Cunha, born in 1971, holds a degree in economics from the Catholic University of Rio de Janeiro and MBA from the University of Chicago, he has been president of AMEC – Capital Market Investors Association since 2012. In his professional career, he worked as a manager of Opus Investimentos, and was the chairman of the board of directors of the Brazilian Institute of Corporate Governance (*Instituto Brasileiro de Governança Corporativa*), or IBCG. He also worked in several investment banks and consultancies.

Pedro Oliva Marcílio de Sousa, born in 1973, graduated with a degree in Law from the Federal University of Bahia and is the founder and director of CRD Capital Administração de Recursos Ltda. Between 2005 and 2007, he was director of the CVM. He was also vice-president of the investment banking division of Goldman Sachs Banco de Investimento SA and, between 2009 and 2010, he was managing director of Banco Standard de Investimento S.A., and having been responsible for the acquisition and divestment of companies. From 2011 to 2017, he served as director of the BR Partners Group. Between 2012 and 2017 he was a member of the audit committee of B3 and, between 2012 and 2017, member of the audit committee of Companhia Brasileira de Distribuição (Grupo Pão de Açúcar). Since June 2017, is member of the board of Braskem S.A.

Board of Executive Officers

Our board of executive officers is responsible for the management of our day-to-day operations and implementing the business policies established by our board of directors, among other responsibilities. Our board of executive officers is comprised of a chief executive officer and three executive officers, all residents in Brazil, with a mandate of one year, with re-election permitted. The board of executive officers generally meets once a month, or whenever necessary.

The current members of our board of executive officers were appointed on June 12, 2019 and October 23, 2019, for a one- year mandate. The names and current positions of our board of executive officers are as follows:

Name	Current position
Cristiano Cardoso Teixeira	Chief Executive Officer
Marcos Paulo Conde Ivo.....	Chief Financial Officer and Investor Relations Officer
Arthur Canhisares	Officer
Francisco Cesar Razzolini	Officer

Below is a brief description of each member of our board of executive officers:

Cristiano Cardoso Teixeira, born in 1973, holds a bachelor's degree in foreign trade from Paulista University, an MBA in foreign trade from USP – University of São Paulo and a master's degree in logistics from Ecole Supérieure de Affaires (France). He worked from 1990 to 1994 at Ripasa Papel e Celulose within the export department at Duratex from 1996 to 2009 in several positions involving logistics management and at San Antonio International from 2009 until 2011 as supply chain director. Mr. Teixeira joined Klabin in June 2011, working in the Procurement, Logistics and Materials departments.

Marcos Paulo Conde Ivo, born in 1981, holds a bachelor's degree in economic sciences and postgraduate degree in business administration from FGV, a master's degree in corporate controlling from Mackenzie and completed an executive education course at INSEAD. He has been at Klabin for over 10 years and has experience in accounting, projects and economic studies, financial planning and M&A.

Arthur Canhisares, born in 1960, joined Klabin in 1986, acting as a production engineer in the period from 1986 to 1991. In 1992, he became the 7 paper machine production coordinator, then becoming production manager from 1996 to 2000. In May 2000, he obtained the position of industrial manager designated for the Paraná Unit. Since 2001, he has served as industrial manager designated for the Paraná, Angatuba, and Recycling Units and as industrial manager of Monte Alegre since April 2010.

Francisco Cesar Razzolini, born in 1962, joined Klabin on April 24, 1985, working at the paper mill in Monte Alegre and, since 2008, he has been planning, projects, and technology manager.

Fiscal Council

We have a permanent fiscal council composed of three to five effective members, elected at a general meeting of our shareholders for a one-year term, subject to re-election.

Our fiscal council is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential submission by our employees of their concerns regarding questionable accounting or auditing matters.

The table below lists the current members of the fiscal council, each of whom was appointed for a one-year term on April 30, 2019:

Name	Status
João Adamo Junior.....	Effective
João Alfredo Dias Lins.....	Effective
Louise Barsi	Effective
Mauricio Aquino Halewicz.....	Effective
Raul Ricardo Paciello.....	Effective

Below is a brief description of each member of our fiscal council:

João Adamo Junior, born in 1969, graduated in law from the Law School of Largo São Francisco (USP) and has a bachelor's degree in business administration from FGV-EAESP, with 26 years of experience in the financial market. Mr. Adamo has also served as CVM's manager and has been a member of the executive committee and Investment Cadence Management Resources. He served in various management positions at prestigious institutions such as: vice president of structured products Phoenicia Bank from 1993 to 1997; head of structured products at Deutsche Bank from 1997 to 2000; founder of the joint venture Maxblue DTVM Deutsche Bank with the Bank of Brazil where he served as chief executive officer; deputy head of wealth management product platform at UBS São Paulo from 2003 to 2007; senior executive in the integration of the Bank Pactuai with the global platform of UBS in 2006; and chief executive officer of Vision Brazil Investments in 2007. He was director and executive committee member of Mainstay Asset Management and member of Net's supervisory board between 2012 and 2013, and a founding partner of More Invest Management Resources.

João Alfredo Dias Lins, born in 1940, is an accounting sciences graduate from Faculdade de Ciências Contábeis e Administrativas Moraes Junior, Rio de Janeiro, State of Rio de Janeiro (1970). He began his career in 1962 at Price Waterhouse & Peat, currently PricewaterhouseCoopers, and left in 1971 as auditing manager. Mr. Lins joined Klabin Irmãos & Cia. in that same year becoming a consultant for companies. In 1988, he joined the Advanced Management Program at Institut Européen d'Administration des Affaires (INSEAD), in Fontainebleau, France. He has also served as a member of the fiscal committee of Klabin since 1981, vice-chairman of the board of trustees of FGV, chairman of supervisory board of Fundação Eva Klabin and member of the supervisory board of Bolsa Verde do Rio de Janeiro (BVRio).

Louise Barsi, born in 1994, holds a degree in economics from the Presbyterian University Mackenzie and in accounting sciences from Fundação Álvares Penteado School of Commerce. She is pursuing a postgraduate degree in Capital Markets and an MSc in accounting with a specialization in finance at Fundação Álvares Penteado School of Commerce. Currently she serves as an alternate member of the board of directors of Unipar Carbocloro S.A., as an alternate member of the fiscal council of Enel S.A., and as an advisory board member at Eternit S.A. She is also an investment analyst at Elite Investimentos.

Maurício Aquino Halewicz, born in 1973, is graduated in accounting from the Federal University of Rio Grande do Sul. He holds an MBA in corporate finance from FGV, also has a post-graduate degree in economics from Universidade Presbiteriana Mackenzie and a specialization in business administration from the University of Virginia (Darden School of Business Administration). He currently serves as chief financial officer for Latin America at CountourGlobal, was chairman of the fiscal council of Fibria, served as alternate member of the fiscal council of Eneva S.A., and since November 2012, he has been chief financial officer of SPIC Pacific Hydro Energias do Brasil Ltda. He also served at Fibria, between 2009 and 2013, as an alternate member of the board of directors and the audit and risk committee. He held the positions of investor relations officer, controller and corporate superintendent of controllership of Rede Energia S.A. (a publicly-held company that operates in the energy sector).

Raul Ricardo Paciello, born in 1966, is a risk, compliance and PLD manager at Charles River Asset Manager and Montero Aranha's financial, IT and compliance manager. He is an alternate member of the Klabin's fiscal council. He was the chief financial officer of EMI Music and held various managing, planning and control positions in different multinational companies in various sectors including packaging, oil and gas, technology, personal hygiene and tobacco. He graduated with an economics degree from UGF, holds a master's degree in business administration and an MBA in corporate finance obtained at IBMEC, and a post-graduate degree in economic engineering and industrial administration from the National School of Engineering of Federal University of Rio de Janeiro.

Remuneration of Members of the Board of Directors, Executive Officers and Fiscal Committee

The remuneration of the members of our board of directors is established at a general shareholders' meeting. In 2019, 2018 and 2017, the global remuneration limit approved to be paid to members of our board of directors, executive officers and fiscal council totaled R\$47.6 million, R\$45.4 million and R\$62.3 million, respectively.

Our bylaws establish that our shareholders at a general shareholders' meeting may elect to pay our management additional compensation in an amount not to exceed the lesser of one half of such member's annual remuneration or 0.1% of our net profits. Pursuant to paragraph 2 of Article 29 of the Articles of Association, the general shareholders' meeting may also determine the distribution of part of our net profit to our management – which should not be more than half of the corresponding annual remuneration or more than one-tenth of the profits.

Agreements with Management

We have not executed any agreements with any of the members of our board of directors, board of executive officers or our fiscal council.

Management of Klabin Austria

Klabin Austria is managed by its three managing directors (*Geschäftsführer*) and represented by David Van den Abeele as only Category B Director, together with an additional director. Each managing director has been appointed for an indefinite term. The business address of Klabin Austria's managing directors is at Klabin Austria's headquarters, located at Albertgasse 35, 1080, Vienna, Austria.

The names and ages of Klabin Austria's managing directors are set forth in the table below.

Name	Age
Cristiano Cardoso Teixeira.....	46
David Van den Abeele	42
Sandro Fabiano Ávila	42

Cristiano Cardoso Teixeira, See “—Board of Executive Officers.”

David Van den Abeele, born in 1976, graduated with a master of science in economics at the University of Ghent. He began his career as an auditor in KPMG. He joined Stora Enso in 2000, as part of the financial headquarters in Brussels, working on structured financial products and feasibility studies. As from 2003, David worked in Brazil as a controller of Veracel's pulp construction project and as a financial director of Stora Enso's division in Latin America. In 2013, David joined Klabin and has been active both in the Puma Project as well as setting up Klabin's international office in Vienna.

Sandro Fabiano Ávila, born in 1975 is Bachelor's degree in accounting from Uniplac – University of Santa Catarina, MBA in Business Management from FGV, he has specialization in engineering processes from EFESO – SP and specialization in auditing and tax planning from Uniplac. He began his career at Resitol Chemical Industry from 1992 to 1994 working in the finance and accounting areas. He worked at Igaras from 1995 to 2000 as cost and management information specialist. He has been working at Klabin since 2001 in several positions involving finance and controlling areas, as paper and forestry controller, Project Puma controller and currently, as integrated planning director.

Principal Shareholders

As of September 30, 2019, our share capital was R\$4,076 million divided as follows:

Breakdown of our Capital Stock as of September 30, 2019

Type	Quantity of Shares
Common.....	1,984,594,655
Preferred.....	3,425,207,185
Total	5,409,801,840

Shareholder Composition

The table below sets forth the composition of our common and preferred shareholders as of September 30, 2019:

Shareholders	Common		Preferred	
BNDESPAR ⁽¹⁾	56,259,848	2.83%	225,039,392	6.57%
The Bank of New York ⁽²⁾	61,407,194	3.09%	245,628,776	7.17%
Monteiro Aranha S/A	69,152,939	3.48%	276,643,206	8.08%
Klabin Irmãos & Cia ⁽³⁾	941,837,080	47.46%	-	-
Niblak.....	142,023,010	7.16%	-	-
BlackRock Inc.	46,073,685	2.32%	184,294,740	5.38%
Others.....	639,916,174	32.34%	2,381,902,171	69.54%
Treasury stocks.....	27,924,725	1.41%	111,698,900	3.27%
	1,984,594,655		3,425,207,185	

(1) An affiliate of BNDES.

(2) In connection with our Level I ADRs.

(3) Our controlling shareholder.

We implemented a program for the issuance of certificates of deposit of shares, or Units, each of which comprises one common share and four preferred shares. Trading of the Units began on January 10, 2014. As of the date of this offering memorandum, our issued capital has been paid in full.

Klabin Irmãos & Cia

Klabin Irmãos & Cia., our controlling shareholder, is a general partnership (*sociedade em nome coletivo*) with equity owned by certain descendants of the founding Klabin and Lafer families.

As of September 30, 2019, Klabin Irmãos & Cia. held 17.41% of our total equity capital.

Niblak

Niblak is a privately held corporation incorporated on August 2, 2000, whose corporate purpose is the management of its assets and the holding of equity in other companies, held by descendants of the founding Klabin and Lafer families

As of September 30, 2019, Niblak held 2.63% of our equity capital.

Monteiro Aranha S.A.

Monteiro Aranha is a publicly held corporation whose corporate purpose, among others, is the holding of equity in other companies as a shareholder, quotaholder or partner. Monteiro Aranha is held by descendants of the Monteiro Aranha family.

As of September 30, 2019, Monteiro Aranha held 6.39% of our total equity capital.

Shareholders' Agreements

On May 18, 1979, Klabin Irmãos & Cia. and Monteiro Aranha entered into a shareholders' agreement, as amended on November 28, 2013, containing the following relevant provisions:

- Klabin Irmãos & Cia. must vote in concert with Monteiro Aranha against any proposal to amend our bylaws to extinguish our board of directors or our fiscal council or amend or modify the powers of our board of directors or our fiscal council;
- Klabin Irmãos & Cia. will exercise its voting right in our general shareholders' meeting in order to ensure that Monteiro Aranha can appoint two of five members of any of our or our direct or indirect subsidiaries' existing or future management boards or committees. Notwithstanding the foregoing, however, Monteiro Aranha will always be entitled to appoint at least one member of our board of directors;
- Klabin Irmãos & Cia. guarantees that Monteiro Aranha S.A. can appoint one executive officer of Klabin and our direct or indirect subsidiaries, who will be treated the same as the other executive officers;
- the shareholders' agreement will remain in effect until such time that Monteiro Aranha or its individual shareholders cease to hold, directly or indirectly, at least 6,345,861 of Klabin's issued shares after its conversion into units; and
- our board of directors may only resolve matters regarding acts that are outside the scope of our management, in meetings in which at least one of its members appointed by Monteiro Aranha is in attendance. However, in case a resolution cannot be adopted because of the absence of the member appointed by Monteiro Aranha, such resolution can be adopted in a subsequent meeting, even in the absence of the Monteiro Aranha appointee.

On June 10, 2013, Klabin Irmãos & Cia., Níblak, Celso Lafer, Marina Lafer, Roberto Luiz Leme Klabin, George Mark Klabin and Edgar Gleich entered into a shareholders' agreement, containing the following provision:

- Klabin Irmãos & Cia. will exercise its voting right at Klabin's general meeting in order to ensure that Roberto Leme Klabin and George Mark Leme are entitled to appoint one member of the board of directors.

The shareholders' agreement will remain in effect until such time that Roberto Leme Klabin and George Mark Leme cease to hold, directly or indirectly, at least 3,023,00 ordinary shares of Klabin's issued shares after their conversion into units.

Certain Transactions with Related Parties

We enter into related party transactions based upon market terms and conditions such that these terms and conditions reflect those that would have been negotiated had the transactions been entered into with unrelated third parties, including with respect to contractual terms, amounts and quality standards, among other terms.

In addition, our bylaws require the approval of any contracts and transactions with related parties by our shareholders at an extraordinary general shareholders' meeting. Transactions with parties related to us are submitted for assessment by our relevant corporate bodies in accordance with the authority granted under our bylaws. In the event a conflict of interest arises in relation to any member of our management bodies and a transaction, this member must abstain from voting on any such transaction.

The table below shows the transactions with related parties (in thousands of *reais*):

Transactions	For the nine-month period ended September 30,		For the year ended December 31,		
	2019	2018	2018	2017	2016
Interest expense on financing.....	160,398	196,602	253,797	319,568	340,773
Guarantee commission expense.....	19,071	21,584	28,423	30,812	30,226
Royalty expenses.....	41,816	37,795	51,747	50,877	49,250

See note 7 to the unaudited interim consolidated financial information of Klabin included elsewhere in this offering memorandum for information about current and non-current liabilities with related parties.

Interest expense on financing

We entered into loan agreements for the financing of our development projects and related capital expenditures with BNDES, which is also one of our shareholders. For additional information regarding these loans, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Total Debt.”

Guarantee commission expense

We pay compensation to our controlling shareholder for guaranteeing certain of our financing agreements with BNDES, in the amount of 2% or 0.8% of the outstanding balance due to BNDES, calculated and paid semi-annually. The duration of the guarantee is equivalent to the duration of the underlying financing agreements.

Royalty expenses

We pay a royalty for a trademark use license, corresponding to an aggregate of 1.366% of the net sales of our products covered by the license we entered into with our controlling shareholder Klabin Irmãos & Cia and Sogemar. For more information regarding the possible risks associated with any change or termination to our Licensing Agreement, see “Risk Factors—Risks Relating to Us and the Paper and Packaging Industry in General—We are party to a major licensing agreement pursuant to which we are permitted to use our main trademarks.”

Description of the Notes

Klabin Austria offered the notes pursuant to (i) an offering indenture, dated as of April 3, 2019, entered into by and among Klabin Austria, as issuer, Klabin, as guarantor, and The Bank of New York Mellon, as trustee (which term includes any successor as trustee under the indenture), registrar, paying agent and transfer agent, pursuant to which the issuer initially issued (i) U.S.\$500.0 million aggregate principal amount of its 7.000% notes due 2049, or the initial notes, and (ii) U.S.\$200,000,000 in aggregate principal amount of 7.000% senior notes due 2049, or the additional notes. The initial notes and the additional notes have identical terms, other than the issue date, issue price and first interest payment date. The additional notes became fully fungible with the initial notes following the termination of certain U.S. selling restrictions. The additional notes carry the same CUSIP and ISIN numbers as the initial notes. A copy of the indenture is available for inspection during normal business hours at the offices of the trustee and any of the other paying agents.

The notes are unconditionally and irrevocably guaranteed by Klabin, the guarantor or Klabin, a corporation (*sociedade anônima*) incorporated under the laws of the Federal Republic of Brazil. This description of notes is a summary of the material provisions of the notes, the guarantee and the indenture. You should refer to the indenture for a complete description of the terms and conditions of the notes, the guarantee and the indenture, including the obligations of the issuer and Klabin and your rights.

You will find the definitions of capitalized terms used in this section under “—Certain Definitions.” For purposes of this section of this offering memorandum, references to (i) the issuer refer only to Klabin Austria, and (ii) Klabin and guarantor refer only to Klabin and not to its subsidiaries.

General

The notes:

- are senior unsecured obligations of the issuer;
- rank equal in right of payment with all other existing and future senior unsecured obligations of the issuer (other than with respect to certain obligations given preferential treatment pursuant to applicable laws);
- rank senior in right of payment to all existing and future subordinated obligations of the issuer;
- are effectively subordinated to all existing and future secured obligations of the issuer, to the extent of the value of the assets securing such secured obligations;
- are issued in an aggregate principal amount of (i) U.S.\$500 million in relation to the initial notes, and (ii) U.S.\$200 million in relation to the additional notes, which shall bring the total aggregate outstanding principal amount of the issuer’s 7.000% notes due 2049 to U.S.\$700 million;
- unless previously redeemed or purchased and in each case cancelled, mature on April 3, 2049;
- are subject to optional redemption or tax redemption as described under “—Redemption”;
- are issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- are represented by one or more registered notes in global form and may be exchanged for notes in definitive form only in limited circumstances; and
- are unconditionally guaranteed on a senior unsecured basis by Klabin.

Interest on the notes:

- accrues at the rate of 7.000% per annum;
- accrues from (and including) October 3, 2019;
- is payable in cash semi-annually in arrears on April 3 and October 3, commencing on (i) October 3, 2019 in respect of the initial notes, and (ii) April 3, 2020 in respect of the additional notes;
- is payable to the holders of record on the second calendar day (whether or not a business day) immediately preceding the related interest payment dates; and
- is computed on the basis of a 360-day year comprised of twelve 30-day months.

Purchasers of the additional notes were required to pay accrued interest of U.S.\$21.00 per U.S.\$1,000 principal amount of additional notes, from and including October 3, 2019 up to but excluding January 21, 2020, which is the date we delivered the additional notes.

Payment

Principal of, premium, if any, interest and any additional amounts on the notes will be payable as set forth under “—Payments.” Transfer of notes will be registrable as set forth under “—Transfer of Notes” at the office of the transfer agent.

If any payment is due on a note on a day that is not a business day, payment will be made on the day that is the next business day. Payments postponed to the next business day in this situation will be treated under the indenture as if they were made on the original payment date. No interest will accrue on the postponed amount from the original payment date to the next day that is a business day.

Further Issuances of Notes

The issuer may from time to time, without notice to or consent of the noteholders, create and issue an unlimited principal amount of further notes of a series having the same terms and conditions as the initial notes and the additional notes in all respects, except that the issue date, the issue price and the first payment date thereon may differ, *provided, however*, that unless such further notes are fungible with the initial notes and the additional notes for U.S. federal income tax purposes, such further notes will be issued with a different CUSIP or other identifying number.

Klabin Guarantee

Klabin will unconditionally guarantee, on a senior unsecured basis, the issuer’s payment obligations under the notes and the indenture. The obligations of Klabin under the guarantee will rank:

- equal in right of payment to all other existing and future senior unsecured debt of Klabin, subject to certain statutory preferences under applicable law, including labor and tax claims;
- senior in right of payment to Klabin’s subordinated debt; and
- effectively subordinated to the debt and other liabilities (including subordinated debt and trade payables) of Klabin’s subsidiaries (other than the issuer).

Ranking

The notes and guarantee constitute senior unsecured obligations of the issuer and Klabin, respectively. The notes and guarantee will rank at least *pari passu* in priority of payment with all other existing and future senior unsecured debt of the issuer and Klabin, respectively (other than with respect to certain obligations given preferential treatment pursuant to applicable laws).

As of September 30, 2019, Klabin had Total Debt (defined as short-term, long-term borrowings and debentures, not including other interest-bearing liabilities or any other liability) of R\$27,249 million (or U.S.\$6,543 million), of which R\$3,724 million (or U.S.\$894 million) was secured debt of Klabin.

As of September 30, 2019, the only indebtedness owed by our subsidiaries was (i) the 5.25% notes due 2024 and the 4.875% notes due 2027 issued by Klabin Finance and guaranteed by us, (ii) the 5.750% notes due 2029 and 7.000% notes due 2049 issued by the issuer and guaranteed by us and (iii) and a syndicated loan (export prepayments) of R\$2,507 million (or U.S.\$602 million) entered into by both Klabin Finance and Klabin Austria.

As of September 30, 2019, R\$3,724 million of our Total Debt was secured.

As of December 31, 2019 and March 31, 2020, our total debt, including secured and unsecured debt was as is set forth in our audited individual and consolidated financial statements for the year ended December 31, 2019, dated February 5, 2020 and unaudited financial statements for the three-month period ended March 31, 2020, dated May 5, 2020, respectively, which are incorporated by reference in this offering memorandum.

Redemption

The notes will not be redeemable prior to maturity except as described below.

Optional Redemption

At any time before October 3, 2048 (which is the date that is six months prior to the maturity of the notes, or the Par Call Date), the notes will be redeemable, at the option of the issuer, in whole or in part at a redemption price equal to the greater of the following amounts, *plus* accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date:

- 100% of the principal amount of the notes to be redeemed; and
- the sum of the present values of the Remaining Payments.

In determining the present values of the Remaining Payments, such payments will be discounted to the redemption date on a semi-annual basis (assuming a 360 day year consisting of twelve 30-day months) using a discount rate equal to the Treasury Rate plus 0.500%.

At any time on or after the Par Call Date, the issuer has the right to redeem the notes, in whole or in part and from time to time, at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest on the principal amount of the notes being redeemed to, but excluding, such redemption date.

The following terms are relevant to the determination of the redemption price for the notes:

“Treasury Rate” means with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated yield to maturity of the Comparable Treasury Issue. In determining the Treasury Rate, the price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) will be assumed to be equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the Par Call Date that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the period from the redemption date to the Par Call Date.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us.

“Comparable Treasury Price” means (A) the arithmetic average of the Reference Treasury Dealer Quotations for such redemption date after excluding the highest and lowest Reference Treasury Dealer Quotations or (B) if we obtain fewer than four reference treasury dealer quotations, the arithmetic average of all Reference Treasury Dealer quotations for such redemption date.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the arithmetic average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer by 3:30 p.m. (New York City time) on the third business day preceding such redemption date.

“Reference Treasury Dealer” means at least four nationally recognized investment banking firms selected by the issuer that are primary U.S. Government securities dealers.

“Remaining Payments” means the remaining payments on the notes being redeemed that would be due if the notes matured on the Par Call Date (inclusive of interest accrued to the redemption date); provided however, that, if such redemption date is not an interest payment date, the amount of the next scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to such redemption date.

Tax Redemption

The notes will be redeemable, at the option of the issuer, Klabin or any successor, in whole, but not in part, at 100% of the principal amount thereof, plus accrued interest and additional amounts, if any, to, but excluding, the redemption date, only if (1) the issuer, Klabin or any successor has or will become obligated to pay additional amounts as discussed under “—Additional Amounts” with respect to such notes or the related guarantee (i) in excess of the additional amounts that the issuer, Klabin or any successor would pay if payments in respect of the notes or the related guarantee were subject to deduction or withholding for Brazilian Taxes (as defined under “—Additional Amounts”) at a rate of (A) 15% generally in case of any taxes imposed by Brazil, or (B) 25% in case of taxes imposed by Brazil on amounts paid to residents of countries which do not impose any income tax or which impose it at a maximum rate lower than 20% or where the laws of that country or location impose restrictions on the disclosure of (a) shareholding composition; (b) the ownership of the investment; or (c) the beneficial ownership of income paid to non-resident persons, pursuant to Law No. 9,779, dated January 19, 1999 or (ii) in respect of deduction or withholding for taxes of any other Relevant Jurisdiction (as defined under “—Additional Amounts”), in either case, as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment occurs after the date of the indenture or, if the Relevant Jurisdiction became a Relevant Jurisdiction at a later date, such later date (or, if additional notes have been issued pursuant to the discussion above under “—General,” the latest date of such issuance), and (2) such obligation cannot be avoided by the issuer, Klabin or any successor taking reasonable measures available to it; provided however, that for this purpose reasonable measures shall not include any change in the issuer’s, Klabin’s or any successor’s jurisdiction of incorporation or organization or location of its principal executive office or registered office. No notice of such redemption will be given earlier than 60 days prior to the earliest date on which the issuer, Klabin or any successor, as the case may be, would be obligated to pay such additional amounts if a payment in respect of such notes or the related guarantee were then due.

Prior to the giving of any notice of redemption of the notes as described herein, the issuer, Klabin or any successor must deliver to the trustee an officers’ certificate to the effect that the obligations of the issuer, Klabin or any successor, as the case may be, to pay additional amounts cannot be avoided by the issuer, Klabin or any successor taking reasonable measures available to it. The issuer, Klabin or any successor will also deliver to the trustee an opinion of legal counsel of recognized standing stating that the issuer, Klabin or any successor, as the case may be, would be obligated to pay additional amounts due to the changes in tax laws or regulations. Delivery of such certificate and opinion shall be sufficient evidence of the satisfaction of the conditions precedent set forth in clauses (1) and (2) above, and shall be conclusive and binding on the holders.

General Provisions for Optional or Tax Redemption

The issuer will mail, or cause to be given, a notice of redemption to the trustee and each holder (which, in the case of global notes, will be DTC), as described under “—Notices,” at least 30 days and not more than 60 days prior to the redemption date. A notice of redemption will be irrevocable.

In the event that less than all of the notes are to be redeemed at any time, selection of notes for redemption will be made by the trustee in compliance with the requirements governing redemptions of the principal securities exchange, if any, on which notes are listed or if such securities exchange has no requirement governing redemption

or the notes are not then listed on a securities exchange, on a pro rata basis (or, in the case of notes issued in global form, selection of notes for redemption will be based on the applicable procedures of DTC). If notes are redeemed in part, the remaining outstanding amount of any note must be at least equal to U.S.\$200,000 and be an integral multiple of U.S.\$1,000.

Unless the issuer defaults in the payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes called for redemption.

The issuer may enter into an arrangement under which the issuer or a subsidiary of the issuer may, in lieu of redemption by the issuer, purchase for a purchase price equal to the full redemption price any note to be redeemed pursuant to provisions described under “—Redemption.”

Purchase of Notes Upon Change of Control Event

Not later than 30 days following a Change of Control that results in a Ratings Decline, the issuer will make an Offer to Purchase all outstanding notes of an effected series at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon and additional amounts, if any, to, but excluding, the purchase date.

An “Offer to Purchase” must be made by written offer (a copy of which shall be delivered to the trustee), which will specify the principal amount of notes subject to the offer and the purchase price. The offer must specify an expiration date, or the Expiration Date, not less than 30 days or more than 60 days after the date of the offer and a settlement date for purchase, or the purchase date, not more than five business days after the Expiration Date. The offer must include information concerning the business of Klabin and its subsidiaries which it believes will enable the holders to make an informed decision with respect to the Offer to Purchase. The offer must contain instructions and materials necessary to enable holders to tender notes pursuant to the offer. The issuer will comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

A holder may tender all or any portion of its notes pursuant to an Offer to Purchase, subject to the requirement that if a holder tenders only a portion of its notes, the remaining notes must be no less than U.S.\$200,000 in principal amount and in integral multiples of U.S.\$1,000 in excess thereof. On the purchase date, the purchase price will become due and payable on each note accepted for purchase pursuant to the Offer to Purchase, and interest on notes purchased will cease to accrue on and after the purchase date, unless the issuer defaults in the payment of the purchase price.

The issuer will not be required to make an Offer to Purchase upon a Change of Control that results in a Ratings Decline if (1) a third party makes the Offer to Purchase in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to an Offer to Purchase made by the issuer and purchases all notes properly tendered and not withdrawn under the Offer to Purchase or (2) a notice of redemption for all outstanding notes has been given pursuant to the indenture unless and until there is a default in payment of the applicable redemption price.

“Change of Control” means the occurrence of one or more of the following events:

- the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of Klabin and its Subsidiaries taken as a whole to any Person (including any person (as that term is used in Section 13(d)(3) of the Exchange Act)) other than to one or more of the Permitted Holders;
- if a Person (other than a Permitted Holder) beneficially owns, directly or indirectly, more than 35% of the outstanding Voting Stock of Klabin, measured by voting power rather than number of shares and the Permitted Holders beneficially own, directly or indirectly, outstanding Voting Stock of Klabin less than such Person; or
- the adoption of a plan or proposal for the liquidation or dissolution of Klabin.

“Controlling Families” means the members of the Klabin, Lafer and Piva families who are at the date hereof direct or indirect shareholders in the Permitted Holder, together with their respective spouses, lineal descendants and heirs or trusts that are exclusively for the benefit of any of the foregoing (provided that any of the foregoing has the right to control such trust).

“Investment Grade” means BBB- or higher by Standard & Poor’s, Baa3 or higher by Moody’s or BBB- or higher by Fitch, or the equivalent of such global ratings by Standard & Poor’s, Moody’s or Fitch.

“Permitted Holder” means Klabin Irmãos & Cia and Niblak, or either of them; provided that one or more members of the Controlling Families continue to have the power to direct or cause the direction of the management and policies of the Permitted Holder, whether through the ownership of voting securities, by contract or otherwise.

“Person” means any corporation, partnership, joint venture, trust, limited liability company or unincorporated organization.

“Rating Agency” means each of (i) Standard & Poor’s, (ii) Moody’s and (iii) Fitch, or their respective successors. In the event that any of S&P, Moody’s or Fitch is no longer in existence or issuing ratings, such organization may be replaced by a nationally recognized United States securities rating agency or agencies, or the case may be, designated by the issuer with notice to the trustee.

“Ratings Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the notes of a series is under publicly announced consideration for possible down grade by any Rating Agency) after the earlier of the date of public notice of a Change of Control and the date on which Klabin or any other Person publicly declares its intention to effect a Change of Control, (i) in the event the notes are assigned an Investment Grade rating by at least two of the Rating Agencies prior to such public notice or declaration, the rating assigned to the notes by at least two of the Rating Agencies is below an Investment Grade rating; or (ii) in the event the ratings assigned to the notes by at least two of the Rating Agencies prior to such public notice or declaration are below an Investment Grade rating, the rating assigned to the notes by at least two of the Rating Agencies is decreased by one or more categories (i.e., notches); provided that, in each case, any such Rating Decline is in whole or in part in connection with a Change of Control.

“Voting Stock” means, with respect to Klabin as of any date, the Capital Stock of Klabin that is at the time entitled to vote generally in the election of the board of directors of Klabin and in respect of other matters presented at shareholders’ meetings of Klabin.

Open Market Purchases

Klabin or any of its Affiliates may at any time purchase notes in the open market or otherwise at any price. Any such purchased notes will not be resold, except in compliance with applicable requirements or exemptions under any relevant securities laws.

Payments

The issuer and Klabin will make all payments on the notes and related guarantee exclusively in such coin or currency of the United States as at the time of payment will be legal tender for the payment of public and private debts.

The issuer will make payments of principal of and premium, if any, and interest on the notes to a paying agent, which will pass such funds to the trustee and the other paying agents or to the holders.

The issuer will pay interest on the notes to the persons in whose name the notes are registered on the relevant record date and will pay principal and premium, if any, on the notes to the persons in whose name the notes are registered at the close of business on the fifth day before the due date for payment. Payments of principal, premium, if any, and interest in respect of each note in definitive form will be made by a paying agent by U.S. dollar check drawn on a bank in New York City and mailed to the person entitled thereto at its registered address. Upon written notice from a holder of at least U.S.\$1,000,000 in aggregate principal amount of notes to the specified office of any paying agent not less than five business days before the due date for any payment in respect of a note, such payment may be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in New York

City. Payments in respect of each note in global form will be made to DTC in accordance with its applicable procedures. The issuer will make final payments of principal and premium, if any, upon surrender of the relevant notes at the specified office of the trustee or the paying agent.

Claims against the issuer for payment of principal, interest and additional amounts, if any, on the notes will become void unless presentment for payment is made (where so required herein) within, in the case of principal and additional amounts, if any, a period of ten years or, in the case of interest, a period of five years, in each case from the applicable original date of payment therefor.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions described under “—Additional Amounts.” No fees or expenses will be charged to the holders in respect of such payments.

Form, Denomination and Title

The notes will be issued in fully registered form without coupons attached in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

The notes will be represented by permanent global notes in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream. Except in certain limited circumstances, definitive registered notes will not be issued in exchange for beneficial interests in the global notes. See “Form of the Notes—Global Notes.”

Title to the notes will pass by registration in the register. The holder of any note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive note issued in respect of it) and no person will be liable for so treating the holder.

Transfer of Notes

Notes may be transferred in whole or in part in an authorized denomination upon the surrender of the note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the transfer agent. Each note to be issued upon exchange of notes or transfer of notes will, within three business days of the receipt of a request for exchange or form of transfer, be mailed at the risk of the holder entitled to the note to such address as may be specified in such request or form of transfer.

Notes will be subject to certain restrictions on transfer as more fully set out in the indenture. See “Transfer Restrictions.” Transfer of beneficial interests in the global notes will be effected only through records maintained by DTC and its participants. See “Form of the Notes.”

Transfer will be effected without charge by or on behalf of the issuer, the registrar or the transfer agent, but upon payment, or the giving of such indemnity as the registrar or the relevant transfer agent may require, in respect of any tax or other governmental charges which may be imposed in relation to it. The issuer is not required to transfer or exchange any note selected for redemption.

No holder may require the transfer of a note to be registered during the period of two days ending on the due date for any payment of principal, premium, if any, or interest on that note.

Additional Amounts

All payments by the issuer or Klabin in respect of the notes or the related guarantee, as the case may be, will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature (and any fines, penalties or interest related thereto) imposed or levied by or on behalf of Austria, Brazil or any political subdivision or authority of or in Austria or Brazil having power to tax, or Austria Taxes or Brazilian Taxes, or any other jurisdiction in which the issuer or Klabin is resident for tax purposes, or any other jurisdiction through which any payments under the

notes or the related guarantee are made, or any political subdivision of any such jurisdiction having power to tax, or each a Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the issuer or Klabin, as the case may be, will pay to each holder such additional amounts as may be necessary in order that the amount received by such holder on each note or the related guarantee after deduction or withholding for or on account of any present or future tax, penalty, fine, duty, assessment or other governmental charge imposed upon or as a result of such payment by a Relevant Jurisdiction will not be less than the amount then due and payable on such note. The foregoing obligation to pay additional amounts will not apply to or in respect of:

- any tax, assessment or other governmental charge which would not have been imposed but for the existence of any present or former connection between a holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder of such beneficial owner, if such beneficial owner is an estate, a trust, a partnership or a corporation), on the one hand, and the Relevant Jurisdiction, on the other hand (including, without limitation, such holder or beneficial owner (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein), other than the mere receipt of such payment or the ownership or holding of a note or the related guarantee or enforcement of rights thereunder;
- any tax, assessment or other governmental charge which would not have been so imposed but for the presentation by a holder for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- any tax, duty, assessment or other governmental charge to the extent that such tax, duty, assessment or other governmental charge would not have been imposed but for the failure of a holder or beneficial owner to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the Relevant Jurisdiction of such holder if (a) such compliance is required or imposed by law as a precondition to exemption from all or a part of such tax, duty, assessment or other governmental charge and (b) at least 30 days prior to the date on which the issuer or Klabin, as the case may be, will apply this clause (iii), the issuer or Klabin, as the case may be, will have notified all holders of notes that some or all holders of notes will be required to comply with such requirement;
- any estate, inheritance, gift, sales, transfer, excise or personal property or similar tax, assessment or governmental charge;
- any tax, assessment or other governmental charge which is not payable by way of deduction or withholding from payments of principal of, premium, if any, or interest on a note; or
- any combination of the above.

The issuer or Klabin, as the case may be, will also pay any present or future stamp, issue, registration, court or documentary taxes or any other excise or property taxes, charges or similar levies (including any interest, penalties and other reasonable expense related thereto) which arise in any jurisdiction from the execution, delivery, registration or the making of payments in respect of the notes and the related guarantee, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside a Relevant Jurisdiction other than those resulting from, or required to be paid in connection with, the enforcement of the notes and the related guarantee following the occurrence of any Default or Event of Default.

No additional amounts will be paid with respect to a payment on any note or the related guarantee for the benefit of a beneficial owner that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the note or the related guarantee.

Notwithstanding anything to the contrary in this section, neither the issuer nor Klabin, the trustee, the paying agents nor any other person shall be required to pay any additional amounts with respect to any payment in

respect of any taxes imposed under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, (or any successor law), or current or future U.S. Treasury Regulations issued thereunder of any official interpretation thereof, pursuant to Section 1471 (b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code.

The issuer or Klabin will provide the trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available, other reasonable documentation) evidencing any payment of taxes imposed by the Relevant Jurisdiction in respect of which the issuer or Klabin has paid any additional amounts. Copies of such documentation will be made available to the holders of the notes or the paying agents, as applicable, upon request therefor.

All references in this offering memorandum to principal of, premium, if any, and interest on the notes will include any additional amounts payable by the issuer or Klabin, as the case may be, in respect of such principal, such premium, if any, and such interest.

Covenants

The indenture contains the following covenants:

Limitation on Liens

Klabin will not, and will not permit any Subsidiary to, create or suffer to exist any Lien upon any of its property or assets now owned or hereafter acquired by it or on any Capital Stock of any Subsidiary, securing any Debt unless contemporaneously therewith effective provision is made to secure the notes equally and ratably with such obligation for so long as such obligation is so secured. The preceding sentence will not require Klabin or any Subsidiary to equally and ratably secure the notes if the Lien consists of the following:

- (1) any Lien existing on the Closing Date, and any extension, renewal or replacement thereof or of any Lien referred to in clauses (2) or (3) below; provided however, that the aggregate principal amount of Debt so secured is not increased, other than any increase reflecting premiums, fees and expenses in connection with such extension, renewal or replacement;
- (2) any Lien on any property or assets securing Debt incurred for purposes of financing the acquisition, construction or improvement of such property or assets including related transaction fees and expenses after the Closing Date; provided that (a) the aggregate principal amount of Debt secured by the Liens will not exceed (but may be less than) the cost (*i.e.*, purchase price) of the property or assets so acquired, constructed or improved and (b) the Lien is incurred before, or within 365 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets of Klabin or any Subsidiary;
- (3) any Lien existing on any property or assets of any person before that person's acquisition by, merger into or consolidation with Klabin or any Subsidiary after the Closing Date; provided that (a) the Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (b) the Debt secured by the Liens may not exceed the Debt secured on the date of such acquisition, merger or consolidation, in each case, taking into account any accrued interest or monetary variation, and (c) the Lien will not apply to any other property or assets of Klabin or any of its Subsidiaries;
- (4) any Lien imposed by law that was incurred in the ordinary course of business, including, without limitation, carriers', warehousemen's and mechanics' liens and other similar encumbrances arising in the ordinary course of business, in each case for sums not yet due or being contested in good faith by appropriate proceedings;
- (5) any pledge or deposit made in connection with workers' compensation, unemployment insurance or other similar social security legislation, any deposit to secure appeal bonds in proceedings being contested in good faith to which Klabin or any Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which Klabin or any Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;

(6) any Lien in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of Klabin or any Subsidiary in the ordinary course of business;

(7) any Lien securing taxes, assessments and other governmental charges, the payment of which are not yet due or are being contested in good faith by appropriate proceedings and for which such reserves or other appropriate provisions, if any, have been established as required by IFRS;

(8) any rights of set-off of any person with respect to any deposit account of Klabin or any Subsidiary arising in the ordinary course of business and not constituting a financing transaction;

(9) any Lien granted to secure borrowings from, directly or indirectly, (a) BNDES, Banco do Nordeste do Brasil S.A. or any other Brazilian governmental development bank or credit agency or (b) any international or multilateral development bank, government-sponsored agency, export-import bank or agency, or official export-import credit insurer;

(10) any Lien on the inventory or receivables and related assets of Klabin or any Subsidiary securing the obligations of such person under any lines of credit or working capital facility or in connection with any structured export or import financing or other trade transaction; provided that the aggregate amount of receivables securing Debt shall not exceed (a) with respect to transactions secured by receivables from export sales, 80% of Klabin's consolidated gross revenues from export sales for the most recently concluded period of four consecutive fiscal quarters; or (b) with respect to transactions secured by receivables from domestic sales, 80% of Klabin's consolidated gross revenues from domestic sales for the most recently concluded period of four consecutive fiscal quarters; and provided further, that Advance Transactions will not be deemed transactions secured by receivables for purpose of the above calculation;

(11) Liens securing Hedging Obligations under hedging agreements not for speculative purposes; and

(12) in addition to the foregoing Liens set forth in clauses (1) through (11) above or otherwise permitted by this covenant, Liens securing Debt of Klabin or any Subsidiary (including, without limitation, guarantees of Klabin or any Subsidiary) which do not in aggregate principal amount exceed 12.5% of Klabin's Consolidated Total Assets.

Limitations on Sale and Lease-Back Transactions

Klabin will not, and will not permit any Subsidiary to, enter into any Sale and Lease-Back Transaction with respect to any property of such person, unless either:

(1) Klabin or that Subsidiary would be entitled pursuant to the provisions described under "— Limitation on Liens" (including any exception to the restrictions set forth therein) to issue, assume or guarantee Debt secured by a Lien on any such property without equally and ratably securing the notes, or

(2) Klabin or that Subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the property so leased, to the retirement, within 12 months after the effective date of the Sale and Lease-Back Transaction, of any of the Klabin's Debt ranking at least pari passu with the notes and owing to a person other than Klabin or any of its Subsidiaries or to the construction or improvement of real property or personal property used by Klabin or any of its Subsidiaries in the ordinary course of business.

These restrictions will not apply to:

(1) transactions providing for a lease term, including any renewal, of not more than five years; and

(2) transactions between Klabin and any of its Subsidiaries or between Klabin's Subsidiaries.

Limitation on Consolidation, Merger or Transfer of Assets

Klabin will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets to, any person, unless:

(1) the resulting, surviving or transferee person (if not Klabin) will be a person organized and existing under the laws of Brazil, the United States of America, any state thereof or the District of Columbia, any other country that is a member country of the European Union or of the Organization for Economic Co-operation and Development on the Closing Date, and such person expressly assumes, by a supplemental indenture to the indenture, all the obligations of Klabin under the indenture and the guarantee;

(2) the resulting, surviving or transferee person (if not Klabin), if not organized and existing under the laws of Brazil, undertakes, in such supplemental indenture, to pay such additional amounts in respect of principal and premium, if any, and interest as may be necessary in order that every net payment made in respect of the guarantee related to the notes after deduction or withholding for or on account of any present or future tax, penalty, fine, duty, assessment or other governmental charge imposed by such other country or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the guarantee related to the notes, subject to the same exceptions set forth under clauses (i) through (vi) under “—Additional Amounts,” it being understood that the existing references to Relevant Jurisdiction will include such other country;

(3) immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(4) Klabin will have delivered to the trustee an officers’ certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the indenture.

The trustee will be entitled to conclusively rely on such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, and shall be conclusive and binding on the holders.

Reporting Requirements

Klabin will provide the trustee with the following reports for delivery to noteholders:

(1) within 120 days after the close of its fiscal year, an English language version of its audited annual consolidated financial statements (including the notes thereto) prepared in accordance with IFRS, and a report thereon by Klabin’s independent auditors;

(2) an English language version of its unaudited quarterly interim financial information (including the notes thereto) prepared in accordance with Interim Financial Reporting and international standard IAS 34 – “Interim Financial Reporting,” as issued by IASB, within 60 days after the close of each fiscal quarter (other than the fourth fiscal quarter of its fiscal year);

(3) without duplication, an English language version or summary of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) Klabin with any stock exchange on which the notes may be listed (in each case, to the extent that any such report or notice is generally available to its security holders or the public in Brazil);

(4) simultaneously with the delivery of each set of financial statements referred to in clause (1) above, an officers’ certificate stating whether, to the knowledge of such officers executing such officers’ certificate, a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which Klabin is taking or proposes to take with respect thereto; and

(5) within five business days after any officer of Klabin becomes aware (or should have become aware) of the existence of a Default or Event of Default, an officers’ certificate setting forth the details thereof and the action which Klabin is taking or proposes to take with respect thereto.

Delivery of the above reports to the trustee is for informational purposes only and the trustee’s receipt of such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the compliance of the issuer or Klabin with any of their respective covenants in the indenture (as to which the trustee is entitled to rely exclusively on officers’ certificates).

Additional Limitations on the Issuer and Klabin

The indenture contains the following covenants:

- The issuer will not engage in any business, or conduct any operations, other than (x) operations that consist of the purchase and resale of Klabin's or its subsidiaries' (other than the issuer's) goods produced on the Issue Date, (y) to finance the operations of Klabin and its subsidiaries and (z) activities that, in the good faith judgment of the issuer's directors and officers, are reasonably ancillary thereto (including, without limitation, on-lending of funds, repurchases of Debt permitted to be issued by the indenture, entering into transactions involving Hedging Obligations relating to such Debt and investments permitted by the indenture);
- the issuer will not incur any Debt other than (1) the notes and (2) any other senior unsecured debt which (i) ranks equally with the notes or (ii) is subordinated to the notes;
- the issuer will not make any investments, other than (1) investments in the notes and any other senior unsecured debt of the issuer or (2) investments of the proceeds of the notes or any other senior unsecured debt of the issuer in Klabin or any of its Subsidiaries; and
- the issuer will not incur any Liens on any of its assets, except for any Liens imposed by operation of law.
- Klabin, as the sole shareholder of the issuer, and the issuer will also agree in the indenture that, for so long as any of the notes is outstanding neither Klabin nor the issuer will take any corporate action with respect to:
 - the consolidation or merger of the issuer with or into any other person, except that the issuer may merge with Klabin or a Wholly-Owned Subsidiary;
 - the voluntary liquidation, wind-up or dissolution of the issuer while the issuer is the issuer of the notes, unless Klabin fully and unconditionally assumes all of the obligations of the issuer, including the notes; or
 - the transfer or disposition by Klabin of the issuer to any person other than a Wholly-Owned Subsidiary, except in connection with Klabin's consolidation, merger or transfer of its assets as permitted under "—Covenants—Limitation on Consolidation, Merger or Transfer of Assets."

In addition, Klabin will covenant that the issuer will remain a Wholly-Owned Subsidiary of Klabin.

Other Covenants

In addition, the indenture (subject to exceptions, qualifications and materiality thresholds, where appropriate) contains covenants regarding permitted lines of business, the performance of the issuer's and Klabin's obligations under the notes, maintenance of corporate existence, maintenance of properties, compliance with applicable laws, maintenance of Klabin's and its Subsidiaries' governmental approvals, payment of taxes and other claims, maintenance of books and records and further actions.

Substitution of the Issuer

The issuer may, without the consent of any holder of the notes, be substituted by (a) Klabin or (b) any Wholly-Owned Subsidiary of Klabin as principal debtor in respect of the notes (in that capacity, the substituted issuer); provided that the following conditions are satisfied:

- (1) such documents will be executed by the substituted issuer, the issuer, Klabin and the trustee as may be necessary to give full effect to the substitution, including a supplemental indenture under which the substituted issuer assumes all of the issuer's obligations under the indenture and the applicable notes and pursuant to which Klabin shall, unless Klabin is the substituted issuer, continue to unconditionally and irrevocably guarantee the

payment of all sums payable by the substituted issuer as such principal debtor (collectively, the Issuer Substitution Documents);

(2) the Issuer Substitution Documents will contain covenants (i) to ensure that each holder of the notes has the benefit of a covenant in terms corresponding to the obligations of the issuer in respect of the payment of additional amounts; and (ii) to indemnify each holder and beneficial owner of the notes against all taxes or duties (a) which arise by reason of a law or regulation in effect or contemplated on the effective date of the substitution, which may be incurred or levied against such holder or beneficial owner of the notes as a result of the substitution and which would not have been so incurred or levied had the substitution not been made and (b) which are imposed on such holder or beneficial owner of the notes by any political subdivision or taxing authority of any country in which such holder or beneficial owner of the notes resides or is subject to any such tax or duty and which would not have been so imposed had the substitution not been made;

(3) the issuer will deliver, or cause the delivery, to the trustee of opinions from internationally recognized counsel in the jurisdiction of organization of the substituted issuer, Brazil, Austria and New York as to the validity, legally binding effect and enforceability of the Issuer Substitution Documents and specified other legal matters, as well as an officers' certificate and opinion as to compliance with the provisions of the indenture, including those provisions described under this section;

(4) the substituted issuer will appoint a process agent in the Borough of Manhattan in The City of New York to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the notes, the indenture and the Issuer Substitution Documents;

(5) no Event of Default with respect to such notes has occurred or is continuing; and

(6) the substitution will comply with all applicable requirements under the laws of the jurisdiction of organization of the substituted issuer, Austria and Brazil.

Upon the execution of the Issuer Substitution Documents, and compliance with the other conditions in the indenture relating to the substitution, the substituted issuer will be deemed to be named in the notes as the principal debtor in place of the issuer and the issuer will be released from all of its obligations under the notes and the indenture.

Not later than 10 business days after the execution of the Issuer Substitution Documents, the substituted issuer will give notice thereof to the holders of the notes.

Notwithstanding any other provision of the indenture, Klabin will (unless it is the substituted issuer) do or cause to be done all acts and things and promptly execute and deliver any documents or instruments, including any substitute guarantee and a legal opinion of internationally recognized Brazilian counsel, that may be required, or that the trustee may reasonably request, to ensure that Klabin's guarantee is in full force and effect for the benefit of the trustee, the holders and beneficial owners of the notes following the substitution.

Events of Default

An Event of Default for the notes occurs upon:

(1) any default in any payment of interest (including any related additional amounts) on any note when the same becomes due and payable, and such default continues for a period of 30 days;

(2) any default in the payment of the principal (including premium, if any, and any related additional amounts) of any note when the same becomes due and payable upon its Stated Maturity, upon redemption, or otherwise;

(3) failure by Klabin to comply with the provisions described under “—Covenants—Limitation on Consolidation, Merger or Transfer of Assets”;

(4) failure to comply with any of its covenants or agreements of the issuer, Klabin or any of its Subsidiaries in the notes or the indenture (other than those referred to in clauses (1), (2) and (3) above), and such failure continues for 45 days after the notice specified below;

(5) Klabin or any Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by Klabin or any such Subsidiary (or the payment of which is guaranteed by Klabin or any such Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture, which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Debt after giving effect to any grace period provided in such Debt on the date of such default, or Payment Default or (b) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals U.S.\$50.0 million (or the equivalent thereof at the time of determination) or more in the aggregate;

(6) one or more final judgments or decrees for the payment of money of U.S.\$50.0 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against Klabin or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 60 days following commencement of such enforcement proceedings or (b) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

(7) the guarantee of such notes by Klabin ceases to be in full force and effect, or the issuer or Klabin denies or disaffirms its obligations under such notes or guarantee; or

(8) certain events of bankruptcy or insolvency of Klabin or any Significant Subsidiary.

A Default under clause (4) above will not constitute an Event of Default until the trustee or the holders of at least 25% in principal amount of the notes outstanding notify Klabin (with a copy to the trustee if given by the holders) of the Default and Klabin does not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default (other than a payment default) or knowledge of any cure of any Default or Event of Default unless written notice of such Default or Event of Default has been given to a responsible officer of the trustee with direct responsibility for the administration of the indenture by Klabin or any holder.

If an Event of Default (other than an Event of Default specified in clause (8) above) occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the notes then outstanding may declare all unpaid principal of and accrued interest on all notes to be due and payable immediately, by a notice in writing to the issuer (with a copy to the trustee if given by the holders), and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (8) above occurs and is continuing, then the principal of and accrued interest on all notes will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

The trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders will have offered to the trustee indemnity or security satisfactory to the trustee. Subject to such provision for the indemnification of the trustee and certain other conditions set forth in the indenture, the holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Defeasance

The issuer may at any time terminate all of its obligations with respect to the notes, or defeasance, except for certain obligations, including those regarding any trust established for a defeasance, obligations to register the transfer or exchange of the notes, to replace mutilated, destroyed, lost or stolen notes, to maintain agencies in respect of notes and to reimburse and compensate the trustee, registrar, paying agents and transfer agents. The issuer may at

any time terminate its obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the notes issued under the indenture, or covenant defeasance. In order to exercise either defeasance or covenant defeasance, the issuer must irrevocably deposit in trust, for the benefit of the holders of the notes, with the trustee cash or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants, consultants or investment bank expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of, the premium, if any, and interest on the applicable notes to redemption or maturity and comply with certain other conditions contained in the indenture, including the delivery of either a ruling received from U.S. Internal Revenue Service or an opinion of counsel as to the effect that the beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would otherwise have been the case. In the case of legal defeasance, such an opinion could not be given absent a change of law after the date of the indenture.

Amendment, Supplement, Waiver

Subject to certain exceptions, the indenture and the notes may be amended or supplemented with the written consent of the holders of at least a majority in principal amount of the notes then outstanding, and any Default or Event of Default and its consequences may be waived with the consent of the holders of at least a majority in principal amount of the notes then outstanding. However, without the consent of each holder of an outstanding note affected thereby, no amendment or waiver may:

- (1) reduce the rate of or extend the time for payment of interest on any note;
- (2) reduce the principal of or extend the Stated Maturity of any note;
- (3) reduce the amount payable upon redemption of any note or change the time at which any note may be redeemed;
- (4) change the currency or place of payment of principal of, premium, if any, or interest on, any note;
- (5) impair the right to institute suit for the enforcement of any payment on or with respect to any note;
- (6) waive a Default or Event of Default in the payment of principal of, premium, if any, and interest on the notes;
- (7) amend or modify the obligation to pay additional amounts;
- (8) amend or modify any provision of the guarantee in a manner that would adversely affect the holders of the notes;
- (9) amend or modify any provision of the indenture affecting the ranking of the notes or the guarantee in a manner adverse to the holders of the notes; or
- (10) reduce the principal amount of notes whose holders must consent to any amendment, supplement or waiver.

The consent of the holders of the notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment described in the preceding paragraph becomes effective, the issuer is required to give to the holders a notice briefly describing such amendment. However, the failure to give such notice to all holders of the notes, or any defect therein, will not impair or affect the validity of the amendment.

The issuer, Klabin and the trustee may, without notice to or the consent or vote of any holder of the notes, amend or supplement the indenture and the notes for the following purposes:

- (1) to cure any ambiguity, omission, defect or inconsistency;

- (2) to comply with the covenant described under “—Covenants—Limitation on Consolidation, Merger or Transfer of Assets”;
- (3) to comply with the provisions under the caption “—Substitution of the Issuer”;
- (3) to add guarantees or collateral with respect to the notes;
- (4) to add to the covenants of Klabin and its Subsidiaries for the benefit of holders of the notes;
- (5) to surrender any right conferred by the indenture upon Klabin;
- (6) to evidence and provide for the acceptance of an appointment by a successor trustee;
- (7) to provide for the issuance of additional notes;
- (8) conform the text of the indenture to any provision of this Description of the Notes; or
- (9) to make any other change that does not adversely affect the rights of any holder of the notes.

Listing

We have applied for the notes offered hereby to be admitted to the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange.

The initial notes are also listed on the Singapore Exchange Securities Trading Limited, or the SGX-ST, as of April 2019.

Notices

For so long as the notes in global form are outstanding, notices to be given to holders will be given to the depository, as the holder thereof, and such depository will communicate such notice to its participants in accordance with its applicable policies as in effect from time to time. If notes are issued in certificated form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the notes at their registered addresses as they appear in the register maintained by the registrar. For so long as the notes are listed on the Euro MTF and it is required by the rules of the Luxembourg Stock Exchange, all such notices to the holders of the notes will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Neither the failure to give any notice to a particular holder of notes, nor any defect in a notice given to a particular holder of notes, will affect the sufficiency of any notice given to another holder of notes.

Trustee

The Bank of New York Mellon is the trustee under the indenture. The indenture contains provisions for the indemnification of the trustee and for its relief from responsibility. The obligations of the trustee to any holder are subject to such immunities and rights as are set forth in the indenture.

Except during the continuance of an Event of Default, the trustee need perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into the indenture against the trustee. In case an Event of Default has occurred and is continuing, the trustee will exercise those rights and powers vested in it by the indenture and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. No provision of the indenture will require the trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

Klabin and its Affiliates may from time to time enter into normal banking and trustee relationships with the trustee and its Affiliates.

The trustee may hold notes in its own name.

Governing Law and Submission to Jurisdiction

The notes and the related guarantee will be, and the indenture and the initial notes (and the related guarantee) are, governed by, and construed in accordance with, the laws of the State of New York.

Each of the parties to the indenture has submitted to the non-exclusive jurisdiction of the U.S. federal and New York state courts located in the Borough of Manhattan, The City of New York for purposes of all legal actions and proceedings instituted in connection with the guarantee, the notes and the indenture. Both issuer and Klabin have appointed Corporation Service Company, Inc., as their authorized agent upon which process may be served in any such action.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by the issuer and Klabin under or in connection with the indenture, the notes and guarantee, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the issuer, Klabin or otherwise) by the trustee or any holder of a note in respect of any sum expressed to be due to it from the issuer or Klabin will only constitute a discharge of the issuer or Klabin, as the case may be, to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under the indenture or any notes, the issuer and Klabin, as the case may be, will indemnify such recipient against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such recipient, such recipient will, by accepting notes, in the case of a holder and, by executing the indenture, in the case of the trustee, be deemed to have agreed to repay such excess. In any event, the issuer and Klabin, as the case may be, will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of notes or the trustee, as applicable, to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the issuer and Klabin, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the trustee or any holder of notes and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under the indenture or any notes.

Austrian Capital Maintenance Provisions

The obligations of the issuer under the indenture and the notes shall be limited so that at no time shall the performance of an obligation under the indenture and the notes be required by the issuer if this would violate mandatory Austrian capital maintenance rules pursuant to Austrian company law, in particular Sections 82 et seq of the GmbHG, or Austrian Capital Maintenance Rules, and therefore be held invalid or unenforceable or expose any managing director of the issuer to personal liability. Should any obligation of the issuer under the indenture or the notes violate Austrian Capital Maintenance Rules, such obligation shall be deemed to be replaced by an obligation of a similar nature which is in compliance with Austrian Capital Maintenance Rules and which as much as legally possible corresponds to the initial obligation. This provision shall be without prejudice to the validity and enforceability of the guarantee against Klabin.

Disapplication of the Austrian Bonds Trustee Act

Pursuant to the Austrian Bonds Trustee Act (*Kuratorensgesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenenergänzungsgesetz*), a trustee (*Kurator*) could be appointed by an Austrian court upon the request of any interested party (e.g., a holder of the notes or the issuer) or upon the initiative of a competent court, for the purposes of representing the common interests of the holders of the notes in matters concerning their collective rights. In particular, this may occur if insolvency proceedings are initiated against Klabin Austria, in connection with any amendments to the terms and conditions of the notes or changes relating to the issuer, or under other similar circumstances.

The indenture provides for a clause to disapply the provisions of the Austrian Bonds Trustee Act (*Kuratorensgesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenenergänzungsgesetz*).

Certain Definitions

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Advance Transaction” means an advance from a financial institution involving either (a) a foreign exchange contract (*Adiantamento sobre Contrato de Câmbio*), or ACC, or (b) an export contract (*Adiantamento sobre Cambiais Entregues*), or ACE.

“Affiliate” means, with respect to any specified person, (a) any other person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified person or (b) any other person who is a director or officer (i) of such specified person, (ii) of any subsidiary of such specified person or (iii) of any person described in clause (a) above. For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Brazil” means the Federative Republic of Brazil.

“Capital Lease Obligations” means, with respect to any person, any obligation which is required to be classified and accounted for as a capital lease on the face of a balance sheet of such person prepared in accordance with IFRS; the amount of such obligation will be the capitalized amount thereof, determined in accordance with IFRS; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“Capital Stock” means, with respect to any person, any and all shares of stock, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting), such person’s equity including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“Closing Date” means April 3, 2019 the date that the initial notes under the indenture were issued.

“Consolidated Total Assets” means, with respect to any person, measured on a consolidated basis, an amount equal to the total amount of assets of such person and its Subsidiaries as set forth on the most recent consolidated quarterly financial statements of such person.

“Debt” means, with respect to any person, without duplication:

- (a) the principal of and premium, if any, in respect of (i) debt of such person for money borrowed and (ii) debt evidenced by notes, debentures, bonds or other similar instruments for the payment of which such person is responsible or liable;
- (b) all Capital Lease Obligations of such person;
- (c) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such person and all obligations of such person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 90 days, in each case arising in the ordinary course of business);
- (d) all obligations of such person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth business day following receipt by such person of a demand for reimbursement following payment on the letter of credit);
- (e) all Hedging Obligations;

(f) all obligations of the type referred to in clauses (a) through (d) above of other persons for the payment of which such person is responsible or liable as obligor or guarantor (other than obligations of other persons that are customers or suppliers of such person for which such person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such person does not, or is not required to, make payment in respect thereof); and

(g) all obligations of the type referred to in clauses (a) through (e) above of other persons secured by any Lien on any property or asset of such person (whether or not such obligation is assumed by such Debtor), the amount of such obligation being deemed to be the lesser of the value of such property or assets and the amount of the obligation so secured.

The amount of Debt will be deemed to be:

(a) with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

(b) with respect to any Debt issued with original issue discount, the face amount of such Debt less the remaining unamortized portion of the original issue discount of such Debt;

(c) with respect to any Hedging Obligations, the net amount payable if such hedging agreement terminated at that time due to default by such person; and

(d) otherwise, the outstanding principal amount thereof.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“IFRS” means International Financial Reporting Standards, as issued and interpreted by IASB, as in effect from time to time

“guarantee” means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Debt or other obligation of any person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided however, that the term guarantee will not include endorsements for collection or deposit in the ordinary course of business. The term guarantee used as a verb has a corresponding meaning.

“Hedging Obligations” means, with respect to any person, the obligations of such person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option, forward or futures contract or other similar agreement or arrangement designed to protect such person against changes in interest rates or foreign exchange rates.

“holder” means the person in whose name a note is registered in the register.

“Lien” means any mortgage, pledge, security interest, conditional sale or other title retention agreement or other similar lien.

“Sale and Lease-Back Transaction” means any transaction or series of related transactions pursuant to which Klabin or any of its subsidiaries sells or transfers any property to any Person with the intention of taking back a lease of such property.

“Significant Subsidiary” means any Subsidiary that would be a “significant subsidiary” of Klabin within the meaning of Rule 1-02 under Regulation S-X promulgated pursuant to the Securities Act.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means, with respect to any person, any corporation, limited liability company, partnership, association or other entity that accounts for more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by such person and one or more Subsidiaries of such person (or a combination thereof).

“Wholly-Owned Subsidiary” means a Subsidiary of which at least 99% of the Capital Stock (other than directors’ qualifying shares) is owned by Klabin or another Wholly-Owned Subsidiary.

Form of the Notes

The notes will be represented by a permanent global note or notes in fully registered form without interest coupons and will be registered in the name of a nominee of DTC and deposited with a custodian for DTC.

The additional notes were subject to certain restrictions on transfer as described in “Transfer Restrictions.” On or prior to the 40th day after the settlement date of the offering of the additional notes, a beneficial interest in a Regulation S Global Note could only be transferred to a person who took delivery in the form of an interest in a Restricted Global Note only upon receipt by the registrar of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a “qualified institutional buyer,” within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any U.S. state or any other jurisdiction. After such 40th day, this certification requirement no longer applies to such transfers. Beneficial interests in a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, whether before, on or after such 40th day, only upon receipt by the registrar of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or with Rule 144, in each case under the Securities Act. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains an interest.

Except in the limited circumstances described under “—Global Notes” and “—Individual Definitive Notes,” owners of the beneficial interests in global notes will not be entitled to receive physical delivery of individual definitive notes. The notes are not issuable in bearer form.

Global Notes

Upon the issuance of a Regulation S Global Note and a Restricted Global Note, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC, or DTC Participants, or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be affected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the indenture and the notes. Unless DTC notifies the issuer that it is unwilling or unable to continue as depository for a global note, or ceases to be a “clearing agency” registered under the Exchange Act, or any of the notes becomes immediately due and payable in accordance with “Description of the Notes—Events of Default,” owners of beneficial interests in a global note will not be entitled to have any portions of such global note registered in their names, will not receive or be entitled to receive physical delivery of notes in individual definitive form and will not be considered the owners or holders of the global note (or any notes represented thereby) under the indenture or the notes. In addition, no beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to the procedures under the indenture referred to in this offering memorandum and, if applicable, those of Euroclear and Clearstream).

Investors may hold interests in the global notes through Euroclear or Clearstream, if they are participants in such systems. Euroclear and Clearstream will hold interests in the global notes on behalf of their account holders through customers’ securities accounts in their respective names on the books of their respective depositories, which, in turn, will hold such interests in the global notes in customers’ securities accounts in the depositories’ names on the books of DTC.

Payments of the principal of and interest on global notes will be made to the trustee who will forward such payments to DTC or its nominee as the registered owner thereof. Neither the issuer, nor any initial purchasers nor the

trustee, the registrar, any transfer agent or any paying agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The issuer anticipates that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note representing any notes held by its nominee, will credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The issuer also expects that payments by DTC Participants to owners of beneficial interests in such global note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical individual definitive certificate in respect of such interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions available to the notes described above, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream account holders, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf, by delivering or receiving interests in the global notes in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream account holders may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream account holder purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global note settled during such processing day will be reported to the relevant Euroclear or Clearstream account holder on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream account holder to a DTC Participant will be received for value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by any holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described above, DTC will exchange the global notes for individual definitive notes (in the case of notes represented by a Restricted Global Note, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global notes through DTC Participants have no direct rights to enforce such interests while the notes are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly, or indirect participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in a Regulation S Global Note and in a Restricted Global Note among participants and accountholders of DTC, Clearstream and Euroclear are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the issuer nor the trustee, the registrar, any transfer agent or any paying agent will have any responsibility for the performance of DTC, Euroclear or Clearstream or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Individual Definitive Notes

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depository for the reasons described in “—Global Notes” and a successor depository is not appointed by the issuer within 90 days or (2) any of the notes have become immediately due and payable in accordance with “Description of the Notes—Events of Default,” the issuer will issue individual definitive notes in registered form in exchange for a Regulation S Global Note and a Restricted Global Note, as the case may be. Upon receipt of such notice from DTC, the issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the global notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to holders. Persons exchanging interests in a global note for individual definitive notes will be required to provide the registrar with (a) written instructions and other information required by the issuer and the registrar to complete, execute and deliver such individual definitive notes and (b) in the case of an exchange of an interest in a Restricted Global Note, certification that such interest is not being transferred or is being transferred only in compliance with Rule 144A. In all cases, individual definitive notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.

In the case of individual definitive notes issued in exchange for a Restricted Global Note, such individual definitive notes will bear, and be subject to, the legend described in “Transfer Restrictions” (unless the issuer determines otherwise in accordance with applicable law). The holder of a restricted individual definitive note may transfer such note, subject to compliance with the provisions of such legend, as provided in “Description of the Notes.” Upon the transfer, exchange or replacement of notes bearing the legend, or upon specific request for removal of the legend on a note, the issuer will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the issuer shall appoint and maintain a paying agent in Luxembourg, where the notes may be presented or surrendered for payment or redemption, in the event that the global notes are exchanged for definitive certificated notes. In addition, in the event that the global notes are exchanged for definitive certificated notes, announcement of such exchange shall be made through the Luxembourg Stock Exchange and such announcement will include all material information with respect to the delivery of the definitive certificated notes, including details of the paying agent in Luxembourg.

Taxation

At the time of the original issuance of the notes, investors were provided with a summary of certain Brazilian, U.S. federal income and European Union tax considerations that may be relevant to them as investors in the notes, referred to as the original summary. Unless otherwise indicated, that original summary was based only on laws, regulations, rulings and decisions in effect at that time and may have changed since that time. Any such changes could apply retroactively and could affect the continued validity of the original summary.

The original summary did not describe all of the tax considerations, at the time of the original issuance of the notes or otherwise, that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of purchasing, holding and disposing of the notes (and receipt of interest and sale or redemption of the notes) including the relevance to your particular situation of the considerations discussed below as well as of state local and other tax laws.

ERISA and Certain Other Considerations

Sections 404 and 406 of the Employee Retirement Income Security Act of 1974, as amended, or ERISA, and Section 4975 of the Code impose fiduciary and prohibited transaction restrictions on the activities of employee benefit plans and certain other retirement plans and arrangements subject to such provisions of law, including investment funds, bank collective investment funds and insurance company accounts, the assets of which are deemed to be “plan assets” for purposes of such provisions of law (together referred to as Benefit Plan Investors).

Governmental plans, as defined in Section 3(32) of ERISA, plans maintained outside the United States primarily for the benefit of persons substantially all of whom are non-resident aliens, as described in Section 4(b)(4) of ERISA, and certain church plans, as defined in Section 3(33) of ERISA, are not subject to Title I of ERISA, and may not be subject to Section 4975 of the Code, but may be subject to applicable laws similar to such provisions of law, each a Similar Law. Each of us, the initial purchasers and our respective affiliates, or, collectively, the Transaction Parties, may be “parties in interest” or “disqualified persons” as to certain Benefit Plan Investors. Thus, the acquisition of notes by or on behalf of a Benefit Plan Investor may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code unless a statutory or administrative exemption applies. Fiduciaries and other persons involved in a non-exempt prohibited transaction may be subject to penalties and other liabilities under ERISA or Section 4975 of the Code, and the prohibited transaction may need to be rescinded or otherwise corrected.

There are statutory or administrative exemptions that could apply, depending on the circumstances, to provide relief from certain of the prohibited transaction provisions of ERISA or Section 4975 of the Code in connection with the acquisition of notes, including, but not limited to, Prohibited Transaction Class Exemption, or PTCE, 84-14 (applicable to a “qualified professional asset manager”); PTCE 90-1 (applicable to insurance company separate accounts); PTCE 91-38 (applicable to bank collective investment funds); PTCE 95-60 (applicable to insurance company general accounts); and PTCE 96-23 (applicable to an “in-house asset manager”). In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally exempt certain transactions with a person that is a party in interest or disqualified person to a Benefit Plan Investor solely by reason of it or its affiliate providing services to the Benefit Plan Investor and such services are not in a fiduciary capacity within the meaning of ERISA or Section 4975 of the Code in connection with the investment of plan assets of the Benefit Plan Investor involved in the transaction, and the Benefit Plan Investor pays no more than and receives no less than adequate consideration in connection with the transaction.

There can be no assurance that any prohibited transaction exemption will apply to the acquisition or subsequent transfer or other disposition of notes by any particular Benefit Plan Investor or, even if all of the conditions specified therein were satisfied, that the exemption would apply to all prohibited transactions that may occur in connection with such investment. Each Benefit Plan Investor and its fiduciary acting on its behalf shall be solely responsible for determining whether any prohibited transaction exemptions apply and provide full relief to the acquisition of notes by the Benefit Plan Investor.

Each of us and the initial purchasers has its own interests in the offering and sale of the notes and related transactions, which differ from the interests of any Benefit Plan Investor considering investing in the notes, and such financial interests are disclosed in this offering memorandum.

In this regard, each purchaser or transferee of any interest in the notes that is a Benefit Plan Investor will be deemed to have represented by its acquisition of any interest in the notes that (i) none of the Transaction Parties has provided any investment advice to the Benefit Plan Investor or any fiduciary or other person investing the assets of the Benefit Plan Investor, or Plan Fiduciary, on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the notes, and (y) is acting as a “fiduciary” within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor’s acquisition of any interest in the notes and (ii) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction. Any fiduciary or representative of a Benefit Plan Investor or other employee benefit plan or arrangement that is subject to Similar Law that proposes to acquire or hold the notes on behalf of or with assets of any such investor is encouraged to consult with its counsel regarding the application of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code, or in the case of such other plans or arrangements, the applicability of Similar Law before making the proposed investment.

The sale of notes to a Benefit Plan Investor is in no respect a representation that such an investment meets all relevant legal requirements with respect to investments by Benefit Plan Investors generally or any particular Benefit Plan Investor, or that such an investment is appropriate for Benefit Plan Investors generally or any particular Benefit Plan Investor.

Transfer Restrictions

The notes and the guarantee have not been registered under the Securities Act or any securities laws of any jurisdiction, and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws. Accordingly, the notes are being offered hereby only (1) to “qualified institutional buyers” (as defined in Rule 144A) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) outside of the United States in reliance upon Regulation S, to non-U.S. persons who will be required to make certain representations to us and others prior to investing in the notes.

Each purchaser of the notes that is purchasing in a sale made in reliance on Rule 144A or Regulation S will be deemed to have represented and agreed as follows:

- (1) The purchaser:
 - (a) (i) is a qualified institutional buyer (as defined in Rule 144A) and is aware that the sale to it is being made in reliance on Rule 144A and (ii) is acquiring the additional notes for its own account or for the account or benefit of another qualified institutional buyer, or
 - (b) is not a U.S. person, as such term is defined in Rule 902 under the Securities Act, and is purchasing the notes in accordance with Regulation S.
- (2) The purchaser understands that the notes are being offered in transactions not involving any public offering in the United States within the meaning of the Securities Act, that the notes and the guarantee have not been registered under the Securities Act or any securities laws of any jurisdiction and that:
 - (a) the notes may be offered resold, pledged or otherwise transferred only (i) to a person who is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, outside the United States to a non-U.S. person in a transaction meeting the requirements of Rule 904 under the Securities Act, or in accordance with another exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel, if the company so requests), (ii) to us or (iii) pursuant to an effective registration statement and, in each case, in accordance with any applicable securities laws of any U.S. state or any other relevant jurisdiction, and
 - (b) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the resale restrictions set forth in (a) above.
- (3) The purchaser confirms that:
 - (a) such purchaser has such knowledge and experience in financial and business matters, that it is capable of evaluating the merits and risks of purchasing the notes and that such purchaser and any accounts for which it is acting are each able to bear the economic risks of its or their investment;
 - (b) such purchaser is not acquiring the notes with a view towards any distribution of the notes in a transaction that would violate the Securities Act or the securities laws of any U.S. state or any other relevant jurisdiction; provided that the disposition of its property and the property of any accounts for which such purchaser is acting as fiduciary will remain at all times within its control, and
 - (c) such purchaser has received a copy of the offering memorandum and acknowledges that it has had access to such financial and other information and has been afforded an opportunity to ask such questions of our representatives and receive answers thereto as it has deemed necessary in connection with its decision to purchase the notes.

- (4) The purchaser represents by its purchase and holding of the notes that either (a) it is not (and for so long as it holds a note or any interest therein will not be) and is not acting on behalf of (and for so long as it holds a note or any interest therein will not be acting on behalf of) (i) an “employee benefit plan” as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a “plan” as defined in and subject to Section 4975 of the Code, (iii) an entity which underlying assets are deemed for purposes of ERISA or the Code to include “plan assets” by reason of such employee benefit plan or plan’s investment in the entity, or (iv) a governmental, church plan or foreign or other employee benefit plan which is subject to any U.S. federal, state or local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (b) its purchase, holding or disposition of the notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental, church or foreign or other employee benefit plan, a violation of any such substantially similar U.S. federal, state or local or non-U.S. law).
- (5) Each purchaser and holder of the notes that is a Benefit Plan Investor shall be deemed to represent, warrant and agree that (i) none of the Transaction Parties (x) has provided any investment advice to the Benefit Plan Investor or any fiduciary or other person investing the assets of the Benefit Plan Investor, or Plan Fiduciary, on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the notes, and (y) is acting as a “fiduciary” within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor’s acquisition of any interest in the notes and (ii) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.
- (6) If it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, it acknowledges that until the expiration of the “40-day distribution compliance period” within the meaning of Rule 903 of Regulation S, any offer or sale of the notes shall not be made by it to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(k) under the Securities Act.
- (7) The purchaser understands that the certificates evidencing the notes sold in reliance on Rule 144A will, unless otherwise agreed by us, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

- (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT, AND
- (2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT:
- (A) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, OR
- (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR
- (C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

- (D) TO A NON-U.S. PERSON IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR
- (E) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (2)(E) ABOVE, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED BY THE COMPANY IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT

EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE, AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) (I) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO TITLE I OF ERISA, (II) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), (III) AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE “PLAN ASSETS” BY REASON OF SUCH EMPLOYEE BENEFIT PLAN’S OR PLAN’S INVESTMENT IN THE ENTITY, OR (IV) A GOVERNMENTAL, CHURCH PLAN OR FOREIGN OR OTHER EMPLOYEE BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE (OR ANY INTEREST THEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR FOREIGN OR OTHER EMPLOYEE BENEFIT PLAN, A VIOLATION OF ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE OR LOCAL OR NON-U.S. LAW).

In addition, all the notes that are purchased by benefit plan investors will contain the legends below:

EACH PURCHASER AND HOLDER OF THE NOTES THAT IS A BENEFIT PLAN INVESTOR, AS DEFINED IN SECTION 3(42) OF ERISA SHALL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT (I) NONE OF THE TRANSACTION PARTIES (X) HAS PROVIDED ANY INVESTMENT ADVICE TO THE BENEFIT PLAN INVESTOR OR ANY FIDUCIARY OR OTHER PERSON INVESTING THE ASSETS OF THE BENEFIT PLAN INVESTOR (A “PLAN FIDUCIARY”), ON WHICH EITHER THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY HAS RELIED IN CONNECTION WITH THE DECISION TO ACQUIRE ANY INTEREST IN THE NOTES, AND (Y) IS ACTING AS A “FIDUCIARY” WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR SECTION 4975(E)(3) OF THE CODE TO THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY IN CONNECTION WITH THE BENEFIT PLAN INVESTOR’S ACQUISITION OF ANY INTEREST IN THE NOTES AND (II) THE PLAN FIDUCIARY IS EXERCISING ITS OWN INDEPENDENT JUDGMENT IN EVALUATING THE TRANSACTION.

THIS LEGEND MAY BE REMOVED ONLY AT THE OPTION OF THE COMPANY.

- (8) The purchaser understands that the certificates evidencing the notes sold in reliance on Regulation S will, unless otherwise agreed by us, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)), THIS NOTE MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

- (9) The purchaser acknowledges that we and the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the foregoing acknowledgements, representations and agreements deemed to have been made by it are no longer accurate, it will promptly notify the initial purchasers. If such purchaser is acquiring the notes as a fiduciary or agent for one or more investor accounts, such purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Plan of Distribution

In relation to the initial notes, subject to the terms and conditions set forth in the purchase agreement dated March 27, 2019 among the issuer, Klabin and Banco Bradesco BBI S.A., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., Itau BBA USA Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Santander Investment Securities Inc., Mizuho Securities USA LLC, Scotia Capital (USA) Inc. and SMBC Nikko Securities America, Inc, as the initial purchasers (the initial notes purchase agreement), the issuer has agreed to sell, and the initial purchasers have agreed, severally and not jointly, subject to certain conditions, to purchase, the following principal amount of the initial notes:

Initial Purchaser	Principal amount of initial notes
Banco Bradesco BBI	U.S.\$55,555,000
Citigroup Global Markets Inc.....	U.S.\$55,556,000
HSBC Securities (USA) Inc.	U.S.\$55,555,000
Itau BBA USA Securities Inc.....	U.S.\$55,555,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	U.S.\$55,555,000
Santander Investment Securities Inc.....	U.S.\$55,556,000
Mizuho Securities USA LLC.	U.S.\$55,556,000
Scotia Capital (USA) Inc.....	U.S.\$55,556,000
SMBC Nikko Securities America, Inc.....	U.S.\$55,556,000
Total	<u>U.S.\$500,000,000</u>

In relation to the initial notes, Banco Safra S.A., Cayman Islands Branch and XP Investments LLC acted as co-managers only and did not acquire or underwrite any of the notes. Banco Safra S.A., Cayman Islands Branch and XP Investments LLC are not broker-dealers registered with the SEC, and therefore may not make sales of any notes in the United States or to U.S. persons, except in compliance with applicable U.S. laws and regulations.

In relation to the additional notes, subject to the terms and conditions set forth in the purchase agreement dated January 15, 2020, between the issuer, Klabin, as guarantor, and BofA Securities, Inc., Banco Bradesco BBI S.A., HSBC Securities (USA) Inc., Itau BBA USA Securities, Inc. and J.P. Morgan Securities LLC, as initial purchasers (the additional notes purchase agreement, and together with the initial notes purchase agreement, the purchase agreements), the issuer agreed to sell, and the initial purchasers agreed, severally and not jointly, subject to certain conditions, to purchase the following principal amount of the additional notes:

Initial Purchaser	Principal amount of additional notes
Banco Bradesco BBI S.A.	U.S.\$40,000,000
BofA Securities, Inc.	U.S.\$40,000,000
HSBC Securities (USA) Inc.	U.S.\$40,000,000
Itau BBA USA Securities, Inc.....	U.S.\$40,000,000
J.P. Morgan Securities LLC	U.S.\$40,000,000
Total	<u>U.S.\$200,000,000</u>

Bradesco Securities Inc. acted as agent of Banco Bradesco BBI S.A. for sales of the additional notes in the United States. Banco Bradesco BBI S.A. is not a broker-dealer registered with the SEC, and therefore may not make sales of any additional notes in the United States or to U.S. persons. Banco Bradesco BBI S.A. and Bradesco Securities Inc. are affiliates of Banco Bradesco S.A.

The purchase agreements provided that the initial purchasers were obligated to purchase all of the additional notes if any are purchased. The purchase agreements also provided that if an initial purchaser defaulted, the purchase commitments of the non-defaulting initial purchasers may be increased or the offering may be

terminated. The initial purchasers may offer and sell the notes through certain of their affiliates. The purchase agreements provided that the obligations of the initial purchasers to pay for and accept delivery of the additional notes was subject to, among other conditions, the delivery of certain officers' certificates by us and the issuer and the delivery of legal opinions of our and their counsel. The initial purchasers reserved the right to withdraw, cancel or modify offers and to reject orders in whole or in part.

The notes were initially offered at the price indicated on the cover page of this offering memorandum. We and the issuer have been advised by the initial purchasers that they may allow a further discount on sales to certain dealers. After the initial offering of the additional notes, the offering price and other selling terms may from time to time be varied by the initial purchasers.

We and the issuer have agreed in the purchase agreements to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make in respect of those liabilities.

We and the issuer have agreed in the purchase agreements that, for a period of 90 days from the date of pricing of the respective notes and except for pursuant to this offering, neither we nor the issuer will offer, sell, contract to sell or otherwise dispose of any debt securities of ours or of the issuer (or guaranteed by us or by the issuer) in the international capital markets, in each case that are substantially similar to the notes.

The initial purchasers are not obligated to make a market in the notes. Accordingly, we and the issuer cannot assure you as to the liquidity of, or trading markets for, the notes.

To facilitate the offering of the notes, each of the initial purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, each of the initial purchasers may over-allot in connection with this offering, creating a short position in the notes for their own account. In addition, each of the initial purchasers may bid for, and purchase, notes on the open market. Finally, each of the initial purchasers may reclaim selling concessions allowed to a dealer for distributing the notes in this offering, if the initial purchasers repurchase previously distributed the respective notes in transactions to cover short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The initial purchasers are not required to engage in these activities, and may end any of these activities at any time.

The initial purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or with our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and may actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities or financial instruments issued or guaranteed by us or by our affiliates. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby.

The initial purchasers and their affiliates may also make investment recommendations and publish or express independent research views in respect of securities or financial instruments issued or guaranteed by us or by our affiliates and may hold, or recommend to clients that they acquire, long or short positions in these securities and financial instruments.

The notes and the guarantee have not been registered under the Securities Act or any securities laws of any jurisdiction, and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws. In connection with sales of the notes outside the United States, each initial purchaser has agreed that, other than in accordance with Rule 144A, it will not offer, sell or deliver the notes to, or for the account or benefit of, U.S. persons (1) as a part of its distribution at any time or (2) otherwise prior to 40 days after the later of the commencement of the offering and the closing of the offering, within the United States or to, or for the account or benefit of, U.S. persons, and it will send to each dealer to whom it sells notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until the expiration of the 40-day restricted period referred to above, an offer or sale of the notes within the United States by a dealer (whether or not it is participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A or pursuant to another exemption from registration under the Securities Act. Resales of the notes are restricted as described in the section "Transfer Restrictions."

Settlement

Delivery of the initial notes was to be made to investors on or about the fifth business day following the pricing of the initial notes, and delivery of the additional notes was to be made to investors on or about the third business day following the date of pricing of the additional notes (such settlements being respectively referred to as "T+5" and "T+3").

Selling Restrictions

No action has been taken in any jurisdiction by us or the initial purchasers that would permit a public offering of the notes in any jurisdiction where action for that purpose is required. The notes may not be offered or sold, directly or indirectly, nor may this offering memorandum or any other offering material or advertisements in connection with the offer and sale of the notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with all applicable rules and regulations. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the notes and the distribution of this offering memorandum. This offering memorandum does not constitute an offer to purchase or a solicitation of an offer to sell any of the notes in any jurisdiction in which such offer or solicitation is unlawful.

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Prohibition of Sales to EEA and United Kingdom Retail Investors

The notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA or in the United Kingdom. For the purposes of this provision the expression “retail investor” means a person who is one (or more) of the following (i) a retail client as defined in MiFID II, or (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by the PRIIPs Regulation for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This offering memorandum has been prepared on the basis that any offer of notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of notes. This offering memorandum is not a prospectus for the purposes of the Prospectus Regulation.

United Kingdom

Each of the initial purchasers, severally and not jointly, has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the issuer or Klabin; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the notes in, from or otherwise involving the United Kingdom.

This offering memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, or (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order, or the Order, (iii) persons falling within Article 49(2) to (d) of the Order (high net worth companies, unincorporated associations etc.), and (iv) other persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any notes may otherwise lawfully be communicated or caused to be communicated (all such persons in items (i) to (iv) above together being referred to as “relevant persons”). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire notes will be engaged in only with, relevant persons. This offering memorandum is only available to relevant persons in the United Kingdom in circumstances where section 21(1) of the FSMA does not apply. In addition, this communication is, in any event only directed at persons who are relevant persons and any person who is not a relevant person must not act or rely on this document or any of its contents. This offering memorandum is not a prospectus that had been approved by the Financial Services Authority or any other United Kingdom regulatory authority for the purposes of Section 85 of the Financial Services and Markets Act 2000.

Republic of Ireland

The notes are not being offered, directly or indirectly, to the general public in Ireland and no offers or sales of any securities under or in connection with this offering memorandum may be effected except in conformity with the provisions of Irish law including the Irish Companies Acts 1963 to 2009, the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland, the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) of Ireland and the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland.

Austria

The notes may not be offered in Austria. The notes have not been and will not be registered with the FMA. The offer of the notes is not a public offering in accordance with the Austrian Capital Markets Act (*Kapitalmarktgesetz*), as amended. This offering memorandum and any other documents relating to the offering of

the notes, as well as information contained therein, may not be supplied to Austria or to any recipient in Austria, nor be used in connection with any offer or solicitation of offers for subscription or sale of the notes to Austria or any recipient in Austria. No public advertisement for an offer of the notes may be made or carried out in Austria.

France

No offering memorandum (including any amendment, supplement or replacement thereto) has been prepared in connection with this offering of the notes that has been approved by the *Autorité des Marchés Financiers* or by the competent authority of another state that is a contracting party to the agreement on the EEA and notified to the *Autorité des Marchés Financiers*; no notes have been offered or sold and will be offered or sold, directly or indirectly, to the public in France, except to permitted investors, or Permitted Investors, consisting of persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) acting for their own account and/or corporate investors meeting one of the four criteria provided in article D. 341-1 of the French Code *Monétaire et Financier* and belonging to a limited circle of investors (*cercle restreint d'investisseurs*) acting for their own account, with “qualified investors” and “limited circle of investors” having the meaning ascribed to them in Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French Code *Monétaire et Financier*; none of this offering memorandum or any other materials related to the offer or information contained therein relating to the notes has been released, issued or distributed to the public in France except to Permitted Investors; and the direct or indirect resale to the public in France of any notes acquired by any Permitted Investors may be made only as provided by articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French Code *Monétaire et Financier* and applicable regulations thereunder.

Grand Duchy of Luxembourg

No notes have been offered or sold or will be offered or sold, directly or indirectly, to the public within the territory of the Grand-Duchy of Luxembourg, or Luxembourg, unless:

- (i) (a) a prospectus has been duly approved by the *Commission de Surveillance du Secteur Financier*, or the CSSF, pursuant to the Luxembourg law of July 16, 2019 on prospectuses for securities, as amended from time to time, which implements the Prospectus Directive, or the Luxembourg Prospectus Law, if Luxembourg is the home Member State as defined under the Luxembourg Prospectus Law;
- (b) if Luxembourg is not the home Member State as defined under the Luxembourg Prospectus Law, the CSSF and the European Securities and Markets Authority, or the ESMA, have been provided by the competent authority in the home Member State with a certificate of approval attesting that a prospectus in relation to the notes has been duly approved in accordance with the Prospectus Directive and with a copy of that prospectus; or
- (c) the offer of notes benefits from an exemption from or constitutes a transaction not subject to, the requirement to publish a prospectus under the Luxembourg Prospectus Law, as amended from time to time; and
- (ii) the PRIIPS Regulation, and any applicable legislation implementing the PRIIPs Regulation or MiFID II in Luxembourg has been complied with.

Italy

The offering of the notes has not been registered pursuant to Italian securities legislation and, accordingly, no notes may be offered, sold or delivered, nor may copies of this offering memorandum or of any other document relating to the notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended, or the Financial Services Act, and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time, or Regulation No. 11971; or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of the Regulation No. 11971.

Any offer, sale or delivery of the notes or distribution of copies of this offering memorandum or any other document relating to the notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended, or the Banking Act; and

(b) in compliance with Article 129 of the Banking Act, as amended, and implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirements imposed by CONSOB or other Italian authority.

Switzerland

The notes may not be publicly offered into or in Switzerland and will not be listed on the SIX Swiss Exchange, or the SIX, or on any other stock exchange or regulated trading facility in Switzerland. This offering memorandum has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under Article 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland and therefore do not constitute an issuance prospectus within the meaning of the Swiss Code of Obligations or a listing prospectus within the meaning of the SIX listing rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the notes may be publicly distributed or otherwise made publicly available in Switzerland.

Brazil

The notes have not been, and will not be registered with the CVM. The notes are not being offered in Brazil. Documents relating to the offering of the notes, as well as information contained therein may not be supplied in Brazil, nor be used in connection with any offer for subscription or sale of the notes in Brazil.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the notes.

Chile

Neither the issuer nor the notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or subject to the control and supervision of the SVS. This offering memorandum and other offering materials relating to the offer of the notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not “addressed to the public at large or to a certain sector or specific group of the public”).

Ni el emisor ni los valores están inscritos en el Registro de Valores o el Registro de Valores Extranjeros de la Superintendencia de Valores y Seguros de Chile, o SVS, o sujetos al control y la supervisión de la SVS. El presente prospecto y los otros materiales relativos a la oferta de los valores no constituye una oferta pública de, ni una invitación a suscribir o comprar, tales valores en la República de Chile, salvo a compradores individualmente

identificados conforme a una oferta privada en los términos del artículo 4 de la Ley de Mercado de Valores (una oferta que no está “dirigida al público en general o a un cierto sector o grupo específico de éste”).

Colombia

The notes have not been offered or sold, and will not be offered or sold, in Colombia, other than in compliance with applicable laws.

Mexico

The notes have not been, and will not be, registered with the National Securities Registry maintained by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*), or the CNBV, and therefore the notes may not be publicly offered or sold nor be the subject of intermediation in Mexico, publicly or otherwise, except that the notes may be offered in Mexico to institutional and qualified investors pursuant to the private placement exception set forth in Article 8 of the Mexican Securities Market Law.

Hong Kong

Each of the initial purchasers has, severally and not jointly, represented and agreed that:

- (iii) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that ordinance; and
- (iv) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that ordinance.

Japan

The notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, or the FIEA) and neither we, the issuer nor the initial purchasers will offer or sell any note, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organized under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

People’s Republic of China (excluding Hong Kong, Macau and Taiwan)

The notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China, or the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by all relevant laws and regulations of the PRC.

This offering memorandum (i) has not been filed with or approved by the PRC authorities and (ii) does not constitute an offer to sell, or the solicitation of an offer to buy, any notes in the PRC to any person to whom it is unlawful to make the offer of solicitation in the PRC.

The notes may not be offered, sold or delivered, or offered, sold or delivered to any person for reoffering or resale or redelivery, in any such case directly or indirectly (i) by means of any advertisement, invitation, document

or activity which is directed at, or the contents of which are likely to be accessed or read by, the public in the PRC, or (ii) to any person within the PRC, other than in full compliance with the relevant laws and regulations of the PRC.

Investors in the PRC are responsible for obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, those which may be required by the China Securities Regulatory Commission, the State Administration of Foreign Exchange and/or the China Banking Regulatory Commission, and complying with all relevant PRC laws and regulations, including, but not limited to, all relevant foreign exchange regulations and/or securities investment regulations.

Republic of Korea

The notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act and the decrees and regulations thereunder, or the FSCMA, and the notes, if offered in Korea, will be offered in Korea as a private placement under the FSCMA. None of the notes may be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law of Korea and the decrees and regulations thereunder, or the FETL. For a period of one year from the issue date of the notes, any acquirer of the notes who was solicited to buy the notes in Korea is prohibited from transferring any of the notes to another person in any way other than as a whole to one transferee. Furthermore, the purchaser of the notes shall comply with all applicable regulatory requirements (including but not limited to requirements under the FETL) in connection with the purchase of the notes.

Singapore

Each of the initial purchasers has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore, or the MAS. Accordingly, neither we, the issuer nor the initial purchasers have offered or sold any notes or caused the notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell any notes or cause the notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified from time to time, or the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor, as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives (each term as defined Section 2(1) in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

- 1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- 2) where no consideration is or will be given for the transfer;
- 3) where the transfer is by operation of law;

- 4) as specified in Section 276(7) of the SFA; or
- 5) as specified in Regulation 37 of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA), that the notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Taiwan

The notes have not been, and will not be, registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan, the Republic of China, or Taiwan, and/or other regulatory authority of Taiwan pursuant to applicable securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Taiwan Securities and Exchange Act or relevant laws and regulations that require a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of the Taiwan. No person or entity in Taiwan is authorized to offer, sell or distribute or otherwise intermediate the offering of the notes or the provision of information relating to this offering memorandum.

The notes may be made available to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan for purchase outside Taiwan by investors residing in Taiwan, but may not be issued, offered sold or resold in Taiwan, unless otherwise permitted by Taiwan laws and regulations. No subscription or other offer to purchase the notes shall be binding on us or the issuer until received and accepted by us, the issuer or any agent outside of Taiwan, or the Place of Acceptance, and the purchase/sale contract arising therefrom shall be deemed a contract entered into in the Place of Acceptance.

United Arab Emirates

The notes have not been, and are not being, publicly offered, sold, promoted or advertised in the United Arab Emirates (including the Dubai International Financial Centre) other than in compliance with the laws of the United Arab Emirates (and the Dubai International Financial Centre) governing the issue, offering and sale of securities. Furthermore, this offering memorandum does not constitute a public offer of securities in the United Arab Emirates (including the Dubai International Financial Centre) and is not intended to be a public offer. This offering memorandum has not been approved by or filed with the Central Bank of the United Arab Emirates, the Securities and Commodities Authority of the United Arab Emirates or the Dubai Financial Services Authority.

Dubai International Financial Centre

THE NOTES MAY NOT BE, ARE NOT AND WILL NOT BE SOLD, SUBSCRIBED FOR, TRANSFERRED OR DELIVERED, DIRECTLY OR INDIRECTLY, TO ANY PERSON IN THE DUBAI INTERNATIONAL FINANCIAL CENTRE WHO IS NOT A CLIENT WITHIN THE MEANING OF THE CONDUCT OF BUSINESS MODULE OF THE RULES OF THE DUBAI FINANCIAL SERVICES AUTHORITY OR A QUALIFIED INVESTOR WITHIN THE MEANING OF THE OFFERED SECURITIES RULES OF THE DUBAI FINANCIAL SERVICES AUTHORITY.

Legal Matters

The validity of the notes offered in this offering, together with the guarantee, will be passed upon for the issuer by Clifford Chance US LLP, and for the initial purchasers by White & Case LLP in relation to the initial notes and Milbank LLP in relation to the additional notes. Certain matters of Brazilian law relating to the notes and the guarantee will be passed upon for the issuer by Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados. TozziniFreire Advogados, São Paulo, Brazil, will pass upon certain matters of Brazilian law relating to the notes and the guarantee for the initial purchasers. Certain matters of Austrian law relating to the notes will be passed upon for the issuer and the guarantor by Cerha Hempel Rechtsanwälte GmbH.

Independent Auditors

The individual and consolidated financial statements of Klabin as of and for the years ended December 31, 2019, 2018 and 2017, included or incorporated by reference in this offering memorandum, have been audited by Ernst & Young Auditores Independentes S.S., independent auditors, as stated in their report appearing herein.

With respect to the unaudited individual and consolidated interim financial information of Klabin as of and for the nine-month periods ended September 30, 2019 and 2018, included in this offering memorandum, and the published unaudited interim financial statements of Klabin as of and for the three-month period ended March 31, 2020 incorporated by reference in this offering memorandum, Ernst & Young Auditores Independentes S.S. reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated October 28, 2019, included in this offering memorandum, states that they did not audit and do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The individual and consolidated financial statements of Klabin as of and for the years ended December 31, 2016, included elsewhere in this offering memorandum, have been audited by PricewaterhouseCoopers Auditores Independentes S.S, independent auditors, as stated in their report contained herein.

AVAILABLE INFORMATION

Our company is subject to the informational reporting requirements under the rules and regulations of the CVM and files annual financial statements and other information with the CVM.

You may read and copy any reports or other information that we file with the CVM on the CVM's website (www.cvm.gov.br), which information is in Portuguese. None of this information nor the website listed below is incorporated in this offering memorandum and should not be relied upon in determining whether to make an investment in the notes. You may obtain documents from us by requesting them in writing at the following address or by telephone:

Av. Brigadeiro Faria Lima, 3600, 3rd, 4th and 5th floors, São Paulo, SP

Attention: Mr. Marcos Maciel

Tel: +55-11 3046-5800

Fax: +55 11 3046 5833

E-mail: mmcosta@klabin.com.br

LISTING AND GENERAL INFORMATION

1. Delivery of the notes was made to investors in book-entry form only through the facilities of DTC, and its direct and indirect participants, including Clearstream and Euroclear, against payment on or about April 3, 2019 in respect of the initial notes, and on or about January 21, 2020 in respect of the additional notes. The CUSIP and ISIN numbers and the Common Codes for the notes are set forth below:

	Initial Notes		Additional Notes	
	Restricted Global Note	Regulation S Global Note	Restricted Global Note	Regulation S Global Note
CUSIP	49836A AB0	A35155 AB5	49836A AB0	A35155 AB5
ISIN	US49836AAB08	USA35155AB50	US49836AAB08	USA35155AB50
Common Codes	197597259	197551658	197597259	197551658

2. Copies of the latest audited individual and consolidated financial statements of Klabin, Klabin's bylaws (*estatuto social*), the issuer's articles of association, the indenture (including the forms of the notes) and the guarantee will be available for inspection free of charge at the offices of any paying agent.

3. Except as disclosed or incorporated by reference in this offering memorandum, there has been no material adverse change in our financial position since March 31, 2020, the date of our latest financial statements incorporated by reference in this offering memorandum.

4. We have applied for the notes offered hereby to be admitted to the Official List of the Luxembourg Stock Exchange and to trading on Euro MTF Market operated by the Luxembourg Stock Exchange.

5. The initial notes are also listed on the Singapore Exchange Securities Trading Limited, or the SGX-ST, as of April 2019.

6. The issuance of the initial notes and the guarantee was authorized by Klabin's board of directors on March 27, 2019. The issuance of the initial notes was authorized by the issuer's board of managers on March 26, 2019.

7. The issuance of the additional notes was authorized by the issuer's board of directors on January 14, 2020. The issuance of the guarantee was authorized by our board of directors on January 13, 2020.

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(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

Klabin S.A.



Quarterly Information (ITR) at September 30, 2019

Independent auditor's review report on quarterly information

To the Shareholders, Board of Directors and Officers of
Klabin S.A.
São Paulo - SP

We have reviewed the individual and consolidated interim financial information of Klabin S.A. (the "Company"), contained in the Quarterly Information Form, for the quarter ended September 30, 2019, which comprise the statement of financial position as at September 30, 2019 and the statements of profit or loss and of comprehensive income for the three and nine-month periods then ended, and the statements of changes in equity and of cash flows for the nine-month period then ended, including the explanatory information.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with NBC TG 21 and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of this financial information in accordance with the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international standards on review engagements (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with NBC TG 21 and IAS 34 applicable to the preparation of Quarterly Information (ITR), and presented consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

Other matters

Statements of value added

The quarterly information referred to above includes the individual and consolidated statements of value added (SVA) for the nine-month period ended September 30, 2019, prepared under the responsibility of Company management and presented as supplementary information for IAS 34 purposes. These statements have been subject to review procedures performed in conjunction with the review of the quarterly information to conclude whether they are reconciled with the interim financial information and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in NBC TG 09 - Statement of Added Value. Based on our review, nothing has come to our attention that causes us to believe that these statements of value added were not prepared, in all material respects, in accordance with the criteria defined in referred to Standard and consistently with the individual and consolidated interim financial information taken as a whole.

São Paulo, October 28, 2019

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

Rita de C. S. Freitas
Accountant CRC-1SP214160/O-5

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

BALANCE SHEET AT SEPTEMBER 30, 2019 AND DECEMBER 31, 2018
(All amounts in thousands of Reais)

	Note	Parent Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
ASSETS					
Current					
Cash and cash equivalents	4	10,034,322	5,337,203	10,784,957	5,733,854
Marketable securities	5	1,359,550	1,305,401	1,368,094	1,313,350
Accounts receivable:					
. Trade receivables	6	1,631,795	1,818,806	2,132,615	2,086,325
. Allowance for doubtful debts	6	(50,150)	(45,092)	(50,435)	(45,394)
Related parties	7	795,368	373,793	-	-
Inventory	8	1,271,771	1,117,179	1,414,545	1,206,353
Taxes recoverable	9	758,356	267,964	758,356	269,728
Other assets		264,710	304,008	277,297	297,718
Total current assets		16,065,722	10,479,262	16,685,429	10,861,934
Non-current					
long-term receivables					
Judicial deposits	18	111,309	85,226	112,741	86,658
Taxes recoverable	9	1,966,942	1,280,811	1,966,942	1,280,811
Related parties	7	136,891	3,189	-	-
Other assets		247,508	300,466	249,139	300,757
		2,462,650	1,669,692	2,328,822	1,668,226
Investments:					
. Interests in subsidiaries and joint venture	11	1,426,913	1,341,177	171,834	165,652
. Other		10,390	7,607	10,390	7,607
Property, plant and equipment	12	12,553,289	12,178,658	12,736,353	12,262,472
Biological assets	13	3,616,890	3,303,774	4,855,791	4,582,631
Right of use asset	14	405,268	-	405,268	-
Intangible assets		81,439	85,177	81,480	85,221
		18,094,189	16,916,393	18,261,116	17,103,583
Total non-current assets		20,556,839	18,586,085	20,589,938	18,771,809
Total assets		36,622,561	29,065,347	37,275,367	29,633,743

The accompanying notes are an integral part of this quarterly information.

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

BALANCE SHEET AT SEPTEMBER 30, 2019 AND DECEMBER 31, 2018
(All amounts in thousands of Reais)

	Note	Parent Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
LIABILITIES AND EQUITY					
Current					
Borrowings	15	999,552	1,917,808	1,130,483	1,913,779
Debentures	16	473,511	61,686	473,511	61,686
Trade payables	17	898,484	841,551	923,635	850,973
Trade payables (Forfait)	17	54,384	52,779	54,384	52,779
Tax payables		59,712	50,452	78,450	50,832
Social security and labor obligations		319,142	296,189	323,279	300,379
Related parties	7	30,803	24,751	5,192	4,692
Dividends and interest on shareholders' equity payable	19	-	250,000	-	250,000
Enrollment in Tax Recovery Program (REFIS)	18	-	73,862	-	73,862
Lease liability	14	75,415	-	75,415	-
Other payables and provisions		201,930	139,813	200,957	149,334
Total current liabilities		3,112,933	3,708,891	3,265,306	3,708,316
Non-current					
Borrowings	15	24,270,963	16,915,268	24,189,695	16,869,217
Debentures	16	1,455,579	600,990	1,455,579	600,990
Income tax and social contribution					
Deferred income tax and social contribution	10	1,128,285	938,207	1,148,023	959,906
Provision for tax, social security, labor and civil contingencies	18	61,110	64,118	61,110	64,118
Payables - Investors in Special Partnership Companies (SPCs)		-	-	320,209	301,583
Enrollment in Tax Recovery Program (REFIS)	18	-	265,587	-	265,587
Lease liability	14	330,248	-	330,248	-
Actuarial liabilities		123,148	119,571	123,148	119,571
Other payables and provisions		166,734	160,480	168,468	211,225
Total non-current liabilities		27,536,067	19,064,221	27,796,480	19,392,197
Total liabilities		30,649,000	22,773,112	31,061,786	23,100,513
Equity					
Share capital		4,076,035	4,076,035	4,076,035	4,076,035
Capital reserves		(350,622)	(361,231)	(350,622)	(361,231)
Revaluation reserve		48,705	48,705	48,705	48,705
Profit reserves		1,748,219	1,748,219	1,748,219	1,748,219
Other comprehensive income		966,932	977,122	966,932	977,122
Retained earnings		(328,436)	-	(328,436)	-
Treasury shares		(187,272)	(196,615)	(187,272)	(196,615)
Shareholders' equity of Klabin	19	5,973,561	6,292,235	5,973,561	6,292,235
Non-controlling interest	1	-	-	240,020	240,995
Consolidated shareholders' equity		5,973,561	6,292,235	6,213,581	6,533,230
Total liabilities and equity					
		36,622,561	29,065,347	37,275,367	29,633,743

The accompanying notes are an integral part of this quarterly information.

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

**STATEMENT OF OPERATIONS FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2019 AND 2018**

(All amounts in thousands of Reais unless otherwise stated)

	Note	Parent Company			
		From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Net sales revenue	20	2,476,428	7,519,775	2,779,983	7,214,563
Variation in the fair value of biological assets	13	285,774	292,428	51,023	190,972
Cost of products sold	21	(1,858,836)	(5,313,541)	(1,614,194)	(4,645,903)
Gross profit		<u>903,366</u>	<u>2,498,662</u>	<u>1,216,812</u>	<u>2,759,632</u>
Operating expenses					
Sales	21	(215,186)	(605,331)	(199,079)	(533,575)
General and administrative	21	(142,185)	(430,841)	(134,891)	(386,821)
Other net	21	<u>582,854</u>	<u>642,544</u>	<u>(13,340)</u>	<u>(31,232)</u>
		225,483	(393,628)	(347,310)	(951,628)
Equity in the results of joint venture	11	<u>131,874</u>	<u>94,871</u>	<u>12,207</u>	<u>72,853</u>
Profit before finance result and taxes		1,260,723	2,199,905	881,709	1,880,857
Finance result	22	<u>(1,312,260)</u>	<u>(2,092,002)</u>	<u>(747,048)</u>	<u>(3,035,980)</u>
Profit (loss) before taxes on income		(51,537)	107,903	134,661	(1,155,123)
Income tax and social contribution					
. Current	10	387,410	165,194	(162,271)	(282,198)
. Deferred	10	<u>(120,678)</u>	<u>(188,533)</u>	<u>131,430</u>	<u>711,162</u>
		266,732	(23,339)	(30,841)	428,964
Profit (loss) for the period		<u>215,195</u>	<u>84,564</u>	<u>103,820</u>	<u>(726,159)</u>
Basic earnings per common share - R\$	23	<u>0.0408</u>	<u>0.0161</u>	<u>0.0197</u>	<u>(0.1380)</u>
Diluted earnings per common share - R\$	23	<u>0.0408</u>	<u>0.0161</u>	<u>0.0197</u>	<u>(0.1380)</u>

The accompanying notes are an integral part of this quarterly information.

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

**STATEMENT OF OPERATIONS FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2019 AND 2018**
(All amounts in thousands of Reais unless otherwise stated)

		Consolidated			
	Note	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Net sales revenue	20	2,477,750	7,567,593	2,806,826	7,231,158
Variation in the fair value of biological assets	13	331,739	314,539	62,086	250,344
Cost of products sold	21	(1,829,482)	(5,293,655)	(1,612,790)	(4,621,775)
Gross profit		<u>980,007</u>	<u>2,588,477</u>	<u>1,256,122</u>	<u>2,859,727</u>
Operating expenses					
Sales	21	(226,169)	(629,288)	(206,320)	(549,891)
General and administrative	21	(144,954)	(442,926)	(138,765)	(397,264)
Other net	21	583,800	645,845	(13,304)	(29,030)
		<u>212,677</u>	<u>(426,369)</u>	<u>(358,389)</u>	<u>(976,185)</u>
Equity in the results of joint venture	11	<u>2,409</u>	<u>6,182</u>	<u>1,325</u>	<u>4,716</u>
Profit before finance result and taxes		<u>1,195,093</u>	<u>2,168,290</u>	<u>899,058</u>	<u>1,888,258</u>
Finance result	22	<u>(1,246,698)</u>	<u>(2,036,795)</u>	<u>(756,505)</u>	<u>(3,030,320)</u>
Profit (loss) before taxes on income		<u>(51,605)</u>	<u>131,495</u>	<u>142,553</u>	<u>(1,142,062)</u>
Income tax and social contribution					
. Current	10	379,751	138,347	(170,425)	(295,296)
. Deferred	10	(120,719)	(186,329)	131,692	711,199
		<u>259,032</u>	<u>(47,982)</u>	<u>(38,733)</u>	<u>415,903</u>
Profit (loss) for the period		<u>207,427</u>	<u>83,513</u>	<u>103,820</u>	<u>(726,159)</u>
Attributed to Klabin's shareholders		<u>215,195</u>	<u>84,564</u>	<u>103,820</u>	<u>(726,159)</u>
Attributed to non-controlling shareholders		<u>(7,768)</u>	<u>(1,051)</u>	<u>-</u>	<u>-</u>
Basic earnings per common share - R\$	23	<u>0.0408</u>	<u>0.0161</u>	<u>0.0197</u>	<u>(0.1380)</u>
Diluted earnings per common share - R\$	23	<u>0.0408</u>	<u>0.0161</u>	<u>0.0197</u>	<u>(0.1380)</u>

The accompanying notes are an integral part of this quarterly information.

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

**STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2019 AND 2018**
(All amounts in thousands of Reais)

	Parent Company			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Profit (loss) for the period	215,195	84,564	103,820	(726,159)
Other comprehensive income:				
. Foreign currency translation adjustments (i)	(9,066)	(13,436)	(2,605)	(9,497)
. Actuarial liability remeasurement (ii)	1,001	3,002	949	2,847
Total comprehensive income for the period, net of taxes (iii)	207,130	74,130	102,164	(732,809)

	Consolidated			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Profit (loss) for the period	207,427	83,513	103,820	(726,159)
Other comprehensive income:				
. Foreign currency translation adjustments (i)	(9,066)	(13,436)	(2,605)	(9,497)
. Actuarial liability remeasurement (ii)	1,001	3,002	949	2,847
Total comprehensive income for the period, net of taxes (iii)	199,362	73,079	102,164	(732,809)

Attributed to Klabin's shareholders	207,130	74,130	102,164	(732,809)
Attributed to non-controlling shareholders	(7,768)	(1,051)	-	-

(i) Effects that may in the future impact the result only in case of sale of the investee.

(ii) Effects that will never be transferred to profit or loss, net of deferred income tax and social contribution at a rate of 34%

(iii) Net effects of income tax and social contribution deferred at a rate of 34%, when applicable.

The accompanying notes are an integral part of this quarterly information.

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KLABIN S.A.
All amounts in thousands of Reais

**STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019
AND 2018**

(All amounts in thousands of Reais)

	Share capital	Capital reserves	Own assets	Legal reserves	Tax incentives	Biological assets	Proposed dividends	Revenue reserves	Other comprehensive income value adjustments	Treasury shares	Retained earnings	Shareholder's equity from Klabin	Non-controlling interest	Consolidated shareholder's equity
At December 31, 2017	2,516,733	1,187,329	48,703	119,280	130,531	739,793	171,000	1,508,733	987,916	(206,129)	(726,159)	7,231,151	-	7,231,151
Other comprehensive income for the period	-	-	-	-	-	-	-	-	(6,250)	-	-	(6,250)	-	(6,250)
Loss for the period	-	-	-	-	-	-	-	-	(6,030)	-	(726,159)	(732,189)	-	(732,189)
Conversion of mandatory debentures convertible into stock option plan (Note 2.31)	1,559,382	(1,559,382)	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares sold	-	-	-	-	-	-	-	-	-	4,903	-	12,926	-	12,926
Award of treasury shares	-	-	-	-	-	-	-	-	(4,902)	4,903	-	-	-	-
Recognition of the stock option plan remuneration	-	-	-	-	-	-	-	-	5,998	-	-	5,996	-	5,996
Maturity of stock option plan	-	-	-	-	-	-	-	-	(2,599)	-	-	-	-	-
Grant plan outflow	-	-	-	-	-	-	-	-	(30)	(202)	(329,000)	(329,000)	-	(329,000)
At September 30, 2018	4,076,035	(501,231)	48,703	119,280	130,531	739,793	(171,000)	1,508,733	979,610	(196,632)	(1,051,199)	6,019,822	-	6,019,822
Other comprehensive income for the period	-	-	-	-	-	-	-	-	(10,434)	-	-	-	-	-
Prepaid dividend for 2019	-	-	-	-	-	-	-	-	977,122	(196,632)	84,564	6,384,535	210,992	6,384,535
Stock option plan (Note 2.31)	4,076,035	(501,231)	48,703	119,280	130,531	815,165	-	389,733	(10,434)	-	84,564	(10,434)	(975)	(975)
Treasury shares sold	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Award of treasury shares	-	-	-	-	-	-	-	-	(14,600)	4,699	-	-	-	-
Recognition of the stock option plan remuneration	-	-	-	-	-	-	-	-	7,891	4,699	-	12,303	-	12,303
Maturity of stock option plan	-	-	-	-	-	-	-	-	(3,001)	-	-	-	-	-
Grant plan outflow	-	-	-	-	-	-	-	-	53	(53)	-	-	-	-
At September 30, 2019	4,076,035	(510,622)	48,703	119,280	130,531	815,165	-	389,733	966,932	(187,172)	(328,130)	5,977,361	210,992	6,213,381

The accompanying notes are an integral part of this quarterly

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KLABIN S.A.
All amounts in thousands of Reais

**STATEMENT OF CASH FLOWS FOR THE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019
AND 2018**
(All amounts in thousands of Reais)

	Parent Company		Consolidated	
	From 1/1 to 09/30/2019	From 1/1 to 09/30/2018	From 1/1 to 09/30/2019	From 1/1 to 09/30/2018
Net cash provided by operating activities	976,527	2,104,421	1,901,866	2,124,538
Cash provided by operations	3,048,488	2,206,357	3,729,705	2,239,721
Net profit for the period	84,564	(726,159)	83,513	(726,159)
Depreciation and amortization	780,969	758,100	796,906	773,571
Change in fair value of biological assets	(292,428)	(190,972)	(314,539)	(250,344)
Depletion of biological assets	601,401	407,407	713,404	484,643
Deferred income tax and social contribution	188,533	(711,162)	186,329	(711,199)
Interest and foreign exchange variations on borrowings	2,458,827	3,411,826	2,765,359	3,397,911
Interest and monetary variations on debentures	336,721	32,196	336,721	32,196
Payment of interest on borrowings	(1,096,878)	(827,204)	(888,546)	(862,898)
Interest on leases	14,280	-	14,280	-
Accrued interest - REFIS	14,372	26,383	14,372	26,383
Result on disposal of assets	31,966	37,854	31,966	37,854
Equity result of investees and JV	(94,871)	(72,853)	(6,182)	(4,716)
Other	21,032	60,941	(3,878)	42,479
Changes in assets and liabilities	(2,071,961)	(101,936)	(1,827,839)	(115,183)
Trade receivables and related parties	(229,506)	(247,512)	(41,249)	(255,177)
Inventories	(154,592)	(181,404)	(208,192)	(195,094)
Taxes recoverable	(977,686)	330,905	(972,018)	263,663
Marketable securities	(54,149)	(36,597)	(54,744)	(38,025)
Other assets	(54,996)	14,900	58,489	11,165
Suppliers	(233,152)	90,041	(217,423)	85,935
Tax obligations	9,260	330	27,618	6,906
Social security and labor obligations	22,953	48,114	22,900	47,500
Other liabilities	(201,256)	(45,893)	(240,479)	(38,838)
Income tax and social contribution paid	(198,837)	(74,820)	(202,741)	(3,218)
Net cash used in investing activities	(1,562,907)	(572,496)	(1,711,933)	(638,854)
Purchase of property, plant and equipment	(947,000)	(440,627)	(1,050,391)	(441,939)
Planting cost of biological assets	(622,089)	(167,732)	(672,025)	(234,485)
Proceeds from disposal of assets	10,483	25,585	10,483	25,585
Acquisition of investments and payment in subsidiaries (cash)	(4,661)	(2,099)	-	-
Dividends received from subsidiaries	360	12,377	-	11,985
Net cash provided used in financing activities	5,283,499	(2,490,923)	4,861,170	(2,470,589)
New borrowings	9,552,721	722,892	9,387,661	722,876
New Debenture (net of funding costs)	995,000	-	995,000	-
Repayment of borrowings	(4,477,231)	(2,517,638)	(4,727,292)	(2,489,433)
Payment of interest and participation in debenture results	(65,308)	(209,103)	(65,308)	(209,103)
Payment of lease liabilities	(70,988)	-	(70,988)	-
Disposal of treasury shares	12,305	12,926	12,305	12,926
Dividends paid SPCs	-	-	(7,208)	(7,855)
Dividends paid	(663,000)	(500,000)	(663,000)	(500,000)
Increase (decrease) in cash and cash equivalents	4,697,119	(958,998)	5,051,103	(984,905)
Cash and cash equivalent at the beginning of the period	5,337,203	6,650,697	5,733,854	7,028,422
Cash and cash equivalent at the end of the period	10,034,322	5,691,699	10,784,957	6,043,517

The accompanying notes are an integral part of this quarterly information.

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

**STATEMENT OF VALUE ADDED FOR THE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30,
2019 AND 2018**

(All amounts in thousands of Reais)

	Parent Company		Consolidated	
	From 1/1 to 09/30/2019	From 1/1 to 09/30/2018	From 1/1 to 09/30/2019	From 1/1 to 09/30/2018
Revenues				
. Sales of products	8,874,399	8,448,743	8,930,627	8,491,007
. Change in fair value of biological assets	292,428	190,972	314,539	250,344
. Other income	10,483	25,585	9,432	25,585
. Allowance for doubtful debts	5,271	(4,782)	5,248	(5,031)
	9,182,581	8,660,518	9,259,846	8,761,905
Inputs acquired from third parties				
. Cost of products sold	(3,299,423)	(2,717,546)	(3,138,760)	(2,723,880)
. Materials, electricity, outsourced services and other	(783,919)	(1,474,000)	(812,110)	(1,373,143)
	(4,083,342)	(4,191,546)	(3,950,870)	(4,097,023)
Gross value added	5,099,239	4,468,972	5,308,976	4,664,882
Retentions				
. Depreciation, amortization and depletion	(1,382,370)	(1,165,507)	(1,510,310)	(1,258,214)
Net value added generated	3,716,869	3,303,465	3,798,666	3,406,668
Value added received through transfer				
. Equity in the results of investees	94,871	72,853	6,182	4,716
. Finance income, including exchange variations	1,252,095	596,502	1,275,348	610,231
	1,346,966	669,355	1,281,530	614,947
Total value added to distribute	5,063,835	3,972,820	5,080,196	4,021,615
Distribution of value added:				
Personnel				
. Direct compensation	755,408	743,117	770,225	749,959
. Benefits	230,945	219,813	234,103	233,608
. Government Severance Indemnity Fund for Employees (FGTS)	64,256	59,971	64,423	60,088
	1,050,609	1,022,901	1,068,751	1,043,655
Taxes and contributions				
. Federal	404,573	(64,520)	436,848	(44,548)
. State	168,944	97,738	168,944	97,738
. Municipal	11,048	10,378	11,048	10,378
	584,565	43,596	616,840	63,568
Remuneration of third-party capital				
. Interest	3,344,097	3,632,482	3,312,145	3,640,551
	3,344,097	3,632,482	3,312,145	3,640,551
Remuneration of own capital				
. Dividends and participation in 6th debenture issue results	413,000	329,000	413,000	329,000
. Profits reinvested for the period	(328,436)	(1,055,159)	(329,489)	(1,055,159)
. Net income attributable to non-controlling shareholders	-	-	(1,051)	-
	84,564	(726,159)	82,460	(726,159)
	5,063,835	3,972,820	5,080,196	4,021,615

The accompanying notes are an integral part of this quarterly information.

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KLABIN S.A.

All amounts in thousands of Reais

Notes to the quarterly information **(Presented in thousands of Reais unless otherwise stated)**

1 GENERAL INFORMATION

Klabin S.A. (the "Company") and its subsidiaries operate in segments of the paper and pulp industry supplying domestic and foreign markets, with wood, packaging paper, paper sacks, corrugated cardboard boxes and pulp. Their operations are fully integrated, from forestry activities to the production of the final products. Klabin S.A. is a publicly held corporation whose shares and certificates of deposit of shares (Units) are traded under the code KLBN11, on the São Paulo Commodities, Futures and Stock Exchange (BM&FBOVESPA). The Company is domiciled in Brazil and headquartered in São Paulo.

The Company also has investments in Special Partnership Companies ("SPCs") for the specific purpose of raising funds from third parties for reforestation projects. The Company has contributed forest assets, whereas other investing shareholders have contributed cash to these SPCs. The SPCs give Klabin S.A. a preemptive right to acquire forestry products at market prices and conditions.

The Company also has ownership interests in other companies (Notes 3 and 11) whose operational activities relate to the Company's business objectives.

The issue of this Interim Financial Information of the Company and its subsidiaries was authorized by the Board of Directors on October 28, 2019.

1.1 Conversion of the totality of the sixth debenture issue

On January 31, 2018, all outstanding debentures were converted into "Units", in accordance with the terms of clause four, items 4.6.3 and 4.6.3.1 of the Deed of Issue, requested the conversion of all the outstanding Debentures into Units, by means of Notification of Conversion by the Issuer.

As a result, the Company's subscribed and paid-in capital stock which increased from R\$ 2,617,605 to R\$ 4,076,035, divided into 5,409,801,840 shares, all of which are nominative and without par value, of which 1,984,594,655 common shares and 3,425,207,185 preferred shares.

1.2 Constitution of Guaricana Reflorestadora S.A. ("Guaricana")

On December 13, 2018, the Company contributed the Entity Guaricana Reflorestadora SA, a Special Purpose Entity ("SPE"), together with a Timber Investment Management Organization ("TIMO"), which has as its main purpose is to exploit the forestry activity in the state of Santa Catarina - SC.

The Company contributed to the formation of Guaricana equity with 4,511 hectares of planted pinus forests in Santa Catarina - SC, amounting to R\$ 142,443 (R\$ 101,143 net of deferred taxes on the fair value of biological assets) and R\$ 869 in cash for working capital, totaling a contribution of R\$ 102,012. The TIMO, in turn, contributed R\$ 191,600 in cash, of which R\$ 190,000 were used for the acquisition of third-party forest assets comprised of 11,541 hectares of rural land in Santa Catarina, being 7,644 hectares were used for planting and 7,141 currently planted, costing R\$ 123,000 in forests and R\$ 67,000 on land.

According to the transaction documents between the partners, the Company will have the preemptive right to purchase Guaricana's forest production.

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Klabin will hold 69.48% of the voting capital and 34.74% of the total capital of Guaricana, while TIMO holds the remaining capital, being able to elect members in the Board of Directors and participate in certain decisions of the new Entity with voting rights, including situations that require a qualified forum. The Company, as a controlling shareholder, consolidates Guaricana in accordance with the accounting rules established by the Accounting Pronouncements Committee ("CPC"). The participation of TIMO, given its participation characteristics in the management of the new Entity, is presented in the Company's consolidated quarterly information as "Non-controlling interest".

The Company may exercise a preference right in the purchase of the shares of the SPE belonging to TIMO, in a call option to be exercised between 2030 and 2035.

1.3 Constitution of Sapopema Reflorestadora S.A. ("Sapopema")

In February 2019, the process of constitution of the wholly-owned subsidiary Sapopema Reflorestadora S.A. was started with the purpose of acquiring land and forests in the state of Paraná for reforestation.

On July 26, 2019, a contract was signed with a Timber Investment Management Organization ("TIMO"), and the subsidiary Sapopema Reflorestadora S.A. ("SPE"), which has as its main purpose is to exploit the forestry activity in the state of Paraná.

Klabin's contribution to the formation of SPE's equity will be through the contribution of 8 thousand hectares of forests, equivalent to R\$ 114 million. TIMO, will contribute up to R\$ 325 million in cash, part of the closing of the operation and the remainder within 2 years.

The funds contributed to the SPE will finance the acquisition of approximately 15 thousand hectares of land, equivalent to about 9 thousand hectares of effective planting, investments in forest formation and working capital. Klabin will have preemptive rights in the purchase of SPE's forest production, among other typical rights for the controlling shareholders of such a company.

Completion of this transaction is subject to customary precedent conditions, including approval by the relevant regulatory authorities.

Until the period ended September 30, 2019, the subsidiary acquired land in the amount of R\$ 97,138 and forests of R\$ 2,074.

1.4 Expansion project - Puma II

As announced in a Significant Event to the market on April 16, 2019, the project for the expansion of capacity in the paper segment for packaging denominated "Puma II Project" was approved, covering the construction of two paper machines with pulp production located in Klabin's industrial unit in the municipality of Ortigueira (PR) ("Puma Unit").

The installation of the Puma II Project will be divided into two stages:

(i) First Stage consists of the construction of a main fiber line for the production of unbleached pulp integrated into a Kraftliner and Kraftliner White paper machine, which will be marketed under the Eukaliner brand, with a capacity of 450 thousand tons per year. In addition, this step also includes facilities to support new lines and plants in the areas of recovery and utilities.

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All amounts in thousands of Reais

(ii) Second Stage includes the construction of a complementary fiber line integrated with a Kraftliner paper machine with capacity of 470 thousand tons per year and expansion of some supporting structures.

The schedule foresees that the works of each stage will last 24 months, and the beginning of construction of the second stage will be soon after the end of the first stage. In this way, the startup of the first machine is scheduled for the second quarter of 2021, and the second machine scheduled for the second quarter of 2023.

The gross investment budgeted for the construction of the Puma II Project is R\$ 9.1 billion, subject to exchange rate fluctuations and inflation adjustments, to be disbursed between 2019 and 2023. Of this total, about R\$ 0.9 billion refers to recoverable taxes. Since most of the equipment will be installed in the First Phase of the Project, approximately two-thirds of the disbursements will occur between 2019 and 2021. The Project will be financed by the cash position of the Company and the generation of cash from current businesses, and can be complemented with financing, provided the conditions are attractive in terms of cost and term.

2 BASIS OF PRESENTATION OF THE QUARTERLY INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation of the quarterly information

The Company presents its parent company and consolidated quarterly information in accordance with the accounting standard NBC TG 21 (R4)- "Interim Financial Reporting" issued by the Brazil's National Association of State Boards of Accountancy (CFC), and IAS 34 - "Interim Financial Reporting" issued by the International Accounting Standards Board (IASB), applicable to the preparation of Interim Financial Information (ITR), and in accordance with the standards issued by the Brazilian Securities Commission (CVM).

The Interim Financial Information was prepared considering the historical cost as a value base, which, in the case of financial assets measured at fair value through profit or loss, other financial assets and liabilities and biological assets are adjusted to reflect the measurement at fair value.

2.2 Summary of significant accounting practices adopted and declaration of conformity

The accounting practices adopted by the Company and its subsidiaries in the preparation of said Quarterly Information for the period ended September 30, 2019 are consistent with those applied in the preparation of the latest Annual Financial Statements of December 31, 2018 and described in Note 2.2. except for the adoption of the new standards issued by the IASB and CPC, as described in note 2.3. This Quarterly Information should be read in conjunction with those Annual Financial Statements released February 6, 2019.

The quarterly information for the period ended September 30, 2019 contains all information that is relevant to the understanding of the Company's financial position and performance during the period.

2.3 New technical pronouncements, revisions and interpretations

The following new standards were approved and issued by the IASB and the CPC, which entered into force and were effectively adopted as of January 1, 2019. Management adopted its adoption as mentioned below.

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All amounts in thousands of Reais

(i) IFRS 16 - Leasing Operations (CPC 06 (R2) - Leasing Operations)

The new standard replaced IAS 17 - "Leasing Operations" and related interpretations, requiring lessor to recognize the liability for future payments "lease liabilities" and the right of use the leased asset "right of use the lease", for the majority of the lease agreements.

The effects of the new standard in the initial adoption and for the period ended September 30, 2019, on the financial position, are disclosed in note 14.

(ii) IFRIC 23 - Uncertainty on the Treatment of Taxes on Profit (ICPC 22 - Uncertainty on the Treatment of Taxes on Profit)

The new interpretation established requirements for recognition and measurement in situations where the Company has defined during the process of calculating income taxes (income and social contribution taxes) the use of uncertain tax treatments that may be questioned by the tax authority.

In situations where certain treatments are uncertain, the Company must define the likelihood of acceptance of the tax authorities in relation to them and present them separately, ascertaining eventual contingency if it is concluded that the tax authority will not accept such treatment.

The Company's Management began to consider aspects of IFRIC 23 (ICPC 22) and reviewed the judgments made in the determination of income tax and social contribution, concluding that there are no significant uncertain treatments used in its Quarterly Information, since all the procedures adopted for the collection of taxes on profit are covered by applicable legislation and judicial precedents.

3 CONSOLIDATED QUARTERLY INFORMATION

Subsidiaries are fully consolidated from the date of acquisition of control and continue to be consolidated until the date on which such control ceases to exist, except for jointly controlled entities (joint ventures), which are accounted for using the equity accounting method both in the parent company quarterly information and in the consolidated quarterly information.

The subsidiaries' quarterly information is prepared for the same reporting period as that of the parent company, using accounting policies that are consistent with the policies adopted by the parent company. The following criteria are adopted for consolidation purposes: (i) investments in subsidiaries and equity in the results of investees are eliminated, and (ii) profits from intercompany transactions and the related assets and liabilities are also eliminated.

The consolidated quarterly information comprise Klabin S.A. and its subsidiaries at September 30, 2019, December 31, 2018 and September 30, 2018, as follows:

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				Ownership - %		
	Country	Activity	Participation	09/30/2019	12/31/2018	09/30/2018
<u>Subsidiaries:</u>						
Celucat	Brazil	Investment in companies	Direct	100	100	100
Guaricana Reflorestadora S.A. (i)	Brazil	Packaging paper	Direct	35	-	-
Klabin Argentina S.A.	Argentina	Industrial sacks	Direct	100	100	100
Klabin Áustria GmbH	Austria	Sale of products in the foreign market	Direct	100	100	100
Klabin do Paraná Produtos Florestais Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100	100
Klabin Finance S.A.	Luxembourg	Finance	Direct	100	100	100
Klabin Fitoprodutos Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100	100
Klabin Florestal Ltda.	Brazil	Forestry	Direct	100	100	100
Klabin Forest Products Company	USA	Sale of products in the foreign market	Direct	100	100	100
Klabin Limited	Cayman Islands	Investment in companies	Direct	100	100	100
Klabin Overseas	United Kingdom	Investment in companies	Direct	100	100	100
Klabin Trade	United Kingdom	Sale of products in the foreign market	Indirect	100	100	100
IKAPÊ Empreendimentos Ltda.	Brazil	Hotels	Direct	100	100	100
Monterla Holdings S.A.	Brazil	Investment in companies	Direct	100	100	100
Riohold Holdings	Brazil	Investment in companies	Direct	100	100	100
Santa Catarina Florestal	Brazil	Sale of products	Direct	100	100	100
Sapopema Reflorestadora S.A. (i)	Brazil	Reforestation	Direct	100	-	-
<u>SPCs:</u>						
CG Forest	Brazil	Reforestation	Direct	71	80	75
Monte Alegre	Brazil	Reforestation	Direct	75	83	78
Harmonia	Brazil	Reforestation	Direct	74	73	76
Serrana	Brazil	Reforestation	Direct	66	64	67
Araucária	Brazil	Reforestation	Direct	67	64	67
<u>Joint ventures (not consolidated)</u>						
Florestal Vale do Corisco S.A.	Brazil	Reforestation	Direct	51	51	51

(i) See Note 1.

(i) See Note 1.

Investment in joint ventures

Considering its characteristics, the investment in Florestal Vale do Corisco S.A. is classified as a joint venture, and is recorded based on the equity accounting method in the parent company and consolidated quarterly information.

4 CASH AND CASH EQUIVALENTS

In accordance with its investment policies, the Company has maintained its bank investments in low-risk investments in financial institutions that management believes are first-rate in Brazil and abroad, according to the rating disclosed by the credit rating agencies, presented in note 26. Management has considered these financial assets to be cash equivalents due to their immediate liquidity with the issuing financial institutions, with insignificant risk of change in value.

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cash and bank deposits - local currency	12,214	25,424	51,446	80,742
Cash and bank deposits - foreign currency (i)	-	-	17,495	73,514
Marketable securities- local currency	8,290,407	4,947,107	8,488,247	5,112,257
Marketable securities - foreign currency (i)	1,731,701	364,672	2,227,769	467,341
	10,034,322	5,337,203	10,784,957	5,733,854

(i) In U.S. dollars

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Financial investments in local currency, corresponding to Bank Deposit Certificates (CDBs) and other repurchase agreements, are indexed by the Interbank Deposit Certificate (CDI) rate, with an average annual yield of 5.40% (6.43% at December 31, 2018), and foreign currency investments that correspond to over night and time deposit operations have an average annual yield of 2.24% and 2.55% respectively (over night of 1.98% at December 31, 2018), with immediate liquidity guaranteed by the financial institutions.

5 MARKETABLE SECURITIES

They are represented by National Treasury Bills (“LFT”) and National Treasury Notes (“NTN-B”). LFT has remuneration indexed to the Special System for Settlement and Custody - SELIC variation and maturities in 2020 and NTN-B are remunerated by the Amplified Customer Price Index - IPCA variation + 6% per year maturing in 2020 and 2022.

Through its wholly owned subsidiary Klabin Finance, the Company has US dollar-denominated bonds with pre-fixed yields ranging from 3.52% to 4.02% per year, maturing in 2028 and 2038 and corresponding to R\$ 8,544 as of September 30, 2019 (R \$ 7,949 at December 31, 2018).

At September 30, 2019, the balance of these securities amounted to R\$ 1,359,550 in the parent company and R\$ 1,368,094 in the consolidated position (R\$ 1,305,401 and R\$ 1,313,350, respectively, as of December 31, 2018). These bonds have an active trading market. Considering its characteristics, fair value is basically the amount of principal plus interest originally established in these securities. Management classified as financial assets measured at fair value through profit or loss, pursuant to CPC 48 (equivalent to IFRS 9) - Financial Instruments, given the possibility of sale of these securities for realization of gains / losses.

Marketable securities are classified as Level 1 of the fair value measurement hierarchy, in accordance with the hierarchy of CPC 46 (equivalent to IFRS 13) - Fair Value Measurements, as they are assets with quoted market prices.

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6 TRADE RECEIVABLES

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Trade receivables				
. Local	1,267,762	1,345,818	1,267,855	1,345,912
. Foreign	364,033	472,988	864,760	740,413
Total trade receivables	1,631,795	1,818,806	2,132,615	2,086,325
Allowance for doubtful debts ("AFDD")	(50,150)	(45,092)	(50,435)	(45,394)
	1,581,645	1,773,714	2,082,180	2,040,931
Overdue	168,069	70,587	177,039	79,821
% on total portfolio (without AFDD)	7.23%	1.40%	5.94%	1.65%
1 to 10 days	5,193	4,647	5,193	4,647
11 to 30 days	44,730	10,352	49,235	15,622
31 to 60 days	44,746	7,020	46,907	9,790
61 to 90 days	5,470	1,487	5,612	1,964
Over 90 days	67,930	47,081	70,092	47,798
Falling due	1,463,726	1,748,219	1,955,576	2,006,504
Total portfolio	1,631,795	1,818,806	2,132,615	2,086,325

As of September 30, 2019, the average term of trade receivables is approximately 85 days (83 days as of December 31, 2018) for domestic sales and approximately 121 days (142 days as of December 31 2018) for sales made in the foreign market, with interest charged after contractual maturity date. As mentioned in note 26, the Company has rules for monitoring overdue credits and trade notes and the risk of not collect amounts arising from credit sales transactions.

a) Allowance for doubtful debts (AFDD)

Management assumptions for the allowance for doubtful debts (AFDD) is considered sufficient to cover any losses on outstanding receivables. Changes in the allowance for doubtful debts are shown below:

	Parent Company	Consolidated
At December 31, 2017	(40,096)	(40,133)
Allowance for doubtful debts	(8,152)	(8,424)
Reversals	2,223	2,230
Write-off	933	933
At December 31, 2018	(45,092)	(45,394)
Allowance for doubtful debts	(14,819)	(14,841)
Reversals	9,761	9,800
At September 30, 2019	(50,150)	(50,435)

The allowance for doubtful debts corresponds substantially to trade notes overdue for more than 90 days and / or with a high risk of non-payment. Items overdue for more than 90 days without write-off due to loss refer to ongoing negotiations and / or guarantees received. The Company constantly monitors the balance of receivables and its default estimates, considering the concept of loss incurred and expected loss and when in the least expectation that it is not possible to receive it, the allowance

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for doubtful debts is constituted. Expenses with the constitution of the estimated loss are recorded in the income statement under the caption "Selling expenses / revenues".

The Company has insurance policy for domestic and foreign market receivables for all business units, except for timber customers of the Forestry unit, as well as certain customers that do not meet specific risk requirements, such as continuity and liquidity. analyzed by the insurer to be incorporated into the policy. The current policy expires in August 2020.

b) Receivables discount operations

In the nine-month period ended September 30, 2019, non-recourse receivables were discounted with specific customers in the amount of R\$ 1,534,190 in the parent company and R\$ 1,856,358 in the consolidated (R\$ 2,478. 246 in the parent company and R\$ 2,740,998 in the consolidated as of December 31, 2018), for which all risks and rewards associated with the assets were transferred to the counterparty, so that third parties receivables were derecognised from the quarterly information.

The financial cost charged by the bank when the receivable discount is completed is recorded in the income statement under the "Discounts and Rebates" line.

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7 RELATED PARTIES

a) Balances and transactions with related parties

Type of relationship	Parent company									
	09/30/2019					12/31/2018				
	Total					Total				
	Klabin Argentina (i)	Klabin Finance (vi)	Special Partnership Companies (ii)+(v)	Klabin Austria (i)+(vi)	Sapopema (vi)	Klabin Irmãos & Cia. (ii)+(v)	ENDES (v)	Other (i)+(ii)+(v)+(vi)	Total	Total
Balances										
Current assets	74,571	-	19,899	666,465	-	-	-	34,433	795,368	373,793
Non-current assets	-	-	-	-	135,613	-	-	1,279	136,892	3,189
Current liabilities	-	29,066	25,611	17,924	-	5,192	583,094	506	661,453	730,403
Non-current liabilities	-	4,330,976	-	6,604,738	-	-	2,087,955	5	13,023,674	6,222,967
Transactions										
Sales revenue	30,206	-	44,053	765,674	-	-	-	438,367	1,278,300	671,796
Purchases	-	-	(75,186)	-	-	-	-	-	(75,186)	(63,770)
Interest expenses on financing	-	(144,037)	-	(261,819)	-	-	(166,398)	-	(566,254)	(354,198)
Guarantee commission - expenses	-	-	-	-	-	-	-	-	(19,071)	(21,581)
Royalty expenses	-	-	-	-	-	-	-	-	(41,816)	(37,798)

(i) Balance receivable from product sale transactions carried out under terms and conditions established between the parties (80 days);
(ii) Purchases of timber at usual market prices and on normal terms and conditions (45 days). Consider all the companies in the profit and loss account described in note 3;
(iii) Licensing for the use of brands. As of January, 2019, the trademark rights were fully transferred to SOGEMAR - Sociedade Geral de Mataros Ltda.
(iv) Guarantee commission, calculated based on the ENDES financing balance of 0.85% per year
(v) Supply of seedlings, seeds and services at prices and terms on the commercial conditions established between the parties;
(vi) Loans raised based on normal market conditions;
(vii) Advances on future capital subscriptions.

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	Parent company				
	09/30/2019		12/31/2018	09/30/2018	
	Klabin Irmãos & Cia. (i) e (ii) Shareholder	BNDES (iii) Shareholder	Total	Total	Total
Type of relationship					
Balances					
Current liabilities	5,192	583,094	588,286	656,894	-
Non-current liabilities	-	2,087,955	2,087,955	2,358,786	-
Transactions					
Interest expenses on financing	-	(160,398)	(160,398)	-	(196,602)
Guarantee commission - expenses	(19,071)	-	(19,071)	-	(21,584)
Royalty expenses	(41,816)	-	(41,816)	-	(37,795)

(i) Licensing for the use of brands. As of January, 2019, the trademark rights were fully transferred to SOGEMAR - Sociedade Geral de Marcas Ltda.

(ii) Guarantee commission, calculated based on the BNDES financing balance of 0.8% per year;

(iii) Loans obtained based on usual market conditions;

b) Management and Fiscal Board remuneration and benefits

Management and Fiscal Board remuneration is determined by stockholders at the Annual General Meeting, in accordance with the Brazilian corporate legislation and the Company's bylaws. Accordingly, at the Annual General Meeting held on April 30, 2019, the stockholders established the overall amount of the annual remuneration of the members of the Board of Directors and Fiscal Board as up to R\$ 47,274 for 2019 (R\$ 43,439 for 2018).

The table below shows the remuneration of the members of the Board of Directors, Fiscal Board and statutory directors:

	Parent company and Consolidated							
	Short term		Long term					
	Board of directors remuneration		Pension plan		Remuneration based on shares		Total benefits	
	01/01 to 09/30/2019	01/01 to 09/30/2018	01/01 to 09/30/2019	01/01 to 09/30/2018	01/01 to 09/30/2019	01/01 to 09/30/2018	01/01 to 09/30/2019	01/01 to 09/30/2018
Fiscal Board and statutory director's	20,418	22,731	541	514	2,728	1,653	23,687	24,898

Management remuneration includes the fees paid to the Board, along with the fees paid to, and variable remuneration of statutory directors. Long-term benefits relate to contributions made by the Company to the pension plan and calculation of stock option plan. These amounts are mainly recorded under "Operating expenses - administrative".

In addition, the Company grants a stock option plan to the statutory directors and other executives, as described in Note 23.

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8 INVENTORY

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Finished products	346,484	326,957	471,172	393,100
Product in process	24,277	21,495	26,304	21,495
Timber and logs	286,471	248,138	286,890	248,138
Maintenance supplies	229,787	199,666	233,543	202,463
Raw materials	373,682	312,910	384,953	327,463
Estimated losses	(9,633)	(6,529)	(9,641)	(6,529)
Other	20,703	14,542	21,324	20,223
	1,271,771	1,117,179	1,414,545	1,206,353

Raw materials inventory includes, paper rolls transferred from paper units to conversion units. In 2019, the Company increased the purchase of timber and logs from third parties.

Expenses incurred with the recognition of estimated losses are recorded in the statement of operations under "Cost of products sold".

The Company does not have any inventory pledged as collateral.

9 TAXES RECOVERABLE

	09/30/2019		12/31/2018	
	Current assets	Non-current assets	Current assets	Non-current assets
Value-added Tax on Sales and Services (ICMS)	177,527	772,790	139,164	941,406
Social Integration Program (PIS)/Social Contribution on Revenue (COFINS)	129,539	953,328	7,406	69,604
Income tax/social contribution (IR/CSLL)	361,728	-	25,218	-
Tax on Industrialized Products (IPI)	81,583	238,237	79,736	269,801
Special regime for the reintegration of tax amounts for exporting companies (Reintegra)	2,800	-	12,130	-
Other	5,179	2,587	4,310	-
Parent company	758,356	1,966,942	267,964	1,280,811
Subsidiaries	-	-	1,764	-
Consolidated	758,356	1,966,942	269,728	1,280,811

The balance of PIS / COFINS, IPI and ICMS held in the short term are expected to be offset against these same taxes payable in the next 12 months, as Management estimates. Based on the analysis and budget projection approved by management, the Company does not foresee risks of non-realization of these tax credits, provided that the budget projections materialize.

ICMS

The Company recorded tax credits and contributions on acquisitions of property, plant and equipment in accordance with current legislation, in addition to a government ICMS subsidy granted by the Government of Paraná on behalf of the Puma Project, which has been used to offset similar taxes payable or other taxes, where applicable. Project Puma ICMS credits are indexed by the FCA - Parana State Monetary Conversion and Update Factor, with a maturity of up to 2036 provided for in the grant protocol.

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PIS/COFINS

Pursuant to a material fact disclosed to the market on August 22, 2019, was obtained favorable decision without right of appealing, accepting the Company's intention to exclude ICMS from the PIS and Cofins tax base, with effect from April 2002, in an amount total of R \$ 1.014 billion based on this lawsuit in extemporaneous credits to be offset against future tax debts by the Company.

Pis and Cofins recorded extemporaneous credits of R\$ 1.014 billion were recorded in the balance sheet under the "Taxes Recoverable" line in noncurrent assets, with the corresponding entry in the Company's results for the gain of the litigation, being the nominal value of R\$ 631 million recorded in "Other net", and R\$ 383 million recorded in "Financial income", corresponding to the monetary update of credits earned since 2002.

IPI

In May 2016 and May 2018, the Company recorded IPI credits arising from a favorable decision without right of appealing, substantially allocated to the financial result, since only the original amount was allocated to the IPI expense. Credits are available for offset in accordance with tax legislation in force.

10 INCOME TAX AND SOCIAL CONTRIBUTION

a) Nature and expected realization of deferred taxes

The balances of deferred tax assets and liabilities were as follows:

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Provision for tax, social security, labor and civil contingencies	6,198	7,095	6,198	7,095
Non-deductible provisions	94,494	92,500	94,494	92,500
Income tax and social contribution losses	602,443	522,040	602,463	522,068
Actuarial liability	41,870	40,654	41,870	40,654
Provision for labor	42,882	42,826	42,882	42,826
Deferred foreign exchange variations (i)	-	306,655	-	306,655
Gain or loss on financial instruments	285,274	38,803	285,274	38,803
Right of use (IFRS 16)	133,893	-	133,893	-
Other temporary differences	23,729	40,185	23,729	40,185
Non-current assets	1,230,783	1,090,758	1,230,803	1,090,786
Fair value of biological assets	664,666	745,002	664,058	766,127
Depreciation tax rate x useful life rate (Law 12,973/14)	425,955	442,139	425,955	442,139
Deemed cost of property, plant and equipment (land)	545,429	545,429	565,795	565,795
Adjustment to present value of balances	-	36,650	-	36,650
Interest capitalized (Law 12,973/14)	128,894	136,004	128,894	136,004
Revaluation reserve	25,091	25,091	25,091	24,879
ICMS on PIS/COFINS tax basis (ii)	344,892	-	344,892	-
Accelerated Depreciation - Law 12,272/12	77,007	78,992	77,007	78,992
Lease liability (IFRS 16)	137,925	-	137,925	-
Other temporary differences	9,209	19,658	9,209	106
Non-current liabilities	2,359,068	2,028,965	2,378,826	2,050,692
Net balance (liability)	1,128,285	938,207	1,148,023	959,906

(i) The Company changed the option for tax recognition of the exchange variations of its rights and obligations to the accrual basis for the year 2019.

(ii) See note 9.

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Management, based on the approved budget, estimates that tax credits arising from temporary differences, tax losses and negative social contribution base will be realized as follows:

	09/30/2019	
	Parent Company	Consolidated
2019	161,942	161,942
2020	314,936	314,936
2021	193,986	193,986
2022	161,957	161,957
2023	10,829	10,829
2024 onwards	387,133	387,153
	1,230,783	1,230,803

The estimated realization of the balance, considers, tax losses and negative bases, the compensation limitation of 30% of the actual profit for the year. The estimation may not materialize if the estimates used in the preparation of these quarterly information differ from those actually performed.

Information regarding the Company's taxes that are subject to litigation is disclosed in Note 18.

b) Analysis of income tax and social contribution expenses

	Parent Company			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Current tax expense	411,102	(25,871)	(162,271)	(282,198)
Adoption of the exchange variation regime (i)	-	306,655	-	-
Effect of revision of exchange rate regime on tax loss (i)	-	(91,898)	-	-
Adjustments to tax incentives basis (i)	(23,692)	(23,692)	-	-
Current	387,410	165,194	(162,271)	(282,198)
Recognition and reversal of temporary differences	49,273	52,706	21,874	(117,118)
Tax Loss and Negative Basis	88,566	80,403	(74,890)	(131,287)
Gain or loss on financial instruments	124,432	246,471	-	-
Right of use (IFRS 16)	16,754	(4,032)	-	-
Interest capitalized (Law 12,973/14)	(456)	7,110	3,783	11,349
ICMS on PIS/COFINS calculation basis	(344,892)	(344,892)	-	-
Actuarial liability	185	1,216	396	1,187
Adjustment to present value of balances	-	33,406	1,153	3,443
Adoption of exchange rate accrual basis	-	(306,655)	-	-
Exchange variation	-	-	188,136	965,924
Depreciation tax rate x useful life rate (Law 12,973/14)	(15,744)	(16,184)	(957)	12,572
Variation in fair value and depletion of biological assets	(38,796)	61,918	(8,065)	(34,908)
Deferred	(120,678)	(188,533)	131,430	711,162

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	Consolidated			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Current tax expense	403,443	(52,718)	(170,425)	(295,296)
Adoption of the exchange variation regime (i)	-	306,655	-	-
Effect of revision of exchange rate regime on tax loss (i)	-	(91,898)	-	-
Adjustments to tax incentives basis (i)	(23,692)	(23,692)	-	-
Current	379,751	138,347	(170,425)	(295,296)
Recognition and reversal of temporary differences	60,407	38,745	25,027	(155,177)
Tax Loss and Negative Basis	88,566	80,403	(74,890)	(131,287)
Gain or loss on financial instruments	124,432	246,471	-	-
Right of use (IFRS 16)	16,754	(4,032)	-	-
Interest capitalized (Law 12,973/14)	(456)	7,110	3,783	11,349
ICMS on PIS/COFINS calculation basis	(344,892)	(344,892)	-	-
Actuarial liability	185	1,216	396	1,187
Adjustment to present value of balances	-	33,406	1,153	3,443
Adoption of exchange rate accrual basis	-	(306,655)	-	-
Exchange variation	-	-	188,136	965,924
Depreciation tax rate x useful life rate (Law 12,973/14)	(15,744)	(16,184)	(957)	51,072
Variation in fair value and depletion of biological assets	(49,971)	78,083	(10,956)	(35,312)
Deferred	(120,719)	(186,329)	131,692	711,199

(i) Reflects the adoption of the exchange variation regime by the substitution of the cash regime.

c) Reconciliation of income tax and social contribution with the result of applying the statutory tax rate

	Parent Company			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Income before income tax and social contribution	(51,537)	107,903	134,661	(1,155,123)
Income tax and social contribution at the rate of 34%	17,523	(36,687)	(45,785)	392,742
Tax effect on permanent differences:				
Equity results of investees	44,837	32,256	4,150	24,770
Adjustments to tax incentives basis	(23,692)	(23,692)	-	-
Adoption of the exchange variation regime	264,176	-	-	-
Other effects	(36,112)	4,784	10,794	11,452
	266,732	(23,339)	(30,841)	428,964
Income tax and social contribution				
. Current	387,410	165,194	(162,271)	(282,198)
. Deferred	(120,678)	(188,533)	131,430	711,162
Income tax and social contribution expense	266,732	(23,339)	(30,841)	428,964

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	Consolidated			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Income before income tax and social contribution	(51,605)	131,495	142,553	(1,142,062)
Income tax and social contribution at the rate of 34 %	17,546	(44,708)	(48,468)	388,301
Tax effect on permanent differences:				
Adjustment to present value of lease liabilities (i)	-	-	(5,627)	4,009
Equity results of investees	819	2,102	451	1,603
Adjustments to tax incentives basis	(23,692)	(23,692)	-	-
Adoption of the exchange variation regime	264,176	-	-	-
Other effects	183	18,316	14,911	21,990
	259,032	(47,982)	(38,733)	415,903
Income tax and social contribution				
. Current	379,751	138,347	(170,425)	(295,296)
. Deferred	(120,719)	(186,329)	131,692	711,199
Income tax and social contribution expense	259,032	(47,982)	(38,733)	415,903

(i) See note 14.

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11 INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

	Klabin Finance S.A.	Klabin Austria GmbH	Guaricana Reflorestadora S.A.	Special Partnership Companies Serrana	Special Partnership Companies CG Forest	Special Partnership Companies Mt Alegre	Special Partnership Companies Harmonia	Special Partnership Companies Araucária	Forestal Vale do Corisco S.A. (i)	Other	Total
At December 31, 2017	70,232	10,911	-	89,698	119,931	197,143	192,428	161,930	171,673	95,037	1,106,103
Acquisitions and capital contributions			102,012		(145)	(325)			(11,985)	2,099	104,111
Dividends distributed					(4,639)	7,838				(1,575)	(12,455)
Equity in the results of investees (ii)	37,043	23,219	26,277	12,814			26,937	18,884	5,964	(9,344)	152,762
Foreign exchange variations on investments abroad (iii)											(9,344)
At December 31, 2018	107,275	34,130	128,289	102,512	109,147	204,756	219,365	183,814	165,682	86,237	1,331,177
Acquisitions and capital contributions					(68)	(292)				4,661	4,661
Dividends distributed					(5,885)	17,730	(12,407)	(8,534)	6,182	(2,073)	(360)
Equity in the results of investees (ii)	(10,774)	120,886	(559)	(9,695)						(13,456)	94,871
Foreign exchange variations on investments abroad (iii)											
At September 30, 2019	96,501	135,016	127,730	92,817	103,191	222,191	206,958	175,286	171,831	78,389	1,426,913

Summary of the financial information of subsidiaries at September 30, 2019

Total assets	4,401,353	8,686,734	374,936	145,989	146,875	301,559	294,180	269,874	439,155
Total liabilities	4,304,852	8,531,717	7,262	4,907	1,969	7,104	13,753	10,094	102,225
Equity	96,501	155,017	367,674	141,082	144,906	294,455	280,427	259,780	336,930
Profit/loss for the period	(24,800)	111,653	(1,610)	(9,696)	(929)	30,139	(3,938)	(8,534)	12,122

(i) Because it is a joint venture (Note 3), Vale do Corisco is not consolidated and is the only investment in the consolidated balance sheet that is accounted for on an equity basis.

(ii) Includes the effects of variations in, and the realization of, the value of biological assets (Note 12).

(iii) Subsidiary and associated companies with exchange variation allocated to other comprehensive income.

(iv), (v) and (vi) Refer to information in Note 1.

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12 PROPERTY, PLANT AND EQUIPMENT

a) Composition of property, plant and equipment

	09/30/2019			12/31/2018		
<u>Parent company</u>	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	2,031,879	-	2,031,879	2,028,621	-	2,028,621
Buildings and construction	2,591,249	(609,997)	1,981,252	2,550,666	(540,260)	2,010,406
Machinery, equipment and facilities	12,197,722	(5,271,436)	6,926,286	12,027,278	(4,601,334)	7,425,944
Construction in progress	1,439,161	-	1,439,161	514,985	-	514,985
Other (i)	520,701	(345,990)	174,711	499,477	(300,775)	198,702
	18,780,712	(6,227,423)	12,553,289	17,621,027	(5,442,369)	12,178,658
<u>Consolidated</u>						
Land	2,201,135	-	2,201,135	2,102,042	-	2,102,042
Buildings and construction	2,593,296	(611,386)	1,981,910	2,553,324	(541,795)	2,011,529
Machinery, equipment and facilities	12,205,243	(5,277,110)	6,928,133	12,039,273	(4,608,045)	7,431,228
Construction in progress	1,446,081	-	1,446,081	514,268	-	514,268
Other (i)	526,265	(347,171)	179,094	505,422	(302,017)	203,405
	18,972,020	(6,235,667)	12,736,353	17,714,329	(5,451,857)	12,262,472

(i) Refers to leasehold improvements, vehicles, furniture and fittings and IT equipment.

Information about property, plant and equipment pledged as collateral in transactions carried out by the Company is disclosed in Note 15.

b) Summary of changes in property, plant and equipment

	Parent company				
	Land	Building and construction	Machinery, equipment and facilities	Construction in progress	Other
At December 31, 2017	1,998,046	1,975,127	7,878,751	460,614	286,653
Purchases (i) e (ii)	24,962	-	16	649,588	-
Disposals	(1,103)	(8,158)	(14,546)	-	(289)
Depreciation	-	(89,597)	(937,626)	-	(66,882)
Internal transfers	12,950	102,135	528,738	(627,291)	(16,532)
Other	(6,234)	30,899	(29,389)	32,074	(4,248)
At December 31, 2018	2,028,621	2,010,406	7,425,944	514,985	198,702
Purchases (i) e (ii)	-	-	-	1,226,223	-
Disposals	-	(108)	(24,661)	(4,609)	(61)
Depreciation	-	(69,854)	(711,554)	-	(53,504)
Internal transfers	3,258	38,608	240,039	(309,365)	27,460
Capitalized interest	-	-	-	12,467	-
Other	-	2,200	(3,482)	(540)	2,114
At September 30, 2019	2,031,879	1,981,252	6,926,286	1,439,161	174,711

(i) Net of recoverable taxes (Note 9).

(ii) See Note 1

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	Consolidated					
	Land	Building and construction	Machinery, equipment and facilities	Construction in progress	Other	Total
At December 31, 2017	2,004,150	1,977,037	7,889,025	461,876	287,407	12,619,495
Purchases (i) e (ii)	92,412	-	16	652,082	-	744,510
Disposals	(1,102)	(8,158)	(14,546)	-	(291)	(24,097)
Depreciation	-	(89,685)	(938,520)	-	(67,105)	(1,095,310)
Internal transfers	12,948	102,135	528,738	(627,384)	(16,437)	-
Other	(6,366)	30,200	(33,485)	27,694	(169)	17,874
At December 31, 2018	2,102,042	2,011,529	7,431,228	514,268	203,405	12,262,472
Purchases (i) e (ii)	95,904	-	-	1,233,710	-	1,329,614
Disposals	(14)	(108)	(24,661)	(4,609)	(86)	(29,478)
Depreciation	-	(69,917)	(712,321)	-	(53,688)	(835,926)
Internal transfers	3,259	38,608	240,039	(309,365)	27,459	-
Capitalized interest	-	-	-	12,467	-	12,467
Other	(56)	1,798	(6,152)	(390)	2,004	(2,796)
At September 30, 2019	2,201,135	1,981,910	6,928,133	1,446,081	179,094	12,736,353

(i) Net of recoverable taxes (Note 9).

(ii) See Note 1

Depreciation was mainly allocated to the production cost for the period.

c) Useful lives and depreciation method

The table below shows the annual depreciation rates calculated based on the straight-line method, which were applicable in the nine-month period ended September 30, 2019 and the year ended December 31, 2018, defined based on the economically useful live of assets:

	Rate - %
Buildings and construction	2.86 to 3.33
Machinery, equipment and facilities	2.86 to 10 (i)
Other	4 to 20

(i) Average rate of 8%.

d) Construction in progress

At September 30, 2019, the balance of works and facilities in progress refers substantially to projects to develop its industrial activity, involving the installation of a new scrubber and refurbishment of the recovery boiler at the Ortigueira (PR) plant, printer acquisitions for Piracicaba (SP) unit and the construction of two paper pulp machines, with integrated pulp production, located at Klabin's industrial unit at Ortigueira (PR) ("Puma Unit") cities, as explained in note 1.4.

e) Impairment of property, plant and equipment

The Company, applying the requirements of CPC 01(R1) – Reduction of recoverable value of assets (IAS 36), performed the applicable analyses and did not identify indicators that the accounting value exceeds the recoverable value of its assets at September 30, 2019 and at December 31, 2018.

13 BIOLOGICAL ASSETS

The Company's biological assets comprise the planting of pine and eucalyptus trees for the supply of raw materials for the production of short fiber, long fiber and fluff pulp, used in the manufacture of paper and for sales of logs to third parties.

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At September 30, 2019 the Company owned 248 thousand hectares of planted areas (239 thousand hectares at December 31, 2018), not considering the permanent preservation areas and legal reserve that it maintains in compliance with Brazilian environmental legislation.

The balance of the Company's biological assets recorded at fair value, as follows:

	Parent company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cost of development of biological assets	1,677,695	1,142,474	2,275,092	1,715,919
Fair value adjustment of biological assets	1,939,195	2,161,300	2,580,699	2,866,712
	3,616,890	3,303,774	4,855,791	4,582,631

The fair value measurement of biological assets considers certain estimates, such as estimates of the price of wood, the discount rate, the harvesting plan for the forests and the productivity level, all of which are subject to uncertainties, which could have an impact on the Company's future results coming from the variations.

In the nine-month period ended September 30, 2019, and in the year ended December 31, 2018, no need of provision for impairment was identified.

a) Assumptions regarding the recognition of the fair value of biological assets

The Company recognizes its biological assets at fair value. In its calculation of this fair value, the Company adopts the following assumptions:

(i) Eucalyptus forests are maintained at historical cost through the third year of planting and pine forests through the fifth year of planting, based on management's understanding that during this period the historical cost of biological assets approximates their fair value, in addition to the fact that an evaluation of growth and expectation of forestry production is only possible after this period;

(ii) After the third and fifth years of the planting of eucalyptus and pine forests, respectively, the forests are measured at fair value, which reflects the sales price of the asset less the costs necessary to prepare the assets for their intended use or sale;

(iii) The methodology utilized in the fair value measurement of biological assets corresponds to the discounted future cash flow estimated according to the projected productivity cycle of the forests, taking into consideration price variations and the growth of biological assets;

(iv) The discount rate utilized for cash flow is the Company's weighted average cost of capital, which is reviewed annually by management;

(v) The projected productivity volumes of forests are determined based on a categorization which considers the forest type, genetic material, handling system, productive potential, rotation which for that age. Together, these characteristics form an index called the Average Annual Growth (AAG) index, which is expressed in cubic meters per hectare/year, and which is utilized as the basis in the projection of productivity. The Company's harvesting plan varies mainly from six to seven years for eucalyptus trees and 14 to 15 years for pine trees;

(vi) The prices of biological assets, denominated in R\$/cubic meter, are obtained through market price surveys carried out by specialized firms. The prices obtained are adjusted by deducting the cost

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of capital relating to land, since this asset contributes to the planting of forests, and other costs necessary to prepare the assets for sale or consumption;

(vii) Planting expenses relate to the costs of the development of the biological assets;

(viii) The depletion of biological assets is calculated based on the fair value of the biological assets harvested in the period;

(ix) The Company review the fair value of its biological assets on a quarterly basis, since it understands that this period is sufficiently short to prevent any significant misstatement in the fair value of the biological assets recorded in its quarterly financial information;

b) Reconciliation and movement in fair value

	Parent company	Consolidated
At December 31, 2017	3,272,496	4,147,779
Planting	243,677	338,786
Acquisition of forest assets (i)	-	123,000
<u>Depletion:</u>	(536,030)	(655,301)
. Historical cost	(156,611)	(179,479)
. Fair value adjustment	(379,419)	(475,822)
<u>Change in fair value due to:</u>	466,074	628,367
. Price	185,764	239,346
. Growth	280,310	389,021
Formation of subsidiary (i)	(142,443)	-
At December 31, 2018	3,303,774	4,582,631
Planting and acquisition	622,089	669,951
Acquisition of forest assets (i)	-	2,074
<u>Depletion:</u>	(601,401)	(713,404)
. Historical cost	(86,867)	(112,847)
. Fair value adjustment	(514,534)	(600,557)
<u>Change in fair value due to:</u>	292,428	314,539
. Price	(32,365)	(44,095)
. Growth	324,793	358,634
At September 30, 2019	3,616,890	4,855,791

(i) See note 1.

The depletion of biological assets in the periods presented was mainly included in production cost, after allocation to inventory through the harvesting forests and their use in the production process or their sale to third parties.

Noteworthy in the change in fair value is the increase in the discount rate used and the decrease in the productivity index for the period.

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c) Sensitivity analysis

In accordance with CPC 46 (equivalent to IFRS 13) - Fair Value Measurement hierarchy, the calculation of biological assets is classified under Level 3, due to its complexity and calculation structure.

Among the assumptions used in the calculation are the price sensitivity used in the appraisal of the biological assets and the discount rate used in discounted cash flow. Prices refer to those in the regions where the Company is located, while the discount rate corresponds to the average cost of capital, taking into consideration the basic interest rate (Selic) and inflation levels.

Significant increases (decreases) in prices used in the appraisal would result in an increase (decrease) in the measurement of the fair value of biological assets. The weighted average price used in the appraisal of the biological assets the asset at September 30, 2019 was equivalent to R\$ 66 / m3 (R\$ 67 / m3 at December 31, 2018).

Regarding the discount rate, the significant effects of the increase (decrease) of the rate used to measure the fair value of biological assets would lead to a decrease (increase) of the measured values. At September 30, 2019, the Company updated its weighted average cost of capital to 4.11% in constant currency (4.74% at December 31, 2018).

14 RIGHT OF USE ASSET AND LEASE LIABILITY

a) Initial adoption

The Company adopted, on January 1, 2019, the date of transition, the guidelines of IFRS 16 / CPC06 (R2) - "Leasing Operations", a new rule that the lessees recognized, from the date of transition, the right to the use of the leased asset and the liability of future payments for all leases or operations with the same characteristics as a lease, in which the lease has the right to control and obtain the benefits over the use of a specific (identified) asset, unless they are framed by some sort of exemption.

Transition Approach

Management assessed the impacts of the new standard and opted for the simplified retrospective approach. This approach does not impact retained earnings (shareholders' equity) on the date of the initial adoption, with the effects presented as of January 1, 2019.

In the transition, lease liabilities will be measured at the present value of the remaining payments, discounted at the incremental rate on their loans. Assets of rights of use will be measured at the amount equal to the lease liability, adjusted for any lease payments anticipated or accrued relating to that lease that was recognized in the balance sheet immediately prior to the initial application date.

Exemptions adopted by the Company

The Company applied the following practical expedients and exemptions:

(i) Definition of a lease in transition: The Company applied CPC 06 (R2) / IFRS 16 to all contracts entered into in force on January 1, 2019 that were identified as leases in accordance with CPC 06 (R2) / IFRS 16.

(ii) Contracts for which the remaining term at the date of adoption was equal to or less than 12 months: the Company continued to recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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(iii) Contracts for which the underlying assets were of low value: the Company continued to recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iv) Apply a single discount rate to the lease portfolio with fairly similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset).

Impacts on the balance sheet at initial adoption

The main impact of the adoption of the new standard is related to the lease of forest land, corresponding to approximately 80 thousand hectares, in addition to the leasing of industrial machinery, agricultural and administrative real estate and commercial warehouses.

The table below shows the effects on the balance sheet of the adoption of the new standard on January 1, 2019 and September 30, 2019:

Effect of IFRS 16 on the Balance Sheet in					
	Assets			Liabilities and Equity	
	01/01/2019	09/30/2019		01/01/2019	09/30/2019
Circulante	-		Current	90,477	75,415
			Lease Liability	90,477	75,415
Non-current	372,893	393,804	Non-current	282,416	330,248
Asset use benefit	372,893	405,268	Lease Liability	282,416	330,248
Biological assets	-	(11,464)	Equity	-	(11,859)
			Retained earnings	-	(11,859)
Total	372,893	393,804	Total	372,893	393,804

b) Accounting policy and assumptions for recognition

The right of use the assets and the leases liabilities are recognized at the future value of the contractual obligations assumed in the agreement, which are included in the net present value. The right of use the assets is amortized on a straight-line basis over the term of the contract in the income statement for the year in the relevant line of their nature ("Cost of Goods Sold" / "Administrative Expenses" / "Commercial Expenses"), as well as interest, corresponding to the amortization of the adjustment to the net present value of the contracts, are allocated in the "Financial result".

The depreciation of the right of use asset is calculated by the straight-line method according to the remaining term of each contract.

The Company recognizes its right of use and lease liabilities considering the following assumptions:

(i) Operations with contracts signed for more than 12 months fall within the scope of the standard. The Company does not consider renewal aspects in its methodology, since the assets involved in its operation are not indispensable for the conduct of its business, and may be substituted at the end of the contract for new assets acquired or for operations other than those agreed upon.

(ii) Contracts involving the use of low value underlying assets.

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(iii) It is only considered operations that involve specific assets defined in the contract or for exclusive use throughout the contract period.

(iv) Inclusion of recoverable taxes in the definition of the contractual obligations assumed in the contracts to which it applies.

(v) The methodology used to calculate the net present value of the contracts corresponds to the cash flow of the assumed counterparties discounted by the discount rate defined for the asset class.

(vi) The discount rate for the nine-month period ended September 30, 2019 used for leases of forest land and administrative real estate and commercial sheds was 3.00% per year for contracts maturing up to 5 years, 4.74% maturing from 5 to 10 years and 5.09% maturing over 10 years, in addition to 5.54% for operations involving machinery and equipment. The rates were obtained by financing operations for assets of these classes.

The Company's leasing operations in effect on September 30, 2019 do not have clauses of restrictions that require the maintenance of financial indices, as well as do not present variable payment clauses that should be considered, or clauses of guarantee of residual value and options of purchase at the end of the contracts.

c) Composition and summary movement of right-of-use assets and lease liabilities

At September 30, 2019, the Company has 303 lease agreements (238 on January 1, 2019) recognized in its balance sheet.

Right of use	01/01/2019	Amortization	Additions / Disposals	09/30/2019
Lands	232,986	(28,862)	142,046	346,170
Buildings	32,976	(10,937)	2,532	24,571
Machines and equipment	106,931	(17,304)	(55,100)	34,527
Total assets	372,893	(57,103)	89,478	405,268

Lease liabilities	01/01/2019	Interest	Payments	Additions / Disposals	CP / LP Transfer	09/30/2019
Current	90,477	14,280	(70,988)	(4,087)	45,733	75,415
Non-current	282,416	-	-	93,565	(45,733)	330,248
Total in liabilities	372,893	14,280	(70,988)	89,478	-	405,663

In the nine-month period ended September 30, 2019, the Company recorded expenses of R \$ 7.8 million related to short-term leases (less than 12 months of contract) or operations involving low-value assets involved in the contracts.

d) Schedule of lease expiration

	Consolidated			
	09/30/2019			
	Lands	Buildings	Machines and Equipment	Total
2019	11,738	3,547	6,308	21,593
2020	52,773	14,188	19,258	86,219
2021	49,918	7,921	9,548	67,387
2022	42,605	-	914	43,519
2023	38,288	-	624	38,912
2024 - 2028	161,582	-	304	161,886
2029 - 2033	76,914	-	-	76,914
2034 - 2038	17,679	-	-	17,679
2039 - 2057	4,162	-	-	4,162
	455,660	25,656	36,956	518,272

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15 BORROWINGS

a) Composition of borrowings

	Annual interest rate - %	09/30/2019		
		Current	Non-Current	Total
<u>In local currency</u>				
. BNDES - Project Puma	6.0 ou TJLP + 1.98 a 2.48	290,104	1,177,976	1,468,080
. BNDES - Other	TJLP + 2.06 a 3.28	38,282	74,648	112,930
. BNDES - FINAME	2.5 a 5.5 ou TJLP + 2.06 a 3.28	40,243		40,243
. Export credit notes (in R\$)	102 do CDI	209,654	766,667	976,321
	95 a 102 do CDI ou IPCA + 3.50% a			
. CRA	IPCA + 4.51%	37,926	3,642,541	3,680,467
. Other	1.0 a 8.75 ou TJLP	12,426	12,660	25,086
. Cost with funding		(12,082)	(103,372)	(115,454)
		616,553	5,571,120	6,187,673
<u>In foreign currency (i)</u>				
. BNDES - Project Puma	USD + 7.65 a 8.05	195,387	834,308	1,029,695
. BNDES - Other	USD + 6.77 a 7.11	19,078	1,023	20,101
	USD + Libor 1.35 a 2.20 ou USD + 6.25	22,171	3,604,333	3,626,504
. Export prepayments	USD + Libor 2.50	39,037	1,878,882	1,917,919
. Export credit notes	USD + 5.20 a 8.29 ou USD + Libor + 1.48 a 3.50	37,691	10,935,714	10,973,405
. Export prepayments in subsidiaries	USD + Libor + 0.82 a 1.05 ou USD + 3.88	87,510	931,492	1,019,002
. Finnvera	EUR + 0.45%	5,246	28,790	34,036
. ECA	4.70 a 5.67	-	579,574	579,574
. Gain / loss on derivative instruments (swap)		(23,121)	(94,273)	(117,394)
. Cost with funding		382,999	18,699,843	19,082,842
		999,552	24,270,963	25,270,515
Total parent company				
Subsidiaries:				
<u>In foreign currency (i)</u>				
. Bonds (Notes)	USD + 4.88 a 7.00	176,759	8,418,176	8,594,935
. Export prepayments		8,006	2,498,640	2,506,646
. Cost with funding		(16,143)	(62,370)	(78,513)
		168,622	10,854,446	11,023,068
		(37,691)	(10,935,714)	(10,973,405)
Elimination of prepayments in subsidiaries				
		1,130,483	24,189,695	25,320,178
Total Consolidated				

(i) In U.S. dollars

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	Annual interest rate - %	12/31/2018		
		Current	Non-Current	Total
<u>In local currency</u>				
. BNDES - Project Puma	6.0 ou TJLP + 1.98 a 2.48	289,961	1,388,334	1,678,295
. BNDES - Other	TJLP + 2.06 a 3.28	57,724	26,739	84,463
. BNDES - FINAME	2.5 a 5.5 ou TJLP + 2.06 a 3.28	90,697	19,687	110,384
. Export credit notes (in R\$)	102 a 114 CDI	93,047	2,832,215	2,925,262
. CRA	95 a 102 do CDI	19,335	1,795,916	1,815,251
. Other	1.0 a 8.75	18,916	18,443	37,359
. Cost with funding		(11,480)	(53,949)	(65,429)
		558,200	6,027,385	6,585,585
<u>In foreign currency (i)</u>				
. BNDES - Project Puma	USD + 7.18	182,437	911,895	1,094,332
. BNDES - Other	USD + 6.76 a 6.98	31,399	12,131	43,530
. Export prepayments	+ 4.68 a 5.87	596,300	3,962,769	4,559,069
. Export credit notes	USD + Libor 2.50	134,040	452,060	586,100
. Export prepayments in subsidiaries	USD + 5.20 a 6.15	73,417	3,894,174	3,967,591
. BID	USD + Libor + 1.40 a 1.78 ou USD + 1.00	190,528	650,951	841,479
. Finnvera	USD + Libor + 0.82 a 1.05 ou USD + 1.88 a 3.88	167,047	948,024	1,115,071
. ECA	EUR + 0.45%	5,178	33,250	38,428
. Gain / loss on derivative instruments (swap)	5.64 a 5.67	-	114,125	114,125
. Cost with funding		(20,738)	(91,496)	(112,234)
		1,359,608	10,887,883	12,247,491
Total parent company		1,917,808	16,915,268	18,833,076
<u>Subsidiaries:</u>				
<u>In foreign currency (i)</u>				
. Bonds (Notes)	USD + 4.88 a 5.25	72,834	3,874,800	3,947,634
. Cost with funding		(3,446)	(26,677)	(30,123)
		69,388	3,848,123	3,917,511
. Elimination of prepayments in subsidiaries		(73,417)	(3,894,174)	(3,967,591)
Total Consolidated		1,913,779	16,869,217	18,782,996

(i) In U.S. dollars

National Bank for Economic and Social Development (BNDES)

The Company has contracts with BNDES for the financing of industrial development projects, such as the construction of the new paper machine in Correia Pinto (SC), the construction of a new recycled paper machine in Goiana (PE), and the construction of the Project Puma denominated pulp plant, the settlement of which is projected to take place in 2025. This financing is paid monthly, along with the related interest.

Export prepayments and export credit notes

Export prepayment and credit note transactions were carried out for the purposes of working capital management and the development of the Company's operations. These agreements will be settled up to February 2026.

Bonds (Notes)

The Company, through its wholly owned subsidiaries Klabin Finance S.A. and Klabin Austria GmbH, issued debt notes on the international market listed on the Luxembourg Stock Exchange (Euro MTF) and the Singapore Stock Exchange (SGX) with Senior Issuance. Unsecured Notes 144A / Reg S.

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(i) In July 2014, the funding of USD 500 million with maturity of 10 years and coupon of 5.25% paid semiannually was concluded, in order to finance the activities of the Company and its subsidiaries within the normal course of the business, business and attending the respective social objects. In April 2019, a repurchase of USD 238 million was carried out, in line with the Company's debt stretching strategy.

(ii) In September 2017, the Company issued Green Bonds in the amount of USD 500 million, maturing in 10 years and semiannual coupon of 4.88%. The funds will be used for reforestation, restoration of native forests, investments in renewable energy, efficient logistics using rail transport, recycling of solid waste and development of eco-efficient products, among other sustainability practices.

(iii) In March 2019, the funding of USD 500 million with a 10-year maturity and 5.75% per year coupon and USD 500 million in 30-year Green Bonds with a 7% per year coupon were completed. , with the purpose of prepayment or refinancing of the Company's and its subsidiaries' debts, as well as for cash reinforcement.

(iv) In July 2019, the funding of USD 250 million of nominal value with a 10-year maturity and 5.75% coupon and yield of 4.90% per year was completed, with the purpose of prepayment or refinancing debt of the Company and its subsidiaries, as well as for cash reinforcement.

Finnvera (Finland Export Credit Agency)

As part of the funds necessary for the execution of the Puma Project, the Company entered into a loan agreement, for the financing of the assets acquired. The commitment amounted to US\$ 460 million maturing in 2026, divided into two tranches: the first of US\$ 414 million accruing interest at 3.4% p.a. and the second tranche of US\$ 46 million, accruing interest of LIBOR 6M + 1% p.a., of which two disbursements in 2015 totaling US\$ 325.7 million and the remaining disbursements of R\$38.6 million in the fourth quarter of 2016, totaling US\$ 364.3 million. The value obtained in USD was lower than originally forecast due to the impact of imports being in Euro and the appreciation of the dollar against the Euro in the period.

CRA – Agribusiness Receivables Certificates

The Company issued simple debentures that serve as the basis for the issuance of Agribusiness Receivables Certificates ("CRA"), of which:

(i) CRA I were issued by the Eco Securitization of Credit Rights of Agribusiness S.A in March 2017 in the amount of R\$ 845.9 million, with a term of 5 years and interest of 95% of the CDI.

(ii) CRA II were issued by the Eco Securitizadora de Crédito Agrícola do S.A in December 2017 in the amount of R\$ 600 million, with a maturity of 6 years and interest of 97.5% of CDI.

(iii) CRA III were issued by the Apice Securitizadora S.A in September 2018 in the amount of R\$ 350 million, with a maturity of 6 years and semi-annual interest of 102% of CDI.

(iv) CRA IV were issued by VERT Companhia Securitizadora in April 2019 in the amount of R\$ 1 billion divided into two series. The first series in the amount of R\$ 200 million, with maturity of 7 years and semiannual interest of 98% of CDI. The second series in the amount of R\$ 800 million, with 10-year maturity and semiannual interest corresponding to the IPCA Treasury's internal rate of return.

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(v) CRA V - issued by VERT Companhia Securitizadora in July 2019 in the amount of R \$ 1 billion with a 10-year term and IPCA interest + 3.5% per year.

Derivative instruments (*swap*) – gain / loss

In December 2018, the Company obtained from Banco Bradesco a new export credit note of R \$ 1,879 million maturing in 2026 with interest of 114% of the CDI, with no collateral and no covenant, but coupled together of two foreign exchange swaps and the same rate, but in USD and interest of 5.6%, with the same maturity of the credit note, and no instrument can be settled separately.

In March 2019, the Company contracted with Banco Itaú a swap with an asset position of 114.65% of the CDI and a liability of USD 5.40% pa This transaction is connected to the 12th issue of debentures in the amount of R \$ 1 billion in April 2019, as disclosed in note 12 b).

The gain and loss of the derivative instruments are determined by their marking to the market, corresponding to their fair value, recognized in the financial result.

b) Schedule of non-current maturities

The maturity dates of the Company's borrowings at September 30, 2019, classified in non-current liabilities in the consolidated balance sheet, are as follows:

Year	2020	2021	2022	2023	2024	2025	2026 onwards	Total
Amount	962,000	829,000	1,629,000	4,090,000	2,985,000	2,835,000	10,859,695	24,189,695

c) Summary of changes in borrowing

	Parent company	Consolidated
At December 31, 2017	18,716,549	18,675,541
Borrowing	2,403,318	2,385,592
Gain or loss on financial instruments	114,126	114,126
Accrued interest	1,098,486	1,068,477
Foreign exchange and monetary variations	2,130,114	2,137,491
Repayments	(4,537,099)	(4,531,056)
Payment of interest	(1,092,418)	(1,067,175)
At December 31, 2018	18,833,076	18,782,996
Borrowing	9,552,721	9,387,661
Gain or loss on financial instruments	465,448	465,448
Accrued interest	1,038,831	1,044,157
Foreign exchange and monetary variations	954,548	1,255,754
Repayments	(4,477,231)	(4,727,292)
Payment of interest	(1,096,878)	(888,546)
At September 30, 2019	25,270,515	25,320,178

d) Guarantees

The financing agreements with BNDES are guaranteed by the land, buildings, improvements, machinery, equipment and facilities of the plants in Otacílio Costa (SC), Telêmaco Borba (PR) and Ortigueira (PR), which are the object of the related borrowings and escrow deposits, as well as sureties from the controlling shareholder Klabin Irmãos & Cia.

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The financing from Finnvera is guaranteed by the industrial plants in Angatuba (SP), Lages (SC), Piracicaba (SP), Betim (MG), and Goiana (PE).

Export credits, export prepayments, and working capital loans are not collateralized.

e) Restrictive covenants

At the end of the reporting period, the Company and its subsidiaries did not have any financing agreements containing restrictive covenants requiring compliance with financial ratios for the contracted transactions, where non-compliance would automatically accelerate the maturity of the debt.

16 DEBENTURES

a) Seventh issue of debentures

The Company concluded its seventh issue of debentures on June 23, 2014, issuing 55,555,000 simple debentures, with guarantee, combined with a subscription bonus, at the nominal unit value of R\$ 14.40, totaling R\$ 800 million, divided simultaneously into two series of 27,777,500 debentures each.

	Quantity	Unit Value	Total Value (R\$ thousand)	Interest rates	Maturity	Amortization	Interest	Nature	Subscription bonus
1st series	27,777,500	14.40	399,996	IPCA + 7.25%	06/15/2020	Without amortization	Semi-annual	Convertible debt	Yes
2nd series	27,777,500	14.40	399,996	IPCA + 2.50%	06/15/2022	Semi-annual	Semi-annual	Debt	No
	55,555,000		799,992						

(i) First series - The first series debentures mature on June 15, 2020, and have a yield at the Amplified Consumer Price Index (IPCA) + 7.25% per year, with payment of interest on a semi-annual basis, and a grace period of two years, without amortization of the principal. They represent a convertible debt, since they can be utilized at any time until their maturity, at the discretion of the holder, to subscribe and pay-up shares issued by the Company, in the form of Units (comprising one common share and four preferred shares), in the proportion of one Unit for each debenture, through the exercise of the subscription bonus, which will be attributed as an additional benefit to the debenture holders.

(ii) Second series - The second series debentures mature on June 15, 2022, and have a yield of IPCA + 2.50% per year, paid semi-annually, together with the amortization of the principal, and a grace period of two years. This series of debentures is not convertible. Therefore, they are, not linked to the subscription bonus.

Those who acquire the first series are obliged to acquire debentures of the second series. The amount of R\$ 28,503 arising from the subscription bonus on the debentures issued was allocated to equity. The debenture holders have the possibility of converting debentures into units in advance.

The total of 98.86% of the debentures was subscribed by BNDES and the remaining debentures by other shareholders in the market.

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b) Twelfth issue of debentures

The Company concluded its 12th issue of debentures on April 1, 2019, issuing 100,000 debentures at the nominal unit value of R\$ 10,000, totaling R \$ 1 billion, maturing on March 19, 2029. Semiannual interest of 114.65% of CDI and amortization at the end of the 8th, 9th and 10th year. This transaction has a linked swap contracted with Itaú bank with an asset position of 114.65% of CDI and a liability position of USD 5.40% a.a., as disclosed in Note 15.

	Quantity	Unit Value	Total Value (R\$ thousand)	Interest rates	Maturity	Amortization	Interest	Nature	Subscription bonus
12th issue	100,000	10,000.00	1,000,000	114.65% do CDI	03/19/2029	Annual (8th, 9th and 10th grade)	Semi-annual	Debt	No
	100,000		1,000,000						

c) Composition of the balance of debentures

	Parent company and consolidated				
	09/30/2019			31/12/2018	
	7th issue	12th issue	Total	7th issue	Total
Current liabilities					
. Principal	461,498	-	461,498	61,538	61,538
. Interest	10,336	1,676	12,012	148	148
	471,834	1,676	473,510	61,686	61,686
Non-current liabilities					
. Principal	123,076	1,000,000	1,123,076	553,805	553,805
. Gain / loss on derivative instruments (swap)	-	274,435	274,435	-	-
. Monetary restatement/profit sharing	86,571	-	86,571	75,688	75,688
. Subscription bonus	(28,503)	-	(28,503)	(28,503)	(28,503)
	181,144	1,274,435	1,455,579	600,990	600,990
Total debenture liability	652,978	1,276,111	1,929,089	662,676	662,676
Equity - capital reserve					
. Subscription bonus	28,503	-	28,503	28,503	28,503
	28,503	-	28,503	28,503	28,503
Total	681,481	1,276,111	1,957,592	691,179	691,179

d) Change to debenture liabilities

	Parent company and consolidated
At December 31, 2017	873,870
Interest and monetary variations on debentures	91,712
Repayments (7th issue)	(61,538)
Payment of interest (6th issue)	(179,541)
Payment of interest (7th issue)	(61,827)
At December 31, 2018	662,676
12th issue	995,000
Gain or loss on financial instruments (SWAP)	274,435
Interest and monetary variations on debentures	93,055
Repayments (7th issue)	(30,769)
Payment of interest (7th issue)	(31,636)
Payment of interest (12th issue)	(33,672)
At September 30, 2019	1,929,089

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17 TRADE PAYABLES

	Parent company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Local currency	841,621	814,760	843,905	814,892
Local currency (Forfait)	54,384	52,779	54,384	52,779
Foreign currency	56,863	26,791	79,730	36,081
	952,868	894,330	978,019	903,752

The Company's average payment term to operational suppliers is approximately 51 days (50 days in December 31, 2018). In the case of suppliers of property, plant and equipment, the terms follow the commercial negotiations of each operation; there is no specific average term.

Of the balance of suppliers at September 30, 2019, R\$ 112,751 (R\$ 145,143 as of December 31, 2018) in the parent company and consolidated, correspond to the risk transactions carried out in which there was no material change in the purchasing conditions (payments and prices) with suppliers, remaining as usually practiced in the market. Outstanding risk operations enable suppliers to better manage their cash flow needs, to the detriment of further intensification of business relationships with the Company.

18 PROVISION FOR TAX, SOCIAL SECURITY, LABOR AND CIVIL CONTINGENCIES

a) Provisioned risks

Based on the individual analysis of lawsuits filed against the Company and its subsidiaries and the opinion of legal counsel, provisions have been constituted and classified in non-current liabilities for expected losses on legal and administrative proceedings considered as probable, as follows:

	09/30/2019			
	Provisioned	Restricted	Net	Unrestricted
In the parent company:	amount	judicial	liability	judicial
<u>Tax:</u>		deposits		deposits
. PIS/COFINS	-	-	-	31,226
. ICMS/IPI	-	-	-	21,133
. Income tax/social contribution	(10,656)	3,614	(7,041)	98
. OTHER	(21)	21	-	32,531
	(10,677)	3,635	(7,041)	84,988
Labor	(42,882)	19,308	(23,574)	-
Civil	(7,551)	3,378	(4,173)	-
	(61,110)	26,321	(34,788)	84,988
<u>Subsidiaries:</u>				
Other	-	1,432	1,432	-
Consolidated	(61,110)	27,753	(33,356)	84,988

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	12/31/2018			
In the parent com	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
Tax:				
. PIS/COFINS	-	-	-	30,601
. ICMS/IPI	-	-	-	21,133
. Income tax/social contribution	(10,411)	3,614	(6,797)	98
. OTHER	(40)	40	-	4,211
	(10,451)	3,654	(6,797)	56,043
Labor	(43,250)	20,999	(22,251)	-
Civil	(10,417)	4,530	(5,887)	-
	(64,118)	29,183	(34,935)	56,043
Subsidiaries:				
Other	-	1,432	1,432	-
Consolidated	(64,118)	30,615	(33,503)	56,043

b) Summary of changes to the provisioned amounts

	Consolidated			
	Taxes	Labor	Civil	Net Exposure
At December 31, 2017	-	(26,007)	(10,716)	(36,723)
New lawsuits/increases	(6,797)	(2,606)	(706)	(10,109)
(Provision)/reversals	-	4,131	6,087	10,218
Deposit transactions	-	2,231	880	3,111
At December 31, 2018	(6,797)	(22,251)	(4,455)	(33,503)
New lawsuits/increases	(244)	55	2,866	2,677
(Provision)/reversals	-	(1,250)	-	(1,250)
Deposit transactions	-	(128)	(1,152)	(1,280)
At September 30, 2019	(7,041)	(23,574)	(2,741)	(33,356)

c) Provisions for tax, social security, labor and civil contingencies not recognized

At September 30, 2019, the Company and its subsidiaries were parties to other tax, labor and civil litigation involving expected losses assessed as "possible" (i.e. not probable), totaling approximately: R\$ 3,138,271, R\$ 255,502 and R\$ 96,528, respectively (R\$ 2,488,226, R\$ 243,557 e R\$ 84,752 as of December 31, 2018). Based on individual analyses of the disputes and the opinion of the Company's legal counsel, management understands that they do not need to be accounted for, since their likelihood of loss is assessed as only possible.

At September 30, 2019, the Company was named as defendant in several proceedings, such as:

Tax Lawsuits

(i) Tax enforcement action filed by the Office of the Attorney General of the National Treasury to collect debts related to the proceedings concluded at the administrative level, which demands payment of Corporate Income Tax (IRPJ) arising from an alleged undue royalty deduction for the use of trademarks and goodwill on the acquisitions of Klamasa and Igaras. The total amount of this

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proceeding as of September 30, 2019 is approximately R\$ 1,272,040 (R\$ 972,042 as of December 31, 2018). On the opinion of legal advisors, the likelihood of loss is possible.

(ii) A party to 6 tax enforcement actions filed by the Municipality of Lages, Santa Catarina State, whose purpose is the collection of tax debt relating to Service Tax (ISS) levied on production of packaging with custom prints, from January 2001 to December 2004 and January to December 2010. The total amount of these enforcement actions as of September 30, 2019 is approximately R\$ 901,637 (R\$ 776,207 as of December 31, 2018), with likelihood of loss rated as possible by the legal advisors.

(iii) Administrative proceedings arising from tax assessment and delinquency notices relating to tax debt issued by the Brazilian Internal Revenue Service, the purpose of which is the collection of the 2.6% contribution tax on gross revenue from sale of agricultural produce. The total amount of these administrative proceedings as of September 30, 2019 is approximately R\$ 363,855 (R\$ 289,327 as of December 31, 2018), with likelihood of loss rated as possible by the legal advisors.

(iv) Tax enforcement action filed by the Municipality of Rio de Janeiro, Rio de Janeiro State, with the purpose of collecting alleged debts relating to ISS levied on production of packaging with custom prints, from September 1996 to October 2001. The total amount of this enforcement action as of September 30, 2019 is approximately R\$ 219,681 (R\$ 197,755 as of December 31, 2018), with likelihood of loss rated as possible by the legal advisors.

(v) Administrative proceeding arising from tax delinquency notices, whereby the Brazilian Internal Revenue Service requires adjustment in the Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL) bases, for calendar year 2013, alleging that the company had unduly excluded items due to changes in the exchange rate regime. There was no tax assessment, only the disallowance of income and social contribution tax losses. The total amount of this administrative proceeding as of September 30, 2019 is approximately R\$ 232,268 (R\$ 225,478 as of December 31, 2018), with likelihood of loss rated as possible by the legal advisors.

(vi) Ordinary action intended to remove the restrictions imposed by the tax authorities, considering the offsetting of Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) amounts unduly paid, pursuant to a rule declared unconstitutional (Law No. 9718/98 - rule that was intended to extend the PIS and COFINS bases). The total amount of this action as of September 30, 2019 is approximately R\$ 117,286 (R\$ 115,521 as of December 31, 2018) with likelihood of loss rated as possible by the legal advisors.

(vii) Tax delinquency notice issued by the Brazilian IRS to collect PIS and COFINS for the periods of July 2012 and December 2012, due to the disallowance of credits relating to inputs used in wood production. The total amount of this notice as of September 30, 2019 is approximately R\$ 42,953 (R\$ 113,357 as of December 31, 2018), with likelihood of loss rated as possible by the legal advisors.

(viii) Disallowance of offsetting due to disagreement on the Social Security Funding Tax (FINSOCIAL) credit restatement criterion conducted in 2017. The total amount of the proceeding as of September 30, 2019 is approximately R\$ 115,009 (citation began on June 29, 2019).

Civil and environmental Lawsuits

(i) Public Civil Action brought in 2009 by the Environmental Fishermen's Association of Paraná State (APAP), in view of alleged damages to Rio Tibagi (Paraná State), due to disposal of coke residue used by the Company until 1998. Despite the lack of evidence of environmental damage, in December 2015, a decision unfavorable to the Company was handed down, condemning the Company to remove the

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coke deposited on the riverbed. Currently, the process is in the award calculation phase, and the obligation amount will be stipulated after this phase is completed.

Labor Lawsuits

These claims are mainly related to overtime, night shift premium, pain and suffering, property damage, life annuity, and health hazard allowance and hazardous duty pay, as well as indemnification and joint liability of third parties. No individual claim is material enough to materially and adversely impact the Company's P&L.

d) Lawsuits filed by the Company

As of September 30, 2019, the Company was a party to lawsuits involving active lawsuits, for which there are no amounts recognized in its Quarterly Information, and the assets are recognized only after the final judgment of the lawsuits and the gain is definitely certain.

Pursuant to a material fact disclosed to the market on August 22, 2019, a decision was handed down, accepting the Company's intention to exclude ICMS from the PIS and Cofins tax base, with effect from April 2002, in an amount total of R\$ 1.014 billion based on this lawsuit in extemporaneous credits to be offset against future tax debts by the Company, as disclosed in note 9.

e) Tax Recovery Program (REFIS)

As announced to the market on June 28, 2019, the Company opted to prepay its REFIS debt maturing in 2029 in the amount of R\$ 316,379. The early settlement of REFIS is part of the Company's active debt management process. The REFIS balance was represented by its fair value in the Company's balance sheet, corresponding to the balance due for early settlement.

With its settlement, in addition to the cash effect of R\$ 316,379 with the advance payment of REFIS, its adjustment to fair value was reversed in the financial result, as well as the reversal of the fine and interest, both in the corresponding amount, but with the opposite effect, without changing the Company's net income.

The REFIS balance payable recorded in the parent company and consolidated totaled R\$ 339,449 as of December 31, 2018, of which R\$ 73,862 is recorded in the short term and R\$ 265,587 in the long term.

19 EQUITY

a) Share capital

The Company's subscribed and paid-up capital at September 30, 2019 comprises 5,409,801,840 shares (5,409,801,840 at December 31, 2018), without par value, corresponding to R\$4,076,035 (R\$4,076,035 at December 31, 2018), held as follows:

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<u>Stockholders</u>	<u>09/30/2019</u>		<u>12/31/2018</u>	
	<u>Common shares</u>	<u>Preferred shares</u>	<u>Common shares</u>	<u>Preferred shares</u>
Klabin Irmãos & Cia	941,837,080	-	941,837,080	-
Niblak Participações S/A	142,023,010	-	142,023,010	-
The Bank of New York Departament	61,407,194	245,628,776	60,376,060	241,504,240
Monteiro Aranha S/A	69,691,542	278,797,618	71,356,189	285,456,206
BNDESPAR	56,259,848	225,039,392	56,259,848	225,039,392
BlackRock, Inc	46,073,685	184,294,740	46,610,152	186,440,608
Treasury shares	27,924,725	111,698,900	29,318,686	117,274,744
Other	639,377,571	2,379,747,759	636,813,630	2,369,491,995
	<u>1,984,594,655</u>	<u>3,425,207,185</u>	<u>1,984,594,655</u>	<u>3,425,207,185</u>

Besides common and preferred registered shares, the Company negotiates certificates of deposit of shares, referred to as Units, each corresponding to one common share (ON) and four preferred shares (PN).

The Company's authorized capital comprises 5,600,000,000 common shares (ON) and/or preferred shares (PN) approved at the Extraordinary General Meeting held on March 20, 2014.

b) Treasury shares

The Company maintained 139,544,575 shares of its own issue in treasury at September 30, 2019, corresponding to 27,908,915 Units. The price on the São Paulo Stock Exchange was R\$ 15.39 per Unit at September 30, 2019 (code KLB11 - BM&FBovespa).

In accordance with the stock option plan described in Note 23, granted as long-term remuneration to the Company's executives, 3,503,880 treasury shares were sold in February 2018, corresponding to 875,970 Units. The right to use 3,503,880 shares, corresponding to 875,970 "Units" was also granted. The amount was derecognized from the treasury share account.

c) Carrying value adjustments

Created by Law 11,638/07, the group "Carrying value adjustments" in the Company's equity comprises adjustments for increases and decreases in assets and liabilities, when applicable.

The balance maintained by the Company corresponds to: the adoption of the deemed cost of property, plant and equipment for forestry land; an option exercised on the initial adoption of the new accounting pronouncements for convergence with IFRS, at January 1, 2009; the foreign exchange variations of the subsidiaries abroad with functional currencies different to the parent company; balances relating to the stock option plan granted to executives (Note 23); and actuarial liability restatements.

	<u>Parent company and Consolidated</u>	
	<u>09/30/2019</u>	<u>12/31/2018</u>
Deemed cost of property, plant and equipment (land) (i)	1,057,752	1,057,752
Foreign exchange variations - subsidiaries abroad	(85,798)	(72,362)
Stock option plan	3,196	2,952
Actuarial liability (i)	(8,218)	(11,220)
	<u>966,932</u>	<u>977,122</u>

(i) Net of corresponding deferred taxes, when applicable, at the rate of 34%

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Foreign exchange variations - subsidiaries abroad will be transferred to profit or loss only in case of alienating or closing of the investee. The other items, due to its nature and force of accounting standard, will never be transferred to profit or loss, even in case of their financial realization.

d) Dividends/Interest on equity

Dividends/Interest on Equity represent a portion of the profits earned by the Company, which are distributed to the shareholders as remuneration of invested capital in the fiscal year. All shareholders are entitled to receive dividends proportionately to their ownership interest, as guaranteed by the Brazilian corporate legislation and the Company's bylaws. The bylaws also determine that management has the option to prepay interim dividends during the year, "ad referendum" of the Ordinary General Meeting held to consider the accounts for the year.

The interest on shareholders' equity, for purposes of complying with the tax rules, is recorded as a contra entry to the item "Financial expenses." For purposes of preparation of this quarterly information, they are reversed from the income statement against retained earnings, comprising the balance of mandatory minimum dividend, as per CVM instruction.

The basis of the calculation of the mandatory dividends, defined in the Company's bylaws, is adjusted in accordance with the constitution, realization and reversal, during the year, of the biological assets reserve, and entitles the Company's shareholders to receive, every year, a mandatory minimum dividend of 25% of the annual adjusted profit. Additionally, the Company is entitled to distribute dividends/interest on equity with balances of "Profit Reserves" held in Shareholders' Equity.

In the nine-month period ended September 30, 2019, interim dividends equivalent to R\$ 413,000 were distributed and effectively paid as follows:

Event	Date approved	Description	Initial date of payment	Type of share	Amount per thousand	Origin	Total distributed
Extraordinary General Meeting of Stockholders	02/06/2019	Dividend	02/25/2019	Common and Preferred "Units"	R\$3.80 R\$19.00	Interim dividends	R\$ 20,000
Extraordinary General Meeting of Stockholders	04/30/2019	Dividend	05/17/2019	Common and Preferred "Units"	R\$38.14 R\$190.69	Interim dividends	R\$ 201,000
Extraordinary General Meeting of Stockholders	08/05/2019	Dividend	08/19/2019	Common and Preferred "Units"	R\$36.43 R\$182.16	Interim dividends	R\$ 192,000

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20 NET SALES REVENUE

The Company's net sales revenue is composed as follows:

	Parent company			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Gross sales revenue	2,873,802	8,695,972	3,184,531	8,280,153
Discounts and rebates	(26,640)	(80,199)	(42,820)	(83,221)
Taxes on sales	(370,734)	(1,095,998)	(361,728)	(982,369)
	2,476,428	7,519,775	2,779,983	7,214,563
. Domestic market	1,551,597	4,469,477	1,496,229	4,059,986
. Foreign market	924,831	3,050,298	1,283,754	3,154,577
Net sales revenue	2,476,428	7,519,775	2,779,983	7,214,563

	Consolidated			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
Gross sales revenue	2,882,751	8,766,037	3,219,434	8,329,478
Discounts and rebates	(30,673)	(94,101)	(41,865)	(90,292)
Taxes on sales	(374,328)	(1,104,343)	(370,743)	(1,008,028)
	2,477,750	7,567,593	2,806,826	7,231,158
. Domestic market	1,577,099	4,511,105	1,500,144	4,069,260
. Foreign market	900,651	3,056,488	1,306,682	3,161,898
Net sales revenue	2,477,750	7,567,593	2,806,826	7,231,158

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21 COSTS, EXPENSES AND OTHER INCOME, BY NATURE

	Parent company			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
<u>Cost of products sold</u>				
Variable costs (raw materials and consumables)	(760,203)	(2,220,167)	(740,453)	(2,075,796)
Personnel	(308,807)	(902,304)	(299,494)	(894,305)
Depreciation and amortization	(242,587)	(742,066)	(242,868)	(730,995)
Depletion	(224,658)	(601,401)	(126,761)	(407,407)
Other	(322,581)	(847,603)	(204,618)	(537,400)
	(1,858,836)	(5,313,541)	(1,614,194)	(4,645,903)
<u>Sales expenses</u>				
Freight	(150,379)	(418,131)	(130,787)	(342,821)
Royalties	(15,122)	(41,816)	(13,258)	(37,795)
Commissions	(2,241)	(8,878)	(5,073)	(11,673)
Personnel	(25,339)	(70,785)	(26,449)	(73,435)
Depreciation and amortization	(1,125)	(3,024)	(352)	(1,024)
Storage and port expenses	(18,765)	(54,204)	(19,424)	(46,601)
Other	(2,215)	(8,493)	(3,736)	(20,226)
	(215,186)	(605,331)	(199,079)	(533,575)
<u>General and administrative expenses</u>				
Personnel	(78,140)	(243,956)	(79,543)	(221,324)
Services contracted	(38,978)	(105,219)	(27,015)	(92,386)
Depreciation, amortization and depletion	(12,507)	(35,879)	(8,988)	(26,081)
Other	(12,560)	(45,787)	(19,345)	(47,030)
	(142,185)	(430,841)	(134,891)	(386,821)
<u>Other net</u>				
Revenue from sales of prop, plant and equipment	33,477	33,878	1,437	2,000
Cost of sales and write-offs of prop, plant and equip.	(61,316)	(65,844)	(36,232)	(39,854)
Deemed cost of property, plant and equip. (land)	-	-	(27)	(27)
ICMS exclusion from the PIS and COFINS tax basis (i)	630,621	630,621	-	-
Other	(19,928)	43,889	21,482	6,649
	582,854	642,544	(13,340)	(31,232)
Total	(1,633,353)	(5,707,169)	(1,961,504)	(5,597,531)

(i) See note 9.

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	Consolidated			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
<u>Cost of products sold</u>				
Variable costs (raw materials and consumables)	(737,736)	(2,158,262)	(745,425)	(2,046,397)
Personnel	(311,926)	(911,418)	(302,519)	(903,338)
Depreciation and amortization	(247,538)	(757,210)	(247,824)	(745,913)
Depletion	(273,635)	(713,404)	(154,733)	(484,643)
Other	(258,647)	(753,361)	(162,289)	(441,484)
	(1,829,482)	(5,293,655)	(1,612,790)	(4,621,775)
<u>Sales expenses</u>				
Freight	(154,031)	(428,238)	(134,060)	(351,241)
Royalties	(15,122)	(41,816)	(13,258)	(37,795)
Commissions	(6,819)	(17,712)	(6,718)	(15,273)
Personnel	(25,595)	(71,500)	(26,716)	(74,177)
Depreciation and amortization	(1,148)	(3,085)	(359)	(1,045)
Storage and port expenses	(25,155)	(65,783)	(21,090)	(49,804)
Other	1,701	(1,154)	(4,119)	(20,556)
	(226,169)	(629,288)	(206,320)	(549,891)
<u>General and administrative expenses</u>				
Personnel	(78,929)	(246,420)	(80,347)	(223,560)
Services contracted	(39,372)	(106,282)	(27,288)	(93,319)
Depreciation, amortization and depletion	(12,762)	(36,611)	(9,171)	(26,613)
Other	(13,891)	(53,613)	(21,959)	(53,772)
	(144,954)	(442,926)	(138,765)	(397,264)
<u>Other net</u>				
Revenue from sales of prop, plant and equipment	33,477	33,878	1,437	2,000
Cost of sales and write-offs of prop, plant and equip.	(61,316)	(65,844)	(36,232)	(39,854)
Deemed cost of property, plant and equip. (land)	-	-	(27)	(27)
ICMS exclusion from the PIS and COFINS tax basis (i)	630,621	630,621	-	-
Other	(18,982)	47,190	21,518	8,851
	583,800	645,845	(13,304)	(29,030)
Total	(1,616,805)	(5,720,024)	(1,971,179)	(5,597,960)

(i) See note 9.

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22 FINANCE RESULT

	Parent company			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
<u>Finance income</u>				
. Income from financial investments	159,013	404,114	93,770	277,442
. Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income	(25,995)	(40,412)	(4,650)	(14,942)
. Update of tax credits (iii)	414,543	466,212	5,988	116,199
. Other (i)	15,272	35,999	(35)	3,491
	562,833	865,913	95,073	382,190
<u>Finance costs</u>				
. Interest on borrowing and debentures	(425,621)	(1,133,449)	(313,942)	(882,212)
. Interest capitalized on property, plant and equipment (ii)	12,467	12,467	-	-
. Interest on REFIS (i)	-	(74,437)	(7,585)	(26,383)
. Derivative financial instruments (SWAP)	(376,366)	(724,915)	-	-
. Loan guarantees from related parties	(6,164)	(19,071)	(7,080)	(21,584)
. Commissions	(31,628)	(138,101)	(11,359)	(75,947)
. Other	(18,138)	(39,866)	(5,340)	(10,896)
	(845,450)	(2,117,372)	(345,306)	(1,017,022)
<u>Exchange variations</u>				
. Foreign exchange variations on assets	380,602	386,178	59,980	214,310
. Foreign exchange variations on liabilities	(1,410,245)	(1,226,721)	(556,795)	(2,615,458)
	(1,029,643)	(840,543)	(496,815)	(2,401,148)
Finance result	(1,312,260)	(2,092,002)	(747,048)	(3,035,980)
	Consolidated			
	From 7/1 to 09/30/2019	From 1/1 to 09/30/2019	From 7/1 to 09/30/2018	From 1/1 to 09/30/2018
<u>Finance income</u>				
. Income from financial investments	162,773	419,203	96,755	286,451
. Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income	(25,995)	(40,412)	(4,650)	(14,942)
. Update of tax credits (iii)	414,543	466,212	5,988	116,199
. Other (i)	15,272	36,006	(36)	3,491
	566,593	881,009	98,057	391,199
<u>Finance costs</u>				
. Interest on borrowing and debentures	(387,041)	(1,053,153)	(303,400)	(854,854)
. Interest capitalized on property, plant and equipment (ii)	12,467	12,467	-	-
. Interest on REFIS (i)	-	(74,437)	(7,585)	(26,383)
. Derivative financial instruments (SWAP)	(376,366)	(724,915)	-	-
. Loan guarantees from related parties	(6,164)	(19,071)	(7,080)	(21,584)
. Investor Compensation - SCs	(12,416)	(25,834)	(9,769)	(25,910)
. Commissions	(19,203)	(174,231)	(11,359)	(75,947)
. Other	(18,345)	(44,298)	(6,555)	(13,004)
	(807,068)	(2,103,472)	(345,748)	(1,017,682)
<u>Exchange variations</u>				
. Foreign exchange variations on assets	382,210	394,338	64,909	219,031
. Foreign exchange variations on liabilities	(1,388,433)	(1,208,670)	(573,723)	(2,622,868)
	(1,006,223)	(814,332)	(508,814)	(2,403,837)
Finance result	(1,246,698)	(2,036,795)	(756,505)	(3,030,320)

(i) See Note 18.

(ii) See Note 12.

(iii) See Note 9.

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23 STOCK OPTION PLAN

The Extraordinary General Meeting of Shareholders held on July 10, 2012 approved the stock option plan as a benefit for the members of the Executive Board and the Company's key personnel.

CVM authorized the Company, through Circular Letter/CVM/SEP/GEA-2/221/2012, to realize private transactions included in the incentive plan for its directors and employees, except for the controlling shareholders, through the private transfer of treasury shares.

Pursuant to this Plan, the Company established that statutory and non-statutory officers may use a percentage of 25% to 70%, managers from 15% to 25% and other employees in the position of coordinators and consultants of 5% to 10% of its variable remuneration for the acquisition of treasury shares and the Company will grant the right of use of the same amount of shares to the acquirer for three years under a granting regime, and its ownership of the shares will be transferred to them after 3 years, the clauses established in the Plan.

The right of use grants the participants the right to dividends distributed in the period during which the benefit is valid.

The acquisition price of treasury shares by the participants of the plan is calculated based on the lower of the average of the market value quotations in the last 60 trading sessions of the Company's shares and their quotation on the acquisition date. The value of shares granted with right of use corresponds to the quotation of shares traded on BM&FBOVESPA on the transaction date.

The clauses that grant the transfer of shares after three years require the participants of the stock option plan to remain in employment in the Company and stipulate that the shares acquired on enrollment in the plan may not be sold during this period. The shares granted can be immediately assigned in the case of the termination of employment by the Company, or the retirement or death of the beneficiary, in which case the right to the shares becomes part of the estate of the deceased.

The shares granted and the expense proportional to the grant term, recorded in profit and loss, is accumulated in equity in the "Carrying value adjustments" group, up to the end of the grant, which may occur due to the three-year maturity or any other clause of the plan that may terminate the grant.

The table below presents information about the agreed-upon plans:

a) Statutory and non-statutory Board Members

	Plan 2014 (ii)	Plan 2015 (ii)	Plan 2016	Plan 2017	Plan 2018	Total
Start of the plan	01/03/2015	01/03/2016	24/02/2017	28/02/2018	28/02/2019	
Final grant date	01/03/2018	01/03/2019	24/02/2020	28/02/2021	28/02/2022	
Treasury shares acquired by the beneficiaries (i)	1,855,000	1,475,000	2,774,345	2,039,185	1,146,395	9,289,925
Purchase value per share (R\$) (i)	2.84	4.23	3.04	3.58	6.71	
Treasury shares granted with right to use (i)	1,855,000	1,475,000	2,774,345	2,039,185	1,146,395	9,289,925
Value of the right to use per share (R\$) (i)	3.26	4.30	3.04	3.58	6.71	
Accumulated plan expenses - from the beginning	6,047	6,308	7,618	3,873	809	24,655
Expenses of the plan - 1/1 to 09/30/2019	-	162	911	1,832	809	3,714
Expenses of the plan - 1/1 to 09/30/2018	138	723	907	1,427	-	3,195

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b) Managers

	Plan 2014 (ii)	Plan 2015 (ii)	Plan 2016	Plan 2017	Plan 2018	Total
Start of the plan	30/04/2015	30/03/2016	24/02/2017	28/02/2018	28/02/2019	
Final grant date	30/04/2018	30/03/2019	24/02/2020	28/02/2021	28/02/2022	
Treasury shares acquired by the beneficiaries (i)	-	-	1,531,400	1,616,585	1,809,185	4,957,170
Purchase value per share (R\$) (i)	-	-	3.04	3.58	6.71	
Treasury shares granted with right to use (i)	372,500	351,000	1,531,400	1,616,585	1,809,185	5,680,670
Value of the right to use per share (R\$) (i)	3.36	4.34	3.04	3.58	6.71	
Accumulated plan expenses - from the beginning	1,371	1,521	3,874	2,981	1,278	11,025
Expenses of the plan - 1/1 to 09/30/2019	-	69	1,069	1,383	1,278	3,799
Expenses of the plan - 1/1 to 09/30/2018	150	316	1,126	1,118	-	2,710

c) Other employees

	Plan 2018	Total
Start of the plan	28/02/2019	
Final grant date	28/02/2022	
Treasury shares acquired by the beneficiaries (i)	548,300	548,300
Purchase value per share (R\$) (i)	6.71	
Treasury shares granted with right to use (i)	548,300	548,300
Value of the right to use per share (R\$) (i)	6.71	
Accumulated plan expenses - from the beginning	378	378
Expenses of the plan - 1/1 to 09/30/2019	378	378
Expenses of the plan - 1/1 to 09/30/2018	-	-

(i) Considera o desdobramento de ações mencionado na nota explicativa 1 da DF de 31/12/2015.

(ii) Plano encerrado

24 EARNINGS (LOSS) PER SHARE

Basic earnings per share are calculated by dividing the profit or loss for the period attributable to holders of the Company's common and preferred shares by the weighted average number of common and preferred shares available during the year. The Company has debentures mandatorily convertible into shares (see Note 16) recorded in equity - therefore, the future conversion of the debentures into the total amount of shares is already reflected in the weighted average number of shares used for calculation purposes.

The shares from the future conversion of the seventh issue of debentures (Note 16) were not considered in the calculation because such conversion does not have a dilutive effect.

Therefore, the diluted earnings per share are equal to the basic earnings per share. The Company does not have any other instrument that may have a dilutive effect.

As mentioned in Note 19, the changes in the balance of treasury shares affect the weighted average number of preferred shares held in treasury in the calculation for the nine-month period ended September 30, 2019, being the weighted average used in the calculation of earnings per share was determined as follows:

Weighted average number of treasury shares - September 30, 2019 (i)						
Jan to Feb	Mar to Jun	Jul	Aug	Sep	9 Months 2019	
146,593,430 x 2/9	+ 139,585,670 x 4/9	+ 139,590,025 x 1/9	+ 139,620,730 x 1/9	+ 139,623,625 x 1/9	=	141,151,547

(i) Because the Company only has Units held in treasury, the distribution between common and preferred shares is made according to the composition of the Units.

The table below, presented in R\$ or number of shares, as applicable, reconciles the profit or loss for the nine-month period ending September 30, 2019 and 2018 with the amounts used in the calculation of basic and diluted earnings per share:

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	Parent company and Consolidated		
	From 1/1 to 09/30/2019		
	Common (ON)	Preferred (PN)	Total
<u>Denominator</u>			
Total weighted average number of shares	1,984,594,655	3,425,207,185	5,409,801,840
Weighted average number of treasury shares	(28,230,309)	(112,921,237)	(141,151,547)
Weighted average number of outstanding shares	1,956,364,346	3,312,285,948	5,268,650,293
% of shares in relation to the total	37.13%	62.87%	100%
<u>Numerator</u>			
Earnings attributable to each class of shares (R\$)	31,400,451	53,163,549	84,564,000
Weighted average number of outstanding shares	1,956,364,346	3,312,285,948	5,268,650,293
Basic and diluted earnings per share (R\$)	0.0161	0.0161	
	From 1/1 to 09/30/2018		
	Common (ON)	Preferred (PN)	Total
<u>Denominator</u>			
Total weighted average number of shares	1,984,594,655	3,425,207,185	5,409,801,840
Weighted average number of treasury shares	(29,467,948)	(117,871,793)	(147,339,741)
Weighted average number of outstanding shares	1,955,126,707	3,307,335,392	5,262,462,099
% of shares in relation to the total	37.15%	62.85%	100%
<u>Numerator</u>			
Earnings attributable to each class of shares (R\$)	(269,784,908)	(456,374,092)	(726,159,000)
Weighted average number of outstanding shares	1,955,126,707	3,307,335,392	5,262,462,099
Basic and diluted earnings per share (R\$)	(0.1380)	(0.1380)	

25 OPERATING SEGMENTS

a) Criteria for identification of operating segments

The Company's operating structure is divided into segments according to the manner in which management manages the business. The operating segments defined by management are as follows:

(i) Forestry segment: involves operations relating to planting and growing pine and eucalyptus trees to supply the Company's plants. Also involves selling timber (logs) to third parties in the domestic market.

(ii) Paper segment: mainly involves the production and sale of cardboard, kraftliner and recycled paper rolls in the domestic and foreign markets

(iii) Conversion segment: involves the production and sale of corrugated cardboard boxes, corrugated cardboard and industrial sacks in the domestic and foreign markets.

(iv) Pulp segment: include the production and sale of short fiber bleached pulp, long fiber bleached pulp, and fluff pulp in the domestic and foreign markets.

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b) Consolidated information about operating segments

	1/1 à 09/30/2019					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	199,002	1,388,807	1,970,036	960,437	(7,177)	4,511,105
.Foreign market	-	1,153,495	250,047	1,652,946	-	3,056,488
Revenue from sales to third parties	199,002	2,542,302	2,220,083	2,613,383	(7,177)	7,567,593
Revenue between segments	1,137,239	1,174,847	19,105	76,695	(2,407,886)	-
Total net sales	1,336,241	3,717,149	2,239,188	2,690,078	(2,415,063)	7,567,593
Changes in the fair value of biological assets	314,539	-	-	-	-	314,539
Cost of products sold	(1,807,442)	(2,659,219)	(1,894,050)	(1,381,514)	2,448,570	(5,293,655)
Gross profit	(156,662)	1,057,930	345,138	1,308,564	33,507	2,588,477
Operating income (expenses)	(96,033)	(370,653)	(288,036)	(291,789)	626,324	(420,187)
Operating result before finance result	(252,695)	687,277	57,102	1,016,775	659,831	2,168,290
Sales of products (in metric tons)						
.Domestic market	-	419,761	522,231	352,974	-	1,294,966
.Foreign market	-	362,259	46,126	696,410	-	1,104,795
.Inter-segmental	-	613,598	2,624	26,825	(643,047)	-
	-	1,395,618	570,981	1,076,209	(643,047)	2,399,761
Sales of timber (in metric tons)						
.Domestic market	1,361,918	-	-	-	-	1,361,918
.Inter-segmental	10,003,654	-	-	-	(10,003,654)	-
	11,365,572	-	-	-	(10,003,654)	1,361,918
Investments during the period	339,178	270,483	52,490	1,004,444	55,821	1,722,416
Depreciation, depletion and amortization	(743,528)	(257,504)	(67,564)	(400,576)	(41,138)	(1,510,310)
Total assets - 09/30/2019	8,853,784	4,988,858	1,920,737	8,692,292	12,819,696	37,275,367
Total liabilities - 09/30/2019	2,490,976	834,048	395,645	657,502	26,683,615	31,061,786
Equity - 09/30/2019	6,122,788	4,154,810	1,525,092	8,034,790	(13,863,919)	5,973,561
Non-controlling shareholders	240,020	-	-	-	-	240,020

	7/1 à 30/09/2019					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	63,308	496,563	699,642	319,837	(2,251)	1,577,099
.Foreign market	-	404,211	87,224	409,216	-	900,651
Revenue from sales to third parties	63,308	900,774	786,866	729,053	(2,251)	2,477,750
Revenue between segments	391,475	398,269	7,624	24,345	(821,713)	-
Total net sales	454,783	1,299,043	794,490	753,398	(823,964)	2,477,750
Changes in the fair value of biological assets	331,739	-	-	-	-	331,739
Cost of products sold	(632,224)	(871,974)	(660,482)	(499,117)	834,315	(1,829,482)
Gross profit	154,298	427,069	134,008	254,281	10,351	980,007
Operating income (expenses)	(35,870)	(129,387)	(101,575)	(119,485)	601,403	215,086
Operating result before finance result	118,428	297,682	32,433	134,796	611,754	1,195,093
Sales of products (in metric tons)						
.Domestic market	-	149,198	181,762	127,585	-	458,545
.Foreign market	-	126,499	16,335	198,001	-	340,835
.Inter-segmental	-	210,194	982	9,122	(220,298)	-
	-	485,891	199,079	334,708	(220,298)	799,380
Sales of timber (in metric tons)						
.Domestic market	461,063	-	-	-	-	461,063
.Inter-segmental	3,448,892	-	-	-	(3,448,892)	-
	3,909,955	-	-	-	(3,448,892)	461,063
Investments during the period	83,973	88,794	19,289	629,005	23,860	844,921
Depreciation, depletion and amortization	(255,215)	(86,862)	(23,390)	(143,875)	(25,741)	(535,083)

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	From 1/1 to 09/30/2018					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	246,038	1,303,887	1,906,140	617,987	(4,792)	4,069,260
.Foreign market	-	997,207	212,023	1,952,668	-	3,161,898
Revenue from sales to third parties	246,038	2,301,094	2,118,163	2,570,655	(4,792)	7,231,158
Revenue between segments	1,050,707	1,063,189	15,478	60,505	(2,189,879)	-
Total net sales	1,296,745	3,364,283	2,133,641	2,631,160	(2,194,671)	7,231,158
Changes in the fair value of biological assets	250,344	-	-	-	-	250,344
Cost of products sold	(1,482,894)	(2,206,786)	(1,809,986)	(1,313,504)	2,191,395	(4,621,775)
Gross profit	64,195	1,157,497	323,655	1,317,656	(3,276)	2,859,727
Operating income (expenses)	(88,366)	(317,342)	(269,117)	(278,579)	(18,065)	(971,469)
Operating result before finance result	(24,171)	840,155	54,538	1,039,077	(21,341)	1,888,258
Sales of products (in metric tons)						
.Domestic market	-	421,836	536,016	221,966	-	1,179,818
.Foreign market	-	328,534	39,203	780,071	-	1,147,808
.Inter-segmental	-	592,705	2,330	21,792	(616,827)	-
	-	1,343,075	577,549	1,023,829	(616,827)	2,327,626
Sales of timber (in metric tons)						
.Domestic market	1,665,552	-	-	-	-	1,665,552
.Inter-segmental	10,014,002	-	-	-	(10,014,002)	-
	11,679,554	-	-	-	(10,014,002)	1,665,552
Investments during the period	275,310	163,141	109,815	104,909	23,249	676,424
Depreciation, depletion and amortization	(538,181)	(234,187)	(52,183)	(421,404)	(12,259)	(1,258,214)
Total assets - 09/30/2018	7,449,577	5,183,516	1,838,051	7,772,890	7,118,933	29,362,967
Total liabilities - 09/30/2018	1,892,682	340,354	372,517	288,701	20,448,791	23,343,045
Equity - 09/30/2018	5,556,895	4,843,162	1,465,534	7,484,189	(13,329,858)	6,019,922

	From 7/1 to 09/30/2018					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	88,502	482,075	678,172	253,018	(1,623)	1,500,144
.Foreign market	-	351,945	76,884	877,853	-	1,306,682
Revenue from sales to third parties	88,502	834,020	755,056	1,130,871	(1,623)	2,806,826
Revenue between segments	386,886	375,732	5,638	26,322	(794,578)	-
Total net sales	475,388	1,209,752	760,694	1,157,193	(796,201)	2,806,826
Changes in the fair value of biological as	62,086	-	-	-	-	62,086
Cost of products sold	(501,150)	(670,754)	(629,047)	(467,082)	655,243	(1,612,790)
Gross profit	36,324	538,998	131,647	690,111	(140,958)	1,256,122
Operating income (expenses)	(33,315)	(108,755)	(95,200)	(100,195)	(19,599)	(357,064)
Operating result before finance result	3,009	430,243	36,447	589,916	(160,557)	899,058
Sales of products (in metric tons)						
.Domestic market	-	153,531	186,075	81,083	-	420,689
.Foreign market	-	105,737	12,851	314,325	-	432,913
.Inter-segmental	-	207,648	833	8,298	(216,779)	-
	-	466,916	199,759	403,706	(216,779)	853,602
Sales of timber (in metric tons)						
.Domestic market	578,992	-	-	-	-	578,992
.Inter-segmental	3,672,084	-	-	-	(3,672,084)	-
	4,251,076	-	-	-	(3,672,084)	578,992
Investments during the period	103,008	85,106	35,769	21,990	7,449	253,322
Depreciation, depletion and amortization	(170,208)	(80,013)	(17,673)	(140,143)	(4,369)	(412,406)

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The balance in the Corporate/eliminations column refers to the corporate unit's expenses not apportioned among the segments, and eliminations refer to adjustments of operations between the segments.

Information about the finance result and income tax was not disclosed in the segment reporting because management does not utilize such data on a segmental basis, and the data is instead managed and analyzed on a consolidated basis.

c) Information on net sales revenue

The table below shows the distribution of net revenue by country results for the nine-month periods ended September 30, 2019 and 2018:

Country	Consolidated			
	7/1 à 09/30/2019		1/1 à 09/30/2019	
	Total revenue (R\$/million)	% of total net revenue	Total revenue (R\$/million)	% of total net revenue
Austria	41	1.7 %	964	12.7 %
China	181	7.3 %	352	4.7 %
Argentina	103	4.2 %	344	4.5 %
United States	174	7.0 %	268	3.5 %
Italy	54	2.2 %	145	1.9 %
Singapore	41	1.7 %	90	1.2 %
Mexico	22	0.9 %	65	0.9 %
Saudi Arabia	25	1.0 %	65	0.9 %
Ecuador	17	0.7 %	62	0.8 %
Other	243	9.8 %	701	9.3 %
	901	36%	3,056	40%

Country	Consolidated			
	From 7/1 to 09/30/2018		From 1/1 to 09/30/2018	
	Total revenue (R\$/million)	% of total net revenue	Total revenue (R\$/million)	% of total net revenue
Austria	766	27.3 %	1,789	24.7 %
Argentina	153	5.5 %	417	5.8 %
China	93	3.3 %	167	2.3 %
Singapore	0	0.0 %	67	0.9 %
Italy	24	0.9 %	61	0.8 %
Ecuador	25	0.9 %	60	0.8 %
Mexico	17	0.6 %	56	0.8 %
Colombia	22	0.8 %	56	0.8 %
Pakistan	17	0.6 %	43	0.6 %
Other	190	6.8 %	446	6.2 %
	1,307	47%	3,162	44%

For the nine-month period ended September 30, 2019, in the pulp and paper segments, two clients were responsible for approximately 23% of the Company's net revenue, 13% (R\$ 959,229) in the paper segment and 10% (R\$ 780,349) in the pulp segment, corresponding to approximately R\$ 1,739,577 (R\$ 2,333,078 on September 30, 2018 or 32%, 11% (R\$ 821,653) on paper segment and 21% (R\$ 1,511,425) on Pulp Segment). The remaining customer base is diluted as none of the other customers individually accounts for a material share (above 10%) of the Company's net sales revenue.

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26 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Risk management

The Company and its subsidiaries engage in transactions involving financial instruments, all of which are recorded in asset and liabilities accounts, intended to meet their operating needs, as well as to reduce exposure to financial risks, especially credit and cash investments, market (currency and interest rate) and liquidity risk, to which the Company understands that it is exposed, according to its business nature and operating structure.

These risks are managed through the definition of strategies prepared and approved by Company management, linked to the establishment of control systems and determination of position limits. There are no transactions involving financial instruments for speculative purposes.

Additionally, management proceeds with the timely assessment of the Company's consolidated position, monitoring the financial results obtained, evaluating future projections as a way of ensuring compliance with the defined business plan, and monitoring the risks to which the Company is exposed.

The Company's main risks are described below:

Market risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. In the case of the Company, market prices are affected by two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include financial investments, trade accounts receivable, accounts payable, loans payable and securities.

(i) Currency risk

The Company has operations denominated in foreign currencies (substantially US dollars), which are exposed to market risks arising from changes in the prices of the respective foreign currencies. Any exchange rate fluctuation may increase or decrease such balances. Breakdown of this exposure is as follows:

	Consolidated	
	09/30/2019	12/31/2018
Bank deposits and financial investments	2,245,264	540,855
Trade receivables (net of provision for doubtful debts)	864,475	740,111
Other assets and liabilities	138,000	(22,000)
Borrowing	(19,082,842)	(12,247,491)
Net exposure	(15,835,103)	(10,988,525)

The balance per year due as of September 30, 2019 of this net exposure is divided as follows:

Year	2019	2020	2021	2022	2023	2024	2025 onwards	Total
Amount	3,182,897	(374,000)	(361,000)	(392,000)	(3,107,000)	(2,689,000)	(12,095,000)	(15,835,103)

As of September 30, 2019, the Company contracted no derivatives to hedge against currency exposure in long-term cash flow. In order to cope with such net liability exposure, the Company has a sales plan whose projected cash flow from export revenues of approximately USD 1 billion per year and its

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receipts, if realized, exceeds or approximates the payment flow of the respective liabilities, offsetting the cash effect of this currency exposure in the future.

The Company contracted derivatives (Notes 15 and 16) that refer to foreign exchange swaps and interest rates linked to the issuance of certain export credit notes and debentures.

(ii) Interest rate risk

The Company has loans indexed by reference to TJLP, LIBOR, IPCA and CDI, and short-term investments indexed by reference to CDI, Selic and IPCA, exposing these assets and liabilities to fluctuations in interest rates, as shown in the table below. The Company entered into no derivative contracts to hedge / swap against exposure to these market risks.

The practice adopted is to continuously monitor market interest rates in order to assess any need to contract derivatives to hedge against these rates' volatility risk. In addition, the Company considers that the high cost associated with contracting fixed rates practiced by the Brazilian macroeconomic scenario justifies its option for floating rates.

Breakdown of interest rate risk is as follows:

	09/30/2019	12/31/2018
Financial investments - CDI	8,488,247	5,112,257
Financial investments - Selic	892,667	852,778
Financial investments - IPCA	466,883	452,623
Asset exposure	9,847,797	6,417,658
Financing - CDI	(4,656,788)	(4,740,513)
Financing - TJLP	(1,621,253)	(1,873,142)
Financing - LIBOR	(6,563,425)	(7,101,719)
Debentures - IPCA	(1,929,089)	(662,676)
Liability exposure	(14,770,555)	(14,378,050)

Investment-related risk

The Company is subject to the risk of investment of funds, including deposits with banks and financial institutions, foreign exchange transactions, financial investments and other contracted financial instruments. The amount exposed by the Company substantially corresponds to short-term investments and operation of securities, described in Notes 4 and 5, respectively.

Regarding the quality of the Company's financial assets invested in financial institutions, an internal policy is used to approve the type of transaction being agreed upon, and a rating analysis, according to risk rating agencies, to assess the feasibility of investing funds in a particular institution, as long as this institution meets the policy acceptance criteria.

The table below shows cash, cash equivalents and marketable securities invested by the Company, classifying the amounts according to the rating of Brazilian financial institutions provided by Fitch and Moody's rating agencies:

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	Consolidated	
	09/30/2019	12/31/2018
National rating AAA(bra)	8,027,191	4,665,185
National rating AA+(bra)	4,125,860	2,382,019
	12,153,051	7,047,204

Credit risk

This is the risk that a business counterparty will fail to meet an obligation under a financial instrument or customer contract, which would lead to financial loss. In addition to the investments mentioned above, the Company is exposed to credit risk in its operating activities (mainly in relation to accounts receivable).

As of September 30, 2019, the maximum amount exposed by the Company to credit risk on trade accounts receivable is equivalent to the balances presented in Note 6. Information on customer concentration is described in Note 25.

The credit risk quality in the Company's operating activities is managed by means of specific customer acceptance standards, credit analysis and establishment of exposure limits per customer, which are periodically reviewed. Monitoring of trade notes overdue is promptly performed to seek their receipt, and estimated losses on doubtful accounts are recorded for items subject to the risk of non-receipt.

The Company takes out insurance for domestic and foreign market receivables for all business units as described in Note 6.

Liquidity risk

The Company monitors the risk of fund shortages in the global market by managing its capital through a recurring liquidity planning tool to ensure available funds for properly fulfilling its obligations, substantially concentrated in financing taken out from financial institutions.

The table below shows the maturity of the financial liabilities contracted by the Company, in the consolidated balance sheet, where the amounts presented include the principal amount and future interest on operations, calculated using the rates and indices effective on September 30, 2019:

	2019	2020	2021	2022	2023	2024 onwards	Total
Trade payables	(978,019)	-	-	-	-	-	(978,019)
Financing/debentures	(508,369)	(2,610,848)	(2,080,059)	(2,844,396)	(5,522,160)	(26,209,602)	(39,775,434)
Total	(1,486,388)	(2,610,848)	(2,080,059)	(2,844,396)	(5,522,160)	(26,209,602)	(40,753,453)

The budget projection for the coming years approved by management demonstrates the Company's ability to meet its obligations.

Capital management

The Company's capital structure is composed of net debt, consisting of loans and financing (Note 15) and debentures (Note 16), less cash and cash equivalents and marketable securities (Notes 4 and 5), and equity (Note 19), including issued capital and all reserves recorded.

The net debt to equity ratio of the Company is composed as follows:

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	09/30/2019	12/31/2018
Cash and cash equivalents and marketable securities	12,153,051	7,047,204
Borrowing and debentures	(27,249,268)	(19,445,672)
Net indebtedness	(15,096,217)	(12,398,468)
Equity	5,973,561	6,292,235
Net indebtedness ratio	(2.53)	(1.97)

b) Financial instruments, by category

The Company has the following categories of financial instruments:

	Consolidated	
	09/30/2019	12/31/2018
Assets - at amortized cost		
. Cash and cash equivalents	10,784,957	5,733,854
. Trade receivables (net of provision for impairment of trade receivables)	2,082,180	2,040,931
. Other assets	639,177	685,133
	13,506,314	8,459,918
Assets - fair value by results		
. Marketable securities	1,368,094	1,313,350
	1,368,094	1,313,350
Liabilities - at amortized cost		
. Borrowing and debentures	27,249,268	19,445,672
. Trade payables	978,019	903,752
. Other payables	836,202	1,146,722
	29,063,489	21,496,146

(i) Amortized cost

The financial instruments included in this group refer to balances arising from usual transactions, such as accounts receivables, trade payables, borrowings and debentures, marketable securities and cash and cash equivalents maintained by the Company. All these instruments are recorded at their notional amounts plus, when applicable, contractual charges and interest, in respect of which the related income and expenses are recognized in the results for the period.

(ii) Fair value through profit or loss

The Company classifies its investments in LFTs and NTN-B (Note 5) as financial assets, since they can be traded in the future. These are recorded at fair value, which, in practice, corresponds to the invested amount plus interest on the transaction.

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c) Sensitivity analysis

The Company presents below the sensitivity analysis of foreign exchange and interest rate risks to which it is exposed, considering that any effects would affect the future results, based on the exposure at September 30, 2019. The effects on equity are the same as those on the results. This sensitivity analysis does not assess the impacts of exchange rate differences on the Company's cash flow.

(i) Foreign Exchange exposure

The Company had assets and liabilities indexed to a foreign currency in the balance sheet at September 30, 2019, and, for sensitivity analysis purposes, it adopted as scenario I the future market rate in effect at the end of the reporting period. For scenarios II and III this rate was adjusted by 25% and 50%, respectively.

The sensitivity analysis of the foreign exchange variation is calculated in respect of the net foreign exchange exposure (borrowings, accounts receivables and trade payables in foreign currency), not being the projection export sales that, will offset in case of any future foreign exchange losses.

Accordingly, the table below shows a simulation of the effect of the foreign exchange variation on the future results for the next 12 months, if all other variables remain constant, considering the consolidated balances at September 30, 2019:

	At 09/30/2019	Scenario I		Scenario II		Scenario III	
	US\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Assets							
Cash and cash equivalents	539,234	4.09	(37,207)	5.12	515,616	6.14	1,065,635
Trade receivables, net of allowance for doubtful debts	207,617	4.09	(14,326)	5.12	198,523	6.14	410,292
Other assets and liabilities	33,143	4.09	(2,287)	5.12	31,691	6.14	65,497
Financing	(4,583,035)	4.09	316,229	5.12	(4,382,298)	6.14	(9,056,994)
Net effect on finance results			262,409		(3,636,468)		(7,515,570)

(ii) Exposure to interest rate fluctuations

Marketable securities, borrowings and debentures, are indexed to TJLP, IPCA, SELIC, LIBOR, and CDI floating interest rate. For sensitivity analysis purposes, the Company adopted the rates prevailing at dates close to the presentation dates of quarterly financial information, extracted on the website of the Central Bank of Brazil, using these same rates for SELIC, LIBOR, IPCA and CDI, due to their proximity, in the scenario I projection. For scenarios II and III, these rates were adjusted by 25% and 50%, respectively.

Accordingly, with all other variables held constant, the table below shows a simulation of the effect of the interest rate variation on the future results for the next 12 months consolidated, considering the balances at September 30, 2019:

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		At 09/30/2019	Scenario I		Scenario II		Scenario III	
		R\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Financial investments								
CDBs	CDI	8,488,247	5.40%	74,697	7.85%	207,962	9.42%	341,228
LFTs	Selic	892,667	5.40%	7,855	7.85%	21,870	9.42%	35,885
NTN - B	IPCA	466,883	3.42%	6,210	5.94%	11,754	7.13%	17,298
Financing								
Export Credit Notes - NCE (R\$) and Agribusiness Receivables Certificate - CRA								
	CDI	(4,656,788)	5.40%	(40,980)	7.85%	(114,091)	9.42%	(187,203)
BNDES	TJLP	(1,621,253)	5.95%	6,161	6.96%	(16,415)	8.36%	(38,991)
Debentures	IPCA	(1,276,111)	3.42%	(16,972)	5.94%	(32,126)	7.13%	(47,280)
Export prepayment and Finnvera	Libor	(6,563,425)	1.91%	(7,737)	2.54%	(41,081)	3.05%	(74,426)
Net effect on finance results				29,234		37,873		46,511

27 INSURANCE COVERAGE

To protect its operational, assets and liabilities risks, the Company had insurance against many types of events that could impact on equity and operations.

Within the best market practices, the Company maintains operational risk insurance against fire, lightning, explosions, electrical damage and windstorms for its industrial and administrative facilities and inventory.

The Company also has other insurance coverage, such as for general civil liability, responsibility of directors and officers, National and International Transportation and forest insurance.

28 EVENTS AFTER THE REPORTING PERIOD

Constitution of Klabin Paranaguá SPE S.A.

On October 21, 2019, the wholly-owned subsidiary “Klabin Paranaguá SPE S.A.” was incorporated, with subscribed and paid-in capital of R\$ 20,000 divided into 20,000 nominative shares with no par value, headquartered in Paranaguá - PR.

The Company's sole and exclusive purpose is to lease public areas, port facilities and infrastructure located within the Paranaguá Organized Port, to perform landing activities (unloading, internal handling, warehousing and dispatch) and loading (receipt, warehousing, internal handling and shipment) of general cargo, especially pulp and paper, all under the terms of the Draft of the Lease Agreement resulting from Auction No. 03/2019-ANTAQ, to be signed with the Federal Government through the Ministry of Infrastructure.

As announced to the market on August 13, 2019, Klabin S.A. won a warehouse bid at the Port of Paranaguá for handling and storage of general cargo, especially pulp and paper, at an auction held at B3's headquarters in São Paulo. The lease guarantees access to an area of 27,530 sqm for 25 years, which can be extended for another 45 years, with expected total investments of R\$ 130 million and scheduled to start operations in January 2022.

The interest of the Company was motivated by the great representativeness of the Port of Paranaguá in its export volume, targeting both the current volumes and those related to the new Puma 2 paper machines. This operation will bring long term operational guarantee, allowing direct rail connection.

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from manufacturing operations to the Terminal in the primary zone, with high loading efficiency and mooring preference.

Taking advantage of the flexibility to handle and store pulp and paper, and reducing its logistics cost, Klabin optimizes its insertion in the global pulp and paper markets through an even more agile and efficient structure.

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Klabin

**Financial statements at December 31, 2018 and 2017 and
independent auditor's report**



São Paulo Corporate Towers
Av. Presidente Juscelino Kubitschek, 1.909
Vila Nova Conceição
04543-011 - São Paulo – SP - Brazil

Phone: +55 11 2573-3000
ey.com.br

A free translation from Portuguese into English of independent auditor's report on individual and consolidated financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

Independent auditor's report on individual and consolidated financial statements

The Board of Directors, Shareholders and Officers

Klabin S.A.

São Paulo - SP

Opinion

We have audited the individual and consolidated financial statements of Klabin S.A. (the "Company"), identified as Individual and Consolidated, respectively, which comprise the balance sheets as at December 31, 2018 and the statements of operations, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Klabin S.A. as at December 31, 2018, and its individual and consolidated financial performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Tax credits

At December 31, 2018, tax credits recoverable, amounting to R\$ 1,548,775 thousand and R\$ 1,550,539 thousand, Individual and Consolidated, respectively, and to R\$ 1,090,758 thousand and R\$ 1,090,786 thousand, Individual and Consolidated, respectively, disclosed in Notes 9 and 10, respectively, mainly arise from State VAT (ICMS) and Federal VAT (IPI) credits recoverable, which are directly associated with expected ICMS and IPI payable to offset these credits and income and social contribution tax credits on temporary differences, which are directly associated with projected future taxable profits.

Due to the magnitude of the amounts involved and the complexity of the future tax recoverability projection measurement process, which are based on estimates and assumptions whose realization may be affected by uncertain market conditions and economic scenarios, as well as tax legislation complexity, this matter was considered a key audit matter.

Our audit procedures included, among others, the engagement of tax specialists to help us assess the tax impacts involved. Review of the assumptions used by the Company and its subsidiaries in developing the model used to measure the recoverable amount of tax credits, which considers estimates of future results, estimates of future sales and discount, inflation projection, exchange rates, profitability of the Company's and its subsidiaries' business and profit margin.

We also reviewed the information disclosed by the Company in Notes 9 and 10, the source of the amounts, the assumptions used in relation to estimated future profitability and realization of such credits in the short and long term.

Based on the result of the audit procedures performed on tax credits, which is consistent with management's assessment, we consider that the criteria and assumptions adopted for realization of such tax credits adopted by management, as well as the respective disclosures in Notes 9 and 10, are acceptable, in the context of the financial statements taken as a whole.

Measurement of biological assets

The Company and its subsidiaries record their eucalyptus and pine forests (biological assets) at fair value. At December 31, 2018, the fair value of biological assets, as disclosed in Note 13, was R\$ 3,303,774 thousand and R\$ 4,582,631 thousand, Individual and Consolidated, respectively.

Due to the magnitude of the amounts involved and complexity of the biological asset fair value calculation process, which, as disclosed in Notes 2.2 j) and 13, takes into account several assumptions that involved a high degree of judgment by Company management, such as: forest growth ratio, forest age when the fair value differs from its historical cost, interest rates for cash flow discounts, productivity estimates, projected harvest volume and price of standing timber, this matter was considered a key audit matter.

Our audit procedures included, among others, an understanding of the internal controls related to the forestry activity of the Company and its subsidiaries, engagement of our specialists in assessing the assumptions and methodologies used by the Company, in particular with relation to estimated forest growth ratio, forest age when the fair value differs from its historical cost, interest rates for cash flow discounts, productivity estimates, projected harvest volume and price of standing timber, as well as an assessment of the adequate disclosure by the Company of the assumptions used in fair value measurement calculations, both in noncurrent assets and their effects on profit or loss in the financial statements for the year.

Based on the result of the audit procedures performed on the measurement of the fair value of biological assets, which is consistent with management's assessment, we consider that the criteria and assumptions adopted for measurement of the fair value of biological assets by management, as well as the respective disclosures in Notes 2.2j and 13, are acceptable, in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2018, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's

and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 6, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP034519/O-6

Rita de C. S. Freitas
Accountant CRC-1SP214160/O-5

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of reais

BALANCE SHEETS AT DECEMBER 31, 2018 AND 2017 (in thousands of reais)

	Note	Parent Company		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
ASSETS					
Current					
Cash and cash equivalents	4	5,337,203	6,650,697	5,733,854	7,028,422
Marketable securities	5	1,305,401	1,236,386	1,313,350	1,243,173
Accounts receivable:					
. Trade receivables	6	1,818,806	1,633,696	2,086,325	1,794,196
. Allowance for doubtful accounts	6	(45,092)	(40,096)	(45,394)	(40,133)
Related parties	7	373,793	307,544	-	-
Inventory	8	1,117,179	873,341	1,206,353	933,161
Taxes recoverable	9	267,964	555,596	269,728	567,079
Other assets		304,008	274,338	297,718	277,691
Total current assets		10,479,262	11,491,502	10,861,934	11,803,589
Non-current					
Judicial deposits	17	85,226	82,380	86,658	83,381
Taxes recoverable	9	1,280,811	1,286,722	1,280,811	1,287,669
Other assets		303,655	348,001	300,757	344,233
		1,669,692	1,717,103	1,668,226	1,715,283
Investments:					
. Interests in subsidiaries and joint venture	11	1,341,177	1,106,103	165,652	171,673
. Other		7,607	1,773	7,607	1,773
Property, plant and equipment	12	12,178,658	12,599,191	12,262,472	12,619,495
Biological assets	13	3,303,774	3,272,496	4,582,631	4,147,779
Intangible assets		85,177	89,919	85,221	89,949
		16,916,393	17,069,482	17,103,583	17,030,669
Total non-current assets		18,586,085	18,786,585	18,771,809	18,745,952
Total assets		29,065,347	30,278,087	29,633,743	30,549,541

The explanatory notes are an integral part of the financial statements

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of reais

BALANCE SHEETS AT DECEMBER 31, 2018 AND 2017 (In thousands of reais)

	No te	Parent Company		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
LIABILITIES AND EQUITY					
Current					
Borrowings	14	1,917,808	2,230,123	1,913,779	2,230,624
Debentures	15	61,686	239,276	61,686	239,276
Trade payables	16	894,330	702,040	903,752	713,612
Tax payables		50,452	55,445	50,832	55,673
Social security and labor obligations		296,189	276,981	300,379	281,466
Related parties	7	24,751	15,449	4,692	4,346
Dividends and interest on shareholders' equity payable	18	250,000	-	250,000	-
Enrollment in Tax Recovery Program (REFIS)	17	73,862	71,467	73,862	71,467
Other payables and provisions		139,813	130,756	149,334	150,869
Total current liabilities		3,708,891	3,721,537	3,708,316	3,747,333
Non-current					
Borrowings	14	16,915,268	16,486,426	16,869,217	16,444,917
Debentures	15	600,990	634,594	600,990	634,594
Income tax and social contribution					
Deferred income tax and social contribution	10	938,207	1,528,670	959,906	1,544,578
Provision for tax, social security, labor and civil contingencies	17	64,118	65,377	64,118	65,377
Payables - Investors in Special Partnership Companies (SPCs)		-	-	301,583	272,938
Enrollment in Tax Recovery Program (REFIS)	17	265,587	307,476	265,587	307,476
Other payables and provisions		280,051	299,856	330,796	298,177
Total non-current liabilities		19,064,221	19,322,399	19,392,197	19,568,057
Total liabilities		22,773,112	23,043,936	23,100,513	23,315,390
Equity					
Share capital		4,076,035	2,516,753	4,076,035	2,516,753
Capital reserves		(361,231)	1,187,329	(361,231)	1,187,329
Revaluation reserve		48,705	48,705	48,705	48,705
Profit reserves		1,748,219	2,699,577	1,748,219	2,699,577
Other comprehensive income		977,122	987,916	977,122	987,916
Treasury shares		(196,615)	(206,129)	(196,615)	(206,129)
Shareholders' equity of Klabin	18	6,292,235	7,234,151	6,292,235	7,234,151
Non-controlling interest	1	-	-	240,995	-
Consolidated shareholders' equity		6,292,235	7,234,151	6,533,230	7,234,151
Total liabilities and equity		29,065,347	30,278,087	29,633,743	30,549,541

The explanatory notes are an integral part of the financial statements

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of reais

STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (in thousands of reais, except for basic profit/diluted per share)

	Note	Parent Company		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
Net sales revenue	19	10,008,815	8,393,548	10,016,461	8,373,378
Variation in the fair value of biological assets	13	466,074	649,322	628,367	789,661
Cost of products sold	20	(6,385,515)	(6,387,899)	(6,342,406)	(6,427,492)
Gross profit		<u>4,089,374</u>	<u>2,654,971</u>	<u>4,302,422</u>	<u>2,735,547</u>
Operating expenses					
Sales	20	(741,066)	(645,617)	(764,348)	(656,844)
General and administrative	20	(543,044)	(512,743)	(558,205)	(528,398)
Other net	20	(8,341)	(8,244)	(2,228)	(11,877)
		<u>(1,292,451)</u>	<u>(1,166,604)</u>	<u>(1,324,781)</u>	<u>(1,197,119)</u>
Equity results of investees and joint venture	11	<u>152,762</u>	<u>76,396</u>	<u>5,964</u>	<u>13,624</u>
Profit before finance result and taxes		<u>2,949,685</u>	<u>1,564,763</u>	<u>2,983,605</u>	<u>1,552,052</u>
Finance result	21	<u>(3,049,112)</u>	<u>(690,252)</u>	<u>(3,052,186)</u>	<u>(713,384)</u>
Profit (loss) before taxes on income		<u>(99,427)</u>	<u>874,511</u>	<u>(68,581)</u>	<u>838,668</u>
Income tax and social contribution					
. Current	10 b/c	(305,223)	(292,730)	(322,236)	(299,948)
. Deferred	10 b/c	<u>542,105</u>	<u>(49,612)</u>	<u>577,635</u>	<u>(6,551)</u>
		<u>236,882</u>	<u>(342,342)</u>	<u>255,399</u>	<u>(306,499)</u>
Profit for the year		<u>137,455</u>	<u>532,169</u>	<u>186,818</u>	<u>532,169</u>
Attributed to Klabin's shareholders		<u>-</u>	<u>-</u>	<u>137,455</u>	<u>-</u>
Attributed to non-controlling shareholders		<u>-</u>	<u>-</u>	<u>49,363</u>	<u>-</u>
Basic earnings per common share - R\$	23	<u>0.0261</u>	<u>0.1013</u>	<u>0.0261</u>	<u>0.1013</u>
Diluted earnings per common share - R\$	23	<u>0.0261</u>	<u>0.1013</u>	<u>0.0261</u>	<u>0.1013</u>

The explanatory notes are an integral part of the financial statements

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of reais

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(in thousands of reais)

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Profit for the year	137,455	532,169	186,818	532,169
Other comprehensive income:				
. Foreign currency translation adjustments (i)	(9,344)	(6,509)	(9,344)	(6,509)
. Actuarial liability remeasurement (ii)	(729)	(5,911)	(729)	(5,911)
Total comprehensive income for the year, net of taxes	127,382	519,749	176,745	519,749
Attributed to Klabin's shareholders	127,382	519,749	127,382	519,749
Attributed to non-controlling shareholders	-	-	49,363	-

(i) Effects that may in the future impact the result only in case of sale of the investee.

(ii) Effects that will never be transferred to profit or loss, net of deferred income tax and social contribution at a rate of 34%

The explanatory notes are an integral part of the financial statements

	Revaluation reserve		Revenue reserves					Other comprehensive income value adjustments	Treasury shares	Retained earnings	Shareholder's equity from Klabin	Non-controlling interest
	Share capital	Capital reserves	Own assets	Legal	Tax incentives	Biological assets	Proposed dividends	Investments and working capital				
At December 31, 2016	2,384,484	1,301,907	48,705	125,610	75,776	869,858	-	1,471,840	1,028,238	(206,082)	-	7,100,336
Profit for the year	-	-	-	-	-	-	-	-	-	532,169	532,169	-
Other comprehensive income for the year	-	-	-	-	-	-	-	-	(12,420)	-	(12,420)	-
Comprehensive income for the year	-	-	-	-	-	-	-	-	(12,420)	532,169	519,749	-
Conversion of mandatory debentures convertible into shares	132,269	(132,269)	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(11,468)	-	(11,468)	-
Stock option plan (Note 22):	-	-	-	-	-	-	-	-	-	-	-	-
. Treasury shares sold	-	7,386	-	-	-	-	-	-	5,756	5,756	13,142	-
. Award of treasury shares	-	-	-	-	-	-	-	-	(5,754)	5,754	-	-
. Recognition of the stock option plan remuneration	-	-	-	-	-	-	-	-	14,426	-	14,426	-
. Maturity of stock option plan	-	10,305	-	-	-	-	-	-	(10,305)	-	-	-
. Grant plan outflow	-	-	-	-	-	-	-	-	(89)	-	(89)	-
Allocation of net income for the year (Note 18):	-	-	-	23,870	-	-	-	-	-	(23,870)	-	-
. Constitution of legal reserves	-	-	-	-	-	-	-	-	-	609,555	-	-
. Realization of biological asset reserves (own)	-	-	-	-	-	(609,555)	-	-	-	26,269	-	-
. Realization of deemed cost of land (own)	-	-	-	-	-	-	-	-	(26,269)	-	-	-
. Constitution of biological asset reserves (own)	-	-	-	-	-	428,553	-	-	-	(428,553)	-	-
. Constitution of biological asset reserves (subsidiaries) (*)	-	-	-	-	-	50,937	-	-	-	(50,937)	-	-
. Constitution of tax incentive reserves	-	-	-	-	54,775	-	-	-	-	(54,775)	-	-
Profit sharing - mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	-	(74,945)	(74,945)	-
Dividends paid for the year 2017	-	-	-	-	-	-	-	(159,000)	-	(168,000)	(327,000)	-
. Proposed additional dividends for the year 2017	-	-	-	-	-	-	171,000	-	-	(171,000)	-	-
. Constitution of investment and working capital reserves	-	-	-	-	-	-	-	195,913	-	(195,913)	-	-
At December 31, 2017	2,516,753	1,187,329	48,705	149,480	130,551	739,793	171,000	1,508,753	987,916	(206,129)	-	7,234,151

(*) Net effect between the addition, reversal or realization of the balances contained in the equity in the results of investments.
The accompanying notes are an integral part of the financial statements.

	Revaluation reserve		Revenue reserves					Other comprehensive income value adjustments		Treasury shares	Retained earnings	Shareholder's equity from Kiabin	Non-controlling interests
	Share capital	Capital reserves	Own assets	Legal	Tax incentives	Biological assets	Proposed dividends	Investments and working capital					
At December 31, 2017	2,516,753	1,167,329	48,705	149,480	130,551	739,793	171,000	1,508,753	987,916	(206,129)	-	7,234,151	
Profit for the year											137,455	137,455	
Other comprehensive income for the year									(10,073)			(10,073)	
Comprehensive income for the year	-	-	-	-	-	-	-	-	(10,073)	-	137,455	127,382	
Conversion of mandatory debentures convertible into shares	1,559,282	(1,559,282)											
Capital contribution from non-controlling shareholders (Note 1.7)													
Payment for 2017 supplementary dividends							(171,000)					(171,000)	
2018 Dividends distributed with reserves								(529,000)				(529,000)	
Interest on equity for 2018 distributed with reserves								(390,000)				(390,000)	
<u>Stock option plan (Note 22):</u>													
. Treasury shares sold		8,023								4,903		12,926	
. Award of treasury shares									(4,903)	4,903			
. Recognition of the stock option plan remuneration									8,118			8,118	
. Maturity of stock option plan		2,699							(2,699)				
. Grant plan outflow									(50)	(292)		(342)	
<u>Allocation of net income for the year (Note 18):</u>													
. Constitution of tax incentive reserves					59,368						(59,368)		
. Constitution of legal reserves				3,904							(3,904)		
. Realization of biological asset reserves (own)									(1,187)		1,187		
. Realization of deemed cost of land (own)						(241,173)					241,173		
. Constitution of biological asset reserves (own)						307,609					(307,609)		
. Constitution of biological asset reserves (subsidiaries) (*)						8,934					(8,934)		
At December 31, 2018	4,076,035	(361,231)	48,705	153,384	189,919	815,163	-	589,753	977,122	(196,615)	-	6,292,235	2

(*) Net effect between the addition, reversal or realization of the balances contained in the equity in the results of investees

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of reais

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (in thousands of reais)

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Net cash provided by operating activities	2,652,396	2,063,560	2,786,976	1,792,978
Cash provided by operations	2,737,307	2,202,815	2,800,229	2,049,877
Net profit for the year	137,455	532,169	186,818	532,169
Depreciation and amortization	1,074,950	973,875	1,018,046	993,750
Change in fair value of biological assets	(466,074)	(649,322)	(628,367)	(789,661)
Depletion of biological assets	536,030	800,860	655,301	946,737
Deferred income tax and social contribution	(542,105)	49,612	(577,635)	6,551
Interest and foreign exchange variations on borrowings	3,342,726	1,292,987	3,320,094	1,265,244
Interest and monetary variations on debentures	30,174	98,984	30,174	98,984
Amortization - adjustment to present value of debentures	-	15,096	-	15,096
Payment of interest on borrowings	(1,092,418)	(831,857)	(1,067,175)	(993,519)
Accrued interest - REFIS	33,640	41,708	33,640	41,708
Result on disposal of assets	(14,532)	(29,319)	(14,532)	(29,319)
Equity results of investees and joint venture	(152,762)	(76,396)	(5,964)	(13,624)
Income tax and social contribution paid	(155,477)	-	(160,144)	(5,098)
Other	5,700	(15,582)	9,973	(19,141)
Changes in assets and liabilities	(84,911)	(139,255)	(13,253)	(256,899)
Trade receivables and related parties	(246,363)	37,136	(286,868)	(128,683)
Inventories	(243,838)	(69,388)	(273,192)	(56,246)
Taxes recoverable	449,020	506,982	464,353	508,377
Marketable securities	(69,015)	(645,083)	(70,177)	(651,870)
Other assets	(8,199)	(52,374)	143	(51,005)
Suppliers	82,337	100,456	80,187	97,074
Tax obligations	(4,993)	7,887	(4,841)	2,030
Social security and labor obligations	19,208	23,108	18,913	23,754
Other liabilities	(63,068)	(47,979)	58,229	(330)
Net cash used in investing activities	(760,699)	(744,773)	(1,049,222)	(838,817)
Purchase of property, plant and equipment	(564,613)	(682,578)	(634,557)	(687,914)
Planting cost of biological assets	(243,677)	(150,799)	(461,786)	(237,371)
Proceeds from disposal of assets	35,136	81,368	35,136	81,368
Dividends received from subsidiaries	12,455	7,236	11,985	5,100
Net cash provided used in financing activities	(3,205,191)	88,790	(3,032,322)	201,541
New borrowings	2,403,318	4,180,258	2,385,592	4,093,903
Repayment of borrowings	(4,537,099)	(3,234,838)	(4,531,056)	(3,049,098)
Payment of interest and participation in debenture results	(241,368)	(349,746)	(241,368)	(349,746)
Purchase of treasury shares	-	(11,468)	-	(11,468)
Disposal of treasury shares	12,926	13,142	12,926	13,142
Acquisition of investments and payment of capital in subsidiaries (cash)	(2,968)	(1,558)	191,000	-
Entry of investors - SPCs	-	-	-	132,766
Withdrawal of investors - SPCs	-	-	-	(79,907)
Dividends paid SPCs	-	-	(9,416)	(41,051)
Dividends and interest on shareholders' equity paid	(840,000)	(507,000)	(840,000)	(507,000)
Increase (decrease) in cash and cash equivalents	(1,313,494)	1,407,577	(1,294,568)	1,155,702
Cash and cash equivalent at the beginning of the year	6,650,697	5,243,120	7,028,422	5,872,720
Cash and cash equivalent at the end of the year	5,337,203	6,650,697	5,733,854	7,028,422

The explanatory notes are an integral part of the financial statements

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of reais

STATEMENT OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (in thousands of reais)

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Revenues				
. Sales of products	11,689,086	9,901,965	11,731,478	9,912,712
. Change in fair value of biological assets	466,074	649,322	628,367	789,661
. Other income	35,136	81,366	84,500	81,367
. Allowance for doubtful debts	4,995	1,072	5,236	1,090
	<u>12,195,291</u>	<u>10,633,725</u>	<u>12,449,581</u>	<u>10,784,830</u>
Inputs acquired from third parties				
. Cost of products sold	(3,671,683)	(3,720,459)	(3,680,950)	(3,642,741)
. Materials, electricity, outsourced services and other	(2,088,054)	(1,558,678)	(2,002,898)	(1,564,675)
	<u>(5,759,737)</u>	<u>(5,279,137)</u>	<u>(5,683,848)</u>	<u>(5,207,416)</u>
Gross value added	<u>6,435,554</u>	<u>5,354,588</u>	<u>6,765,733</u>	<u>5,577,414</u>
Retentions				
. Depreciation, amortization and depletion	(1,610,980)	(1,805,600)	(1,673,347)	(1,940,487)
Net value added generated	<u>4,824,574</u>	<u>3,548,988</u>	<u>5,092,386</u>	<u>3,636,927</u>
Value added received through transfer				
. Equity in the results of investees	152,762	76,396	5,964	13,624
. Finance income, including exchange variations	634,274	821,549	652,164	835,088
	<u>787,036</u>	<u>897,945</u>	<u>658,128</u>	<u>848,712</u>
Total value added to distribute	<u>5,611,610</u>	<u>4,446,933</u>	<u>5,750,514</u>	<u>4,485,639</u>
Distribution of value added:				
Personnel				
. Direct compensation	1,004,190	978,440	1,013,378	987,511
. Benefits	305,626	285,929	323,453	305,384
. Government Severance Indemnity Fund for Employees (FGTS)	81,800	80,199	81,970	80,362
	<u>1,391,616</u>	<u>1,344,568</u>	<u>1,418,801</u>	<u>1,373,257</u>
Taxes and contributions				
. Federal	258,567	887,764	250,596	861,110
. State	125,594	160,780	125,594	160,780
. Municipal	14,992	9,851	14,992	9,851
	<u>399,153</u>	<u>1,058,395</u>	<u>391,182</u>	<u>1,031,741</u>
Remuneration of third-party capital				
. Interest	3,683,386	1,511,801	3,704,350	1,548,472
	<u>3,683,386</u>	<u>1,511,801</u>	<u>3,704,350</u>	<u>1,548,472</u>
Remuneration of own capital				
. Dividends, JCP and participation in 6th debenture issuer results	919,000	401,943	919,000	401,943
. Profits reinvested for the period	(781,545)	130,226	(732,182)	130,226
. Net income attributable to non-controlling shareholders	-	-	49,363	-
	<u>137,455</u>	<u>532,169</u>	<u>236,181</u>	<u>532,169</u>
	<u>5,611,610</u>	<u>4,446,933</u>	<u>5,750,514</u>	<u>4,485,639</u>

The explanatory notes are an integral part of the financial statements

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KLABIN S.A.

All amounts in thousands of reais

Notes to the financial statements are presented in thousands of Reais unless otherwise stated

1 GENERAL INFORMATION

Klabin S.A. (the "Company") and its subsidiaries operate in segments of the paper and pulp industry supplying domestic and foreign markets, with wood, packaging paper, paper sacks, corrugated cardboard boxes and pulp. Their operations are fully integrated, from forestry activities to the production of the final products. Klabin S.A. is a publicly held corporation whose shares and certificates of deposit of shares (Units) are traded under the code KLBN11, on the São Paulo Commodities, Futures and Stock Exchange (BM&FBOVESPA). The Company is domiciled in Brazil and headquartered in São Paulo.

The Company also has investments in Special Partnership Companies ("SPCs") for the specific purpose of raising funds from third parties for reforestation projects. The Company has contributed forest assets, mainly forests and land, by granting rights to use, whereas other investing shareholders have contributed cash to these SPCs. The SPCs give Klabin S.A. a preemptive right to acquire forestry products at market prices and conditions.

The Company also has ownership interests in other companies (Notes 3 and 11) whose operational activities relate to the Company's business objectives.

1.1 Declaration of conformity

The issue of these financial statements of Klabin S.A. ("The Company") and its subsidiaries was authorized by the Board of Directors on February 06, 2019.

Management evaluated the Company's and its subsidiaries' ability to continue, being convinced that it has the necessary resources and capacity to develop its business in the future on a continuous basis, with no knowledge of uncertainties or material probabilities that could generate significant doubts regarding its continuity.

The management states that all relevant information inherent to the financial statements, and only them, are being evidenced and correspond to those used by it in its management.

1.2 Merger of Embalplan Indústria e Comércio de Embalagens S.A.

On March 2, 2017, a resolution of the Extraordinary Shareholders' Meeting approved the merger of the Company's subsidiary Embalplan Indústria e Comércio de Embalagens S.A. ("Embalplan") into Klabin S.A. at book value without a subscribed capital increase. The Management's justification for proceeding with the merger is in line with its strategic objective of expanding its activities in the conversion segment.

Being a wholly-owned subsidiary, the balances of Embalplan were already included in the financial statements, therefore there was no impact to the Company's consolidated interim financial information with the said transaction incorporating the balances of the individual information open in all balance sheet rows, as it was in the consolidated.

The shareholders' equity of Embalplan on the merger date was R\$ 36,396, represent by a balance of R\$ 87,896 of goodwill of more value of assets and goodwill, totaling R\$ 124,382 of the balance of "Investments in controlled entities", which was convert into assets and liabilities of the parent company's balance sheet.

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1.3 Distribution of certain assets of Florestal Vale do Corisco S.A. to shareholders

A resolution of the Extraordinary Meeting of the Board of Directors held on April 28, 2017 approved the distribution of certain assets of Florestal Vale do Corisco S.A. ("Vale do Corisco"), to Klabin and its joint venture partner Arauco. The objective of this transaction is part of the Company's strategy to use certain forest assets in a more autonomous and efficient manner, with a view to supplying wood to plants located in the regions in which they are located. This transaction was duly approved without restrictions by the Brazilian antitrust authorities, CADE - Conselho Administrativo de Defesa Econômica.

Vale do Corisco's net assets were valued by outsourced appraisal specialists and were presented to the Company's shareholders prior to the General Meeting. The net assets of Vale do Corisco, incorporated by the Company, corresponds to R\$ 379,143, equivalent to a 51% interest in the spun-off portion of Vale do Corisco total capital, which is substantially comprised of forests that will be absorbed in the operation, and the related deferred tax balances.

The share of assets in the joint venture acquired by the Company correspond to:

	<u>Assets</u>		<u>Liabilities</u>
Current	26,580		
Non-current	36,545		
Biological assets	410,888	Non-current liabilities	102,448
Property, plant and equipment	9,027	Equity	380,592
	<u>483,040</u>		<u>483,040</u>

Vale do Corisco continues to operate managing forested land, as a jointly controlled entity, with 51% of the shares held by the Company and 49% by Arauco.

1.4 Dissolution of Special Partnership Companies ("SPC")

On August 31, 2017, SPC Correia Pinto, located in the state of Santa Catarina, was dissolved by determination of its partners. In the liquidation of assets, non-controlling shareholders received R\$ 79,907 in cash and the Company incorporated other assets and liabilities totaling R\$740,723, mainly biological assets and forestry land.

1.5 Establishment of Special Partnership Companies ("SPC")

SPC Serrana

On July 3, 2017, the Company established a new SPC, located in the state of Santa Catarina, named Serrana, with the specific purpose of raising funds from third parties for reforestation projects.

For the establishment of the new SPC, the Company contributed R\$ 20 million in forestry assets at book values, R\$ 29 million in forestry assets at fair value and right to use land, while investing partners contributed R\$ 48 million in cash to the Company. The SPC ensures that the Company has preemptive rights on the purchase of forestry products at market prices and conditions.

SPC Araucária

On September 22, 2017, the Company established a new SPC, located in the state of Paraná, named Araucária, with the specific purpose of raising funds from third parties for reforestation projects.

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For the establishment of the new SPC, the Company, as an ostensive partner, contributed R\$ 68 million in forestry assets at book value, R\$ 63 million in forestry assets at fair value and right to the use of land, while investing partners contributed R\$ 84 million in cash to the Company. The SPC ensures that the Company has preemptive rights on the purchase of forestry products at market prices and conditions.

1.6 Conversion of the totality of the sixth debenture issue

On January 31, 2018, all outstanding debentures were converted into "Units". In accordance with the terms of clause 4, items 4.6.3 and 4.6.3.1 of the Deed of Issue, which requested the conversion of all the outstanding Debentures into Units, by means of Notification of Conversion by the Issuer.

As a result, the Company's subscribed and paid-in capital stock which increased from R\$ 2,617,605 to R\$ 4,076,035, divided into 5,409,801,840 shares, all of which are nominative and without par value, of which 1,984,594,655 common shares and 3,425,207,185 preferred shares.

1.7 Constitution of Guaricana Reflorestadora S.A. ("Guaricana")

On December 13, 2018, the Company contributed the Entity Guaricana Reflorestadora SA, a Special Purpose Entity ("SPE"), together with a Timber Investment Management Organization ("TIMO"), which has as its main objective is to exploit the forestry activity in the state of Santa Catarina - SC.

The Company contributed to the formation of Guaricana equity with 4,511 hectares of planted pinus forests in Santa Catarina - SC, amounting to R\$ 142,443 (R\$ 101,143 net of deferred taxes on the fair value of biological assets) and R\$ 869 in cash for working capital, totaling a contribution of R\$ 102,012. The TIMO, in turn, contributed R\$ 191,600 in cash, of which R\$ 190,000 were used for the acquisition of third-party forest assets comprised of 11,541 hectares of rural land in Santa Catarina, being 7,644 hectares were used for planting and 7,141 currently planted, costing R\$ 123,000 in forests and R\$ 67,000 on land.

According to the transaction documents between the partners, the Company will have the preemptive right to purchase Guaricana's forest production.

Klabin will hold 69.48% of the voting capital and 34.74% of the total capital of Guaricana, while TIMO holds the remaining capital, being able to elect members in the Board of Directors and participate in certain decisions of the new Entity with voting rights, including situations that require a qualified forum. The Company, as a controlling shareholder, consolidates Guaricana in accordance with the accounting rules established by the Accounting Pronouncements Committee ("CPC"). The participation of TIMO, given its participation characteristics in the management of the new Entity, is presented in the Company's consolidated financial statements as "Non-controlling interest".

The Company may exercise a preference right in the purchase of the shares of the SPE belonging to TIMO, in optional option to be exercised between 2030 and 2035.

2 BASIS OF PRESENTATION OF THE INCOME STATEMENT AND MAIN ACCOUNTING POLICIES

2.1 Basis for presentation of the financial statements

The parent company and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the standards of the Brazilian Securities and Exchange Commission (CVM) and the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and present all relevant information

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specific to the Financial Statements, and only those, which are consistent with those used by Management.

The preparation of Financial Statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's Management in the process of applying the accounting policies of the Company and its subsidiaries. Those areas that require a higher level of judgment and are more complex, as well as the areas in which assumptions and estimates are significant for the financial statements are disclosed in note 2.2.r.

The financial statements have been prepared under the historical cost convention, as modified by financial assets through profit or loss, other assets, financial liabilities and biological asset measured at fair value.

2.2 Summary of the significant accounting practices adopted

The main accounting practices adopted by the Company and its subsidiaries are defined below and consistently applied in the years presented. Except for the adoption of the standards issued by the IASB and CPC, which as described in Note 2.3, which did not have a material impact on the Company's financial statements.

a) Functional currency and translation of foreign currencies

The financial statements are presented in Brazilian Reais (R\$), which is the functional and presentation currency of the Company and its subsidiaries, except for subsidiaries Klabin Argentina (Note 3), whose functional currency are the Argentine Peso (A\$) and the subsidiaries Klabin Finance, Klabin Austria, Klabin Forest Products Company, Klabin Limited, Klabin Overseas and Klabin Trade (Note 3), whose functional currency are US Dollar (USD).

(i) Transactions and balances

Foreign currency transactions are originally recorded at the foreign exchange rate effective as at the transaction date. Foreign exchange gains and losses resulting from the difference between the translation of assets and liabilities in foreign currency at the end of the reporting period are recognized in the Company's statement of operations.

(ii) Foreign subsidiaries

Foreign subsidiaries with the characteristics of a branch have the same functional currency as the Company. The foreign exchange differences arising for the subsidiaries, which have a different functional currency to the Company, resulting from the translation of financial statements, are recorded separately in an equity account, named "carrying value adjustments" (comprehensive income). On the sale of a foreign subsidiary, the accumulated deferred amount recognized in equity relating to this foreign subsidiary is recognized in the statement of operations.

The assets and liabilities of foreign subsidiaries are translated using the foreign exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the foreign exchange rates prevailing at the dates of the transactions.

b) Financial instruments

Financial instruments are initially recorded at their fair value, plus, in the case of a financial asset or a financial liability other than at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability. Its subsequent measurement occurs at each balance sheet date in accordance with the classification of financial

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instruments in the following categories: (i) amortized cost, (ii) fair value through the profit or loss and (iii) fair value through comprehensive income.

Financial assets and liabilities are cleared and the net amount is presented in the balance sheet when there is a legal right to offset the amounts recognized and there is the intention to liquidate them on a net basis or to realize the asset and settle the liability simultaneously. The legal right should not be contingent on future events and should be applicable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and highly-liquid short term investments that are readily convertible into a known amount of cash and are subject to an immaterial risk in changes of value.

d) Marketable securities

Marketable securities are characterized by financial assets measured at fair value through profit or loss, long-term maturity, with immediate liquidity and are recorded plus financial result, corresponding to their fair value.

e) Accounts receivable

They are recorded and maintained at the nominal value of securities arising from sales of products, plus exchange rate variations, when applicable. The estimated losses with doubtful accounts ("PECLD") are recorded based on individual analysis of amounts receivable, considering (i) the concept of incurred loss and expected loss, taking into consideration events of default that are likely to occur within twelve months after the date of disclosure of said financial statements (ii) Financial instruments that had a significant increase in credit risk, which no objective evidence of impairment, and; (iii) financial assets which already present objective evidence of impairment as of December 31, 2018.

The PECLD was set up in an amount considered by management to be sufficient to cover probable losses on the realization of these credits, which may be modified due to the recovery of credits from debtors or changes in the financial situation of clients.

The adjustment to present value of the balance of trade accounts receivable is not relevant due to the short-term of its realization.

f) Inventory

Inventory is stated at average purchase cost, net of taxes to be offset, when applicable, and the fair value of biological assets at the cut-off date, which are both lower than their net realizable values. Inventory of finished products is valued based on the cost of processed raw materials, direct labor and other production costs.

When necessary, inventory is reduced by a provision for losses, which is set up in cases of inventory devaluation, obsolescence of products and physical inventory losses. In addition, because of the nature of the Company's products, obsolete finished products may be recycled for reuse in production.

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g) Income tax and social contribution

The Company calculates current and deferred corporate income tax (IRPJ) and social contribution (CSLL), current and deferred, based on the rate of 15%, plus a 10% surcharge on any taxable profit exceeding R\$ 240, for income tax and 9% on any taxable profit for social contribution. The balances are recognized in the Company's results on an accruals basis.

The amounts of deferred income tax and social contribution are recorded net in the balance sheet, in non-current assets or liabilities.

Subsidiaries have their taxes calculated and accrued in accordance with the legislation of their country and/or their specific tax system, including, in some cases, the presumed profit. The provision for current income tax and social contribution for the year is stated in the balance sheet net of tax prepayments made during the year.

h) Investments

These refer to investments in subsidiaries and jointly-controlled subsidiaries accounted for using the equity accounting method, based on the Company's ownership interest in these companies. The financial statements of subsidiaries and jointly controlled subsidiaries are prepared for the same reporting period as that adopted by the Company. When necessary, adjustments are made to bring their accounting policies in line with those adopted by the Company.

Unrealized gains and losses resulting from transactions between the Company, its subsidiaries and jointly controlled subsidiaries are eliminated for equity accounting purposes in the parent company balance sheet, as well as for consolidation purposes.

At the end of each reporting period, the Company determines if there is objective evidence that the investments in subsidiaries or jointly controlled subsidiaries are impaired. If there is an indication of impairment, the Company calculates the amount of the impairment loss and recognizes it in the statement of operations.

The foreign exchange variation on investments in foreign subsidiaries recognized under "Comprehensive income" is classified as a carrying value adjustment and realized through the realization of the investment to which it refers.

In the consolidated financial statements of the Company, the investors' interest in SPCs (Notes 3 and 11) is presented in the balance sheet in liabilities, under "Other payables - investors in SPCs", as these meet the criteria for classification as financial liabilities, and not as equity instruments, in accordance with IAS 32 / CPC 39 – "Financial instruments: Presentation".

The Company's management treats Special Partnerships as independent entities with the characteristics of subsidiaries, which are recorded in the parent company financial statements under the equity accounting method.

i) Property, plant and equipment

Property, plant and equipment are stated at their cost of acquisition or construction, less taxes to be offset, when applicable, and accumulated depreciation. In addition, based on the option exercised by the Company upon the first-time adoption of IFRS, the deemed cost of property, plant and equipment (land) was determined based on the attributed value of the cost of these class of assets.

Depreciation is calculated on a straight-line basis, taking into consideration the estimated useful life of the assets, based on the expected future economic benefits, except for land, which is not

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depreciated. The estimated useful life of the assets are reviewed annually and adjusted, if necessary, and may vary based on the technological stage of each unit. The useful life of the Company's assets are stated in Note 12.

The costs of maintaining the Company's assets are allocated directly to profit for the year, when effectively realized. Finance charges are capitalized to property, plant and equipment, when incurred on construction in progress, if applicable.

j) Impairment of assets

Property, plant and equipment, goodwill and other assets are tested for impairment on an annual basis or whenever significant events or changes in circumstances indicate that their carrying amounts may not be recoverable. When this is the case, the recoverable amount is calculated to determine whether assets are impaired.

The recoverable amount of an asset is the higher of the net sales price and the value in use of the asset or the Cash-Generating Unit (CGU) to which it belongs, and is determined individually for each asset, unless the asset does not generate cash inflows that are independent from those of other assets or groups of assets. In estimating the value in use, estimated future cash flow is discounted to its present value, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the net sales price and the value in use of that asset.

k) Biological assets

Biological assets refer to eucalyptus and pine forests, which are used for the production of packaging paper, paper sacks and corrugated cardboard boxes, as well as being sold to third parties. Harvesting and replanting have an approximate cycle of 7 - 14 years, which varies based on the crop and genetic material to which they refer. Biological assets are measured at fair value, less estimated selling costs at the time of harvest.

Significant assumptions for determining the fair value of biological assets are stated in Note 13.

The valuation of biological assets is carried out on a quarterly basis by the Company, and any gain or loss is recognized in the statement of operations in the period in which it occurs, in a specific line named "Change in fair value of biological assets". The depletion of biological assets is measured based on the amount of woodcut, carried at fair value.

l) Non-current assets and liabilities

Non-current assets and liabilities comprise receivables and payables maturing more than 12 months after the end of the reporting period, plus corresponding charges and monetary variations incurred, if applicable, through the end of the reporting period.

m) Borrowings

The balance of borrowing refers to the amount of funds raised, plus interest and charges proportional to the period incurred, less installments paid. When applicable, borrowings include foreign exchange variation on payables.

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n) Debentures

The balance of debentures mandatorily convertible into shares, considered hybrid (compound) financial instruments due to their nature, and are segregated, upon issuance, into debt components and equity. The amount of interest to be paid to the debenture holders up to the date of conversion, measured at present value, plus foreign exchange on liabilities, when applicable, are recorded as a liability account.

The debentures that are not mandatorily convertible are recorded in liabilities at the amount corresponding to the total raised funds, plus interest and charges, proportionately to the time elapsed, less amortized installments and interest paid.

o) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, when applicable.

p) Provisions

A provision is recognized when the Company has a present legal or constructive obligation because of past events, and a probability that a future outflow of resources will be required to settle the obligation, measured based on a reliable provisioned value.

The expense related to any provision is presented in the statement of operations, net of any reimbursement. If the time effect of the amount is material, the provision is discounted using a discount rate that reflects the risks specific to the inherent obligation.

The Company records provisions for tax, social security, labor and civil claims, which are accrued when lawsuits are assessed by the Company's legal counsel and management as being likely to lead to losses. This assessment is carried out considering the nature of the lawsuits, similarities to prior lawsuits and the progress of ongoing litigation.

When the Company expects that the amount of a provision will be fully or partially reimbursed, this asset is recognized only when realization is considered clear and certain, with no recognition of assets in scenarios of uncertainty.

q) Sales revenues

Sales revenue is stated net of taxes, discounts and rebates, and is recognized when all the risks and rewards of ownership of the product are transferred to the buyer, to the extent that it is probable that economic benefits will be generated and will flow to the Company and its subsidiaries and jointly-controlled subsidiaries, and when these benefits can be reliably measured based on the fair value of the consideration received or receivable, net of discounts, rebates and taxes or charges on sales.

r) Employee benefits and private pension plan

The Company grants employee benefits such as life insurance, healthcare, profit sharing and other benefits, which are recognized on an accruals basis and are discontinued at the end of the employment relationship with the Company.

Additionally, the Company granted a private pension and healthcare plan to former employees who had retired up to 2001. The liability and the result relating to these benefits are recognized based on

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an actuarial valuation prepared by an independent expert. Gains and losses on the actuarial valuation of benefits generated by changes in actuarial assumptions are recognized in an account in equity named "Carrying value adjustments" (comprehensive income), as required by IAS19/ CPC 33 (R1) – "Employee benefits".

s) Stock options plan

The stock option plan offered by the Company is measured at fair value on the date on which it is granted, and the related expense is recognized in the statement of operations during the period in which the granting right is acquired, against equity in the "Carrying value adjustments" group.

t) Government grants

Government grants received by the Company are recognized to the extent that the requirements relating to the grant are complied with. Grants received for the purpose of offsetting expenses are recognized as a reduction of the expenses expected to be offset.

In the case of government grants for the purpose of investment in assets, the benefits are recorded in the balance sheet in the form being granted by the governmental agency, and can be either recorded as a liability as deferred revenue, recorded as revenue on a systematic basis throughout the useful life of the acquired asset, or deducted from the grant-related asset, thereby being recognized as revenue through credit to the depreciation recorded as an expense in the result.

In case the benefits received in the form of government grants must not be distributed to the stockholders, the related amounts are reclassified through the allocation of the result for the year to a specific "Tax incentive reserve" account, in equity.

u) Significant accounting judgments, estimates and assumptions

In preparing the financial statements, judgments, estimates and assumptions are utilized to account for certain assets, liabilities and other transactions and in registering income and expenses for the year. The accounting judgments, estimates and assumptions adopted by management are made using the best available information at the financial statement reporting date, involving experience of past events, forecasts of future events and the assistance of experts, when applicable.

The financial statements include various estimates, including, but not limited to, the realization of deferred tax assets, the fair value measurement of biological assets, and the provision for tax, social security, civil and labor claims and adjustment at the present value of the balances.

The actual results of the balances established using judgments, estimates and accounting assumptions may be divergent, and the Company may be exposed to losses that may be material.

v) Statement of value added

The Brazilian corporate legislation requires listed companies to present the statement of value added as part of the set of financial statements of a company. The purpose of this statement is to show the wealth created by the Company and its distribution during the reporting period.

IFRS does not require the presentation of this statement. Therefore, the presentation of such statements is considered supplementary information, and not part of the set of financial statements.

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2.3 New technical pronouncements adopted

The following new standards were approved and issued by the IASB and the CPC, were effectively adopted as of January 1, 2018. Management made adopted the standards as mentioned below and did not identify any relevant impacts.

(i) IFRS 15 – Revenue from contracts with customers (CPC 47)

The main changes resulting from IFRS 15 are the new criteria for the classification of financial assets in five categories (1) identification of contracts with clients; (2) identification of performance obligations under contracts; (3) determining the price of the transaction; (4) allocation of the transaction price to the performance obligation provided for in the contracts and (5) recognition of revenue when the performance obligation is met. The new standard replaces IAS 11 - Construction Contracts, IAS 18 - Revenues and corresponding interpretations.

The changes established the criteria for the measurement and recording of sales, in a form that was effectively carried out with due presentation, as well as the registration for the amounts that the Company is entitled to in the operation, considering any estimates of loss of value.

Management has adopted this new standard and there was not a material effect on its financial statements, considering the nature of its sales transactions, where performance obligations are clear (delivery of paper, converted products, pulp or wood) and the transfer of control of goods and services is not complex, being made to the extent that the responsibility is transferred to the purchaser.

Additionally, the Company already adopted the practice of recognizing sales, net of bonuses, with revenues representing the effective value generated in the transaction, based on the conditions established with clients. Loss estimates have no significant impact on revenue recognition, since the Company's products does not offer guarantees on its products, as well as the loss of value with doubtful debts not presenting a relevant impact due to credit policies maintained by the Company (see Note 25).

(ii) IFRS 9 – Financial instruments (CPC 48)

The standard addresses the classification, measurement and recognition of financial assets and liabilities. The main changes introduced by IFRS 9 were the new criteria for classifying financial assets into three categories (measured at fair value through comprehensive income, measured at amortized cost and measured at fair value through profit or loss) depending on the characteristics of each instrument and purpose for which they were acquired, and maybe accounted for in financial result or comprehensive income. Additionally, the standard introduces a new model of impairment for financial assets, being a prospective model of "expected credit losses" based on the history of losses incurred, replacing the current model of losses incurred, and more flexible requirements for adopting hedge accounting.

The financial liability classifications remain the same as those foreseen in IAS 39 (CPC 39) - Financial Instruments: Presentation, only being included the rules related to financial liabilities measured at fair value, not applicable to operations maintained by the Company.

Management adopted the new pronouncement and, considering its transactions, in the date of adoption there was no material impact on the Company's financial statements, since the financial instruments it maintains are not complex and do not present a risk of impact on its remeasurement, as well as presenting no risk of impairment or significant risk of reduction in value due to the expectation of future credit losses, and being only applied the classification of financial assets in the expected categories.

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Purchases and sales of financial assets are recognized at the date the transaction is negotiated and written off when the cash flows of the investment have expired or are received, if all risks and rewards of ownership are transferred to it.

The financial assets held by the Company as of December 31, 2018 are classified as follows:

Amortized cost

Financial assets held by the Company are maintained to generate contractual cash flows arising from principal and interest, when applicable, less any impairment losses. These items include the balances of cash and cash equivalents, trade accounts receivable, other assets, with the variations recognized in the Financial Result.

Fair value through profit or loss

Financial assets held by the Company measured at fair value through profit or loss correspond to the balances of securities, with variations recognized in the financial result as result of Company.

2.4 New technical pronouncements, revisions and interpretations not yet effective

The following standard and interpretation were approved and issued by the International Accounting Standards Board (IASB), which is not become effective and was not adopted in advance by the Company. Management evaluates the impacts of its adoption as mentioned below:

(i) IFRS 16 - Leasing Operations CPC 06 (R2)

The new standard replaces IAS 17 - "Leasing Operations" and related interpretations and determines that tenants are required to recognize the liability for future payments and the right to use the leased asset for practically all lease agreements, including which may fall outside the scope of this new standard, certain short-term contracts or irrelevant amounts of the assets involved in the operation. The criteria for recognizing and measuring leases in the lessors' financial statements are substantially maintained. This standard shall enter into force as from 1st of January 2019.

Management evaluated the impacts of the new standard and estimates a net present value of liabilities of R\$ 462 million of liabilities, or R\$ 642 million of gross balance of obligations. The main effect is related to the lease of third-party lands, corresponding to 80 thousand hectares of forestland and future commitments of R\$ 518 million of the gross balance. The remain operations that are in scope involve the leasing of industrial and agricultural machinery as well as real estate (administrative and warehouses) and assets related to the Company's operational logistics.

For the time being, the understanding is that the potential effect is the recognition of a value close to this as an asset and as a liability, with a higher expenditure distribution at the beginning and lower at the end, when compared to the current accounting of lease expenses. Given the complexity of the topic, it may be that up to the initial adoption of this standard, there is a review of the conclusion and the items in scope, including assumptions for the calculation of net present values.

(ii) IFRIC 23 – Uncertainty about the Treatment of Taxes on Profit (ICPC 22 - Uncertainty about Treatment of Taxes on Profit)

The new interpretation establishes requirements for recognition and measurement in situations where the Company has defined during the process of calculating income taxes (income and social contribution taxes) the use of uncertain tax treatments that may be questioned by the tax authority.

In situations where certain treatments are uncertain, the Company must define the likelihood of

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acceptance of the tax authorities in relation to them and present them separately, ascertaining eventual contingency if it is concluded that the tax authority will not accept such treatment.

Management evaluated the impacts of the new standard and concluded that there were no impacts on its financial statements after its effective date on January 1, 2019.

(iii) Derivative instruments

Derivatives are recognized at fair value on the date they are contracted and are subsequently measured at fair value with gains or losses being recorded in the financial result.

3 CONSOLIDATION OF FINANCIAL STATEMENTS

Subsidiaries are fully consolidated from the date of acquisition of control and continue to be consolidated until the date on which such control ceases to exist, except for jointly controlled entities (joint ventures), which are accounted for using the equity accounting method both in the parent company financial statements and in the consolidated financial statements.

The subsidiaries' financial statements are prepared for the same reporting period as that of the parent company, using accounting policies that are consistent with the policies adopted by the parent company. The following criteria are adopted for consolidation purposes: (i) investments in subsidiaries and equity in the results of investees are eliminated, and (ii) profits from intercompany transactions and the related assets and liabilities are eliminated.

The consolidated financial statements comprise Klabin S.A. and its subsidiaries as at December 31, 2018 and 2017, as follows:

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				Ownership - %	
	Country	Activity	Participation	12/31/2018	12/31/2017
<u>Subsidiaries:</u>					
Celucat	Brazil	Investment in companies	Direct	100	100
Guaricana Reflorestadora S.A. (i)	Brazil	Reforestation	Direct	35	-
Klabin Argentina S.A.	Argentina	Industrial sacks	Direct	100	100
Klabin Áustria GmbH	Austria	Sale of products in the foreign market	Direct	100	100
Klabin do Paraná Produtos Florestais Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klabin Finance S.A.	Luxembourg	Finance	Direct	100	100
Klabin Fitoprodutos Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klabin Florestal Ltda.	Brazil	Forestry	Direct	100	100
Klabin Forest Products Company	USA	Sale of products in the foreign market	Direct	100	100
Klabin Limited	Cayman Islands	Investment in companies	Direct	100	100
Klabin Overseas	United Kingdom	Investment in companies	Direct	100	100
Klabin Trade	United Kingdom	Sale of products in the foreign market	Indirect	100	100
IKAPÊ Empreendimentos Ltda.	Brazil	Hotels	Direct	100	100
Monterla Holdings S.A.	Brazil	Investment in companies	Direct	100	100
Riohold Holdings	Brazil	Investment in companies	Direct	100	100
Santa Catarina Florestal	Brazil	Investment in companies	Direct	100	100
<u>SPCs:</u>					
CG Forest	Brazil	Reforestation	Direct	74	80
Monte Alegre	Brazil	Reforestation	Direct	76	83
Harmonia	Brazil	Reforestation	Direct	77	73
Serrana (i)	Brazil	Reforestation	Direct	68	64
Araucária (i)	Brazil	Reforestation	Direct	69	64
<u>Joint ventures (not consolidated)</u>					
Florestal Vale do Corisco S.A. (i)	Brazil	Reforestation	Direct	51	51
(i) See Note 1.					

(i) See Note 1.

Investment in joint ventures

Considering its characteristics, the investment in Florestal Vale do Corisco S.A. is classified as a joint venture, and is recorded based on the equity accounting method in the parent company and consolidated financial statements.

4 CASH AND CASH EQUIVALENTS

In accordance with its policy, the Company has made low-risk investments with no significant risk of changes in value with financial institutions considered by management as prime banks both in Brazil and abroad, based on the ratings assigned to them by risk ratings agencies as described in Note 25. Management records these financial assets as cash and cash equivalents due to their immediate liquidity with financial institutions, and their insignificant risk of changes in value.

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Cash and bank deposits - local currency	25,424	25,371	80,742	26,143
Cash and bank deposits - foreign currency (i)	-	-	73,514	32,241
Marketable securities - local currency	4,947,107	4,923,068	5,112,257	5,108,744
Marketable securities - foreign currency (i)	364,672	1,702,258	467,341	1,861,294
	5,337,203	6,650,697	5,733,854	7,028,422

(i) In U.S. dollars

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Financial investments in local currency, relating to Bank Deposit Certificates (CDBs) and other repurchase transactions, are indexed to the Interbank Deposit Certificate (CDI) rate with an average annual yield of 6.43% (6.95% at December 31, 2017). Financial investments in foreign currency, relating to overnight, have an average annual yield of 1.98% (1.29% at December 31, 2017). These investments have immediate liquidity, as guaranteed by the financial institutions.

5 MARKETABLE SECURITIES

Marketable securities comprise National Treasury Bills (LFTs) and National Treasury Notes (NTN-B). LFT has yields indexed to the Special System for Settlement and Custody (SELIC) interest rate, and with maturities up to 2020 and NTN-B Notes have yields indexed to the Amplified Customer Price Index (IPCA) + 6% interest rate, and with maturities up to 2020 and 2022.

Additionally, in December 2017, through its wholly-owned subsidiary Klabin Finance, the Company acquired a dollar denominated Bond with an indexed yield of 3.52% to 4.02% and maturing in 2027 and 2037 and corresponding R\$ 7,949 at December 31, 2018 (R\$ 6,787 at December 31, 2017).

At December 31, 2018, the balance of these securities was R\$ 1,305,401 at the parent company and of R\$ 1,313,350 in the consolidated financial statements (R\$ 1,236,386 and R\$ 1,243,173 respectively at December 31, 2017). Management has classified these securities fair value through profit or loss, in accordance with CPC 48 (IFRS 9) - Financial Instruments, due to the possibility of sale to generate gain or loss in that operation. There is an active trading market for these securities.

Marketable securities are included in Level 1 of the fair value measurement hierarchy, according to the hierarchy defined in CPC 46 (equivalent to IFRS 13), "Fair value measurement", since they are assets with prices quoted in the market.

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6 ACCOUNTS RECEIVABLE

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Trade receivables				
. Local	1,345,818	1,260,514	1,345,912	1,260,589
. Foreign	472,988	373,182	740,413	533,607
Total trade receivables	1,818,806	1,633,696	2,086,325	1,794,196
Allowance for doubtful debts ("AFDD")	(45,092)	(40,096)	(45,394)	(40,133)
	1,773,714	1,593,600	2,040,931	1,754,063
Overdue	70,587	63,408	79,821	67,743
% on total portfolio (without AFDD)	1.40%	1.43%	1.65%	1.53%
1 to 10 days	4,647	6,667	4,647	6,667
11 to 30 days	10,352	13,516	15,622	16,010
31 to 60 days	7,020	1,215	9,790	2,833
61 to 90 days	1,487	54	1,964	203
Over 90 days	47,081	41,956	47,798	42,030
Falling due	1,748,219	1,570,288	2,006,504	1,726,453
Total portfolio	1,818,806	1,633,696	2,086,325	1,794,196

The average collection period for accounts receivable was approximately 83 days at December 31, 2018 (82 days at December 31, 2017), for domestic market sales and approximately 142 days (137 days at December 31, 2017) for foreign market sales, and interest is charged after the contractual maturity date. As mentioned in Note 25, the Company has rules for monitoring receivables and overdue notes as well as for the risk of not receiving the amounts arising from credit sale transactions.

a) Allowance for doubtful debts ("AFDD")

Management assumptions, the provision for doubtful debts is considered sufficient to cover any losses on the outstanding receivables. The changes in the provision for doubtful debts were as follows:

	Company	Consolidated
At December 31, 2016	(41,168)	(41,246)
Allowance for doubtful debts	(4,393)	(4,393)
Reversals	1,119	1,160
Write-off	4,346	4,346
At December 31, 2017	(40,096)	(40,133)
Allowance for doubtful debts	(8,152)	(8,424)
Reversals	2,223	2,230
Write-off	933	933
At December 31, 2018	(45,092)	(45,394)

The estimated loss for allowance for doubtful accounts relates mainly to trade notes overdue for more than 90 days and/or with high risk of not being paid. Items overdue for more than 90 days without risk of loss refer to ongoing negotiations and/or guarantees received. The Company constantly monitors the balance of receivables, considering the concept of loss incurred and expected loss and when the lower expectation of not being able to receive it, is the estimated loss with doubtful

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debts. The expense incurred on the recognition of the provision for doubtful debts is recorded in the statement of operations, under "Selling expenses".

Begging on April 2017 the Company maintains an insurance policy against default for receivables in the domestic and foreign markets for all business units, except for the wood customers of the Forest unit, and certain customers that do not meet the insurance company's requirements to be covered by the policy, such as continuity and liquidity, analyzed by the insurance companies to be incorporated in the insurance policy. The current insurance policy expires in August 2020.

b) Receivables discount operations

In the year ended December 31, 2018, non-recourse receivables discount operations were performed with specific customers in the amount of R\$ 2,478,246 in the parent company and R\$ 2,740,998 in the consolidated (R\$ 1,787,885 in the parent company and R\$ 1,876,557 in the consolidated at December 31, 2017) for which all the risks and rewards associated with the assets were transferred to the counterparty, so that the anticipated receivables from third parties were derecognized from the financial statements.

The financial cost charged by the bank upon completion of the discount on the receivable is recorded in the income statement under the "Discounts and Rebates" line.

(i)	Balance receivable from product sale transactions carried out under terms and conditions established between the parties (180 days);
(ii)	Purchase of timber at usual market prices and on normal terms and conditions (45 days). Considers all the companies in the profit and loss account described in note 3;
(iii)	Licensing for the use of brands. As of January 2019, the rights of the brand have been fully transferred to SOGEMAR - Sociedade Geral de Marcas Ltda.;
(iv)	Guarantee commission, calculated based on the BNDES financing balance of 0.8% per year;
(v)	Supply of seedlings, seeds and services at prices and terms on the commercial conditions established between the parties;
(vi)	Loans raised based on normal market conditions;
(vii)	Advances on future capital subscriptions.

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	Parent company				
	12/31/2018		12/31/2017		
	Klabin Irmãos & Cia. (i) e (ii) Shareholder	BNDES (iii) Shareholder	Outras (i)	Other	Total
Type of relationship					
Balances					
Current liabilities	4,676	652,218		656,894	643,279
Non-current liabilities		2,358,786		2,358,786	2,821,364
Transactions					
Interest expenses on borrowings		(253,797)		(253,797)	(319,568)
Guarantee commission - expenses	(28,423)			(28,423)	(30,812)
Royalty expenses	(39,143)		(12,604)	(51,747)	(50,877)

(i) Licensing for the use of brands;

(ii) Guarantee commission, calculated based on the BNDES financing balance of 0.8% per year;

(iii) Loans obtained based on usual market conditions;

b) Management and Fiscal Board remuneration and benefits

Management and Fiscal Board remuneration is determined by stockholders at the Annual General Meeting, in accordance with the Brazilian corporate legislation and the Company's bylaws. Accordingly, at the Annual General Meeting held on March 8, 2018, the stockholders established the overall amount of the annual remuneration of the members of the Board of Directors and Fiscal Board as up to R\$ 45,412 for 2018 (R\$ 58,068 for 2017).

The table below shows the remuneration of the members of the Board of Directors, Fiscal Board and statutory directors:

	Parent company and Consolidated							
	Short term		Long term					
	Board of directors remuneration		Pension plan		Remuneration based on shares		Total benefits	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Fiscal Board and statutory director's	30,968	33,217	754	765	2,313	14,657	34,035	48,639

Management remuneration includes the fees paid to the Board, along with the fees paid to, and variable remuneration of statutory directors. Long-term benefits relate to contributions made by the Company to the pension plan and calculation of stock option plan. These amounts are mainly recorded under "Operating expenses - administrative".

In addition, the Company grants a stock option plan to the statutory directors and other executives, as described in Note 22.

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8 INVENTORY

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Finished products	321,333	176,022	387,476	209,918
Product in process	21,495	19,228	21,495	19,394
Timber and logs	285,657	276,607	285,657	276,639
Maintenance supplies	313,579	260,696	316,376	265,347
Raw materials	179,482	149,897	194,035	161,342
Estimated losses	(6,529)	(10,627)	(5,829)	(10,757)
Other	2,162	1,518	7,143	11,278
	1,117,179	873,341	1,206,353	933,161

Raw materials inventory includes, paper rolls transferred from paper units to conversion units.

Expenses incurred with the recognition of estimated losses are recorded in the statement of operations under "Cost of products sold".

The Company does not have any inventory pledged as collateral.

9 TAXES RECOVERABLE

	12/31/2018		12/31/2017	
	Current assets	Non-current assets	Current assets	current assets
Value-added Tax on Sales and Services (ICMS)	139,164	941,406	143,095	1,076,958
Social Integration Program (PIS)	1,456	10,729	6,649	10,878
Social Contribution on Revenue (COFINS)	5,950	58,875	26,866	62,298
Income tax/social contribution (IR/CSLL)	11,649	-	248,926	-
Tax Deducted at Source (IRRF)	13,569	-	4,689	-
Tax on Industrialized Products (IPI)	79,736	269,801	84,045	136,588
amounts for exporting companies				
(Reintegra)	12,130	-	36,896	-
Other	4,310	-	4,430	-
Parent company	267,964	1,280,811	555,596	1,286,722
Subsidiaries	1,764	-	11,483	947
Consolidated	269,728	1,280,811	567,079	1,287,669

The Company recognizes credits of taxes and contributions charged on purchases of property, plant and equipment, as permitted by the prevailing legislation, in addition to the ICMS government grant obtained from the Government of the State of Paraná in relation to the new pulp plant (the "Puma Project"). The credits are being offset against taxes payable of the same nature or against other taxes, when applicable. ICMS credits from the Puma Project is indexed to the FCA – Paraná State conversion and monetary correction factor, with compensation period up to 2036 in the decision whereby the government grant is provided.

In May 2016 and May 2018, the Company recognized credits of IPI gain in tax litigation, final and a decision without right of appeal, substantially allocated in finance result, as only the original value was accounted for an IPI expense. Credits are already available to offset in accordance with tax legislation in force.

PIS/COFINS, IPI and ICMS on current assets are expected to be offset against the same taxes payable in the next 12 months, according to management's estimate.

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The Company, based on budget analyses and estimates approved by Management does not foresee risks of non-realization of these taxes, as long as the budget estimates are realized.

10 INCOME TAX AND SOCIAL CONTRIBUTION

a) Nature and expected realization of deferred taxes

The balances of deferred tax assets and liabilities were as follows:

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Provision for tax, social security, labor and civil contingencies	7,095	21,668	7,095	21,668
Income tax and social contribution losses	522,040	664,775	522,068	664,823
Actuarial liability	40,654	36,740	40,654	36,740
Provision for labor	42,826	44,617	42,826	44,617
Deferred for foreign exchange variations (i)	306,655	-	306,655	-
Other temporary differences	171,488	183,857	171,488	183,858
Non-current assets	1,090,758	951,657	1,090,786	951,706
Fair value of biological assets	745,002	746,679	766,127	762,635
Revision of useful life of property, plant and equipment	442,139	434,269	442,139	434,269
Deemed cost of property, plant and equipment (land)	544,903	545,514	545,505	545,514
Adjustment to present value of balances	36,650	41,299	36,650	41,299
Interest capitalized (Law 12,973/14)	136,004	151,137	136,004	151,137
Revaluation reserve	25,091	25,091	25,091	25,091
Deferred for foreign exchange variations (i)	-	518,674	-	518,674
Other temporary differences	99,176	17,664	99,176	17,665
Non-current liabilities	2,028,965	2,480,327	2,050,692	2,496,284
Net balance (liability)	938,207	1,528,670	959,906	1,544,578

(i) The Company maintained the option to recognize the exchange variation of its rights and obligations based on the cash regime for the year 2018, generating temporary differences of exchange variation, which will be taxed as a result of the liquidation of debits and obligations denominated in currencies foreign.

Management, based on the approved budget, estimates that tax credits arising from temporary differences, tax losses and negative social contribution base will be realized as follows:

	12/31/2018	
	Parent Company	Consolidated
2019	583,384	583,384
2020	233,039	233,039
2021	165,965	165,965
2022	59,811	59,811
2023	7,607	7,607
2024 onwards	40,952	40,980
	1,090,758	1,090,786

The estimated realization of the balance, considers, especially regarding tax losses and negative bases, the compensation limitation of 30% of the actual profit for the year. In addition, the estimation may not materialize if the estimates used in the preparation of these financial statements differ from those actually performed.

Information regarding the Company's taxes that are subject to litigation is disclosed in Note 17.

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b) Analyses of income tax and social contribution expenses

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Current tax expense	(305,223)	(298,727)	(322,236)	(305,945)
Adjustment of previous year	-	5,997	-	5,997
Current	(305,223)	(292,730)	(322,236)	(299,948)
Recognition and reversal of temporary differences	500,010	61,138	526,478	101,194
Revision to useful lives of property, plant and equipment	7,870	63,644	7,870	63,644
Effect of taxation regime on the closing of subsidiaries on incorporated biological assets (i)	-	(167,372)	-	(167,372)
Variation in fair value and depletion of biological assets	34,225	(7,022)	43,287	(4,017)
Deferred	542,105	(49,612)	577,635	(6,551)

(i) Corresponds to the effect on the biological asset merged after the dissolution of a holding company ("SPC" Correia Pinto). See explanatory note 1.

c) Reconciliation of income tax and social contribution with the result of applying the statutory tax rate

	Parent Company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Income before income tax and social contribution	(99,427)	874,511	(68,581)	838,668
Income tax and social contribution at the rate of 34 %	33,805	(297,334)	23,318	(285,147)
Tax effect on permanent differences:				
Difference in taxation - subsidiaries (i)	-	(167,371)	18,602	62,259
Equity results of investees and joint venture	51,939	25,975	2,028	4,632
Interest on Equity	132,600	-	132,600	-
Other effects	18,538	96,388	78,851	(88,243)
	236,882	(342,342)	255,399	(306,499)
Income tax and social contribution				
. Current	(305,223)	(292,730)	(322,236)	(299,948)
. Deferred	542,105	(49,612)	577,635	(6,551)
Income tax and social contribution expense	236,882	(342,342)	255,399	(306,499)

(i) The tax effect of the difference in subsidiaries taxation is caused, substantially, by differences between Company's real profit system and deemed profit system adopted by some of the subsidiaries.

	Klabin Finance S.A.	Guaricana Reflorestadora S.A.	SPC Correia Pinto	SPC Serrana	SPC CG Forest	SPC Mt Alegre	SPC Harmonia	SPC Araucária	Florestal Vale do Corisco S.A. (i)
At December 31, 2016	53,523	-	751,703	-	131,713	256,967	185,631	-	544,402
Acquisitions and capital contributions				49,059				130,647	
Dividends distributed					(122)	(2,014)			(5,100)
Equity results of investees and joint venture (ii)	16,709		73,097	40,639	(17,660)	(57,710)	6,797	34,283	13,624
Foreign exchange variations on investments abroad (iii)									
Merge of subsidiary Embalplan (iv)									
Partial spin-off and incorporation of asset of Vale do Corisco (iv)									(381,253)
Dissolution of subsidiary (iv)			(824,800)						
At December 31, 2017	70,232	-	-	89,698	113,931	197,243	192,428	164,930	171,673
Acquisitions and capital contributions (iv)		102,012							
Dividends distributed					(145)	(325)			(11,985)
Equity results of investees and joint venture (ii)	37,043	26,277		12,814	(4,639)	7,838	26,937	18,884	5,964
Foreign exchange variations on investments abroad (iii)									
At December 31, 2018	107,275	128,289	-	102,512	109,147	204,756	219,365	183,814	165,652
<u>Summary of the financial information of subsidiaries at December 31, 2018</u>									
Total assets	4,025,924	424,626	-	156,519	150,451	279,993	292,875	280,496	426,737
Total liabilities	3,918,650	55,342	-	5,742	3,183	9,541	8,510	12,181	101,929
Equity	107,274	369,284	-	150,777	147,268	270,452	284,365	268,315	324,808
Profit for the year	24,175	75,640	-	12,813	5,119	36,141	26,937	18,885	11,694

(i) Because it is a joint venture (Note 3), Vale do Corisco is not consolidated and is the only investment in the consolidated balance sheet that is accounted for on an equity basis.

(ii) Includes the effects of variations in, and the realization of, fair value of biological assets (Note B).

(iii) Subsidiary and associated companies with affiliate characteristics with exchange variation allocated to other comprehensive income

(iv) Refer to information in Note 1.

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12 PROPERTY, PLANT AND EQUIPMENT

a) Composition of property, plant and equipment

	12/31/2018			12/31/2017		
<u>Parent company</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	2,028,621	-	2,028,621	1,998,046	-	1,998,046
Buildings and construction	2,555,112	(540,260)	2,014,852	2,411,906	(436,779)	1,975,127
Machinery, equipment and facilities	12,027,200	(4,601,334)	7,425,866	11,654,537	(3,775,786)	7,878,751
Construction in progress	411,529	-	411,529	460,614	-	460,614
Other (i)	598,565	(300,775)	297,790	557,765	(271,112)	286,653
	<u>17,621,027</u>	<u>(5,442,369)</u>	<u>12,178,658</u>	<u>17,082,867</u>	<u>(4,483,676)</u>	<u>12,599,191</u>
<u>Consolidated</u>						
Land	2,102,042	-	2,102,042	2,004,150	-	2,004,150
Buildings and construction	2,557,769	(541,795)	2,015,974	2,415,734	(438,697)	1,977,037
Machinery, equipment and facilities	12,039,195	(4,608,045)	7,431,150	11,674,435	(3,785,410)	7,889,025
Construction in progress	410,812	-	410,812	461,876	-	461,876
Other (i)	604,511	(302,017)	302,494	559,899	(272,492)	287,407
	<u>17,714,329</u>	<u>(5,451,857)</u>	<u>12,262,472</u>	<u>17,116,094</u>	<u>(4,496,599)</u>	<u>12,619,495</u>

(i) Refers to leasehold improvements, vehicles, furniture and fittings and IT equipment.

Information about property, plant and equipment pledged as collateral in transactions carried out by the Company is disclosed in Note 14.

b) Summary of changes in property, plant and equipment

	Parent company					
	<u>Land</u>	<u>Building and construction</u>	<u>Machinery, equipment and facilities</u>	<u>Construction in progress</u>	<u>Other</u>	<u>Total</u>
At December 31, 2016	1,832,779	1,772,178	8,443,347	458,199	230,800	12,737,303
Purchases (i)	3,374	-	4	660,882	-	664,260
Disposals	(77,696)	(2,152)	(5,030)	-	(632)	(85,510)
Depreciation	-	(74,976)	(820,925)	-	(121,981)	(1,017,882)
Internal transfers	-	34,082	404,981	(658,467)	219,404	-
Incorporation of subsidiaries (ii)	228,961	32,744	19,159	-	2,112	282,976
Other	10,628	213,251	(162,785)	-	(43,050)	18,044
At December 31, 2017	1,998,046	1,975,127	7,878,751	460,614	286,653	12,599,191
Purchases (i)	24,962	-	16	649,588	-	674,566
Disposals	(1,103)	(8,158)	(14,546)	-	(289)	(24,096)
Depreciation	-	(89,597)	(937,626)	-	(66,882)	(1,094,105)
Internal transfers	12,950	102,135	528,738	(730,747)	86,924	-
Other	(6,234)	35,345	(29,467)	32,074	(8,616)	23,102
At December 31, 2018	2,028,621	2,014,852	7,425,866	411,529	297,790	12,178,658

(i) Net of recoverable taxes (Note 9).

(ii) See Note 1

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All amounts in thousands of reais

						Consolidated
	Land	Building and construction	Machinery, equipment and facilities	Construction in progress	Other	Total
At December 31, 2016	2,067,898	1,807,918	8,456,101	459,405	238,862	13,030,184
Purchases (i)	3,374	-	4,870	660,901	451	669,596
Disposals	(77,696)	(2,152)	(5,248)	(65)	(756)	(85,917)
Depreciation	-	(75,112)	(822,236)	-	(122,273)	(1,019,621)
Internal transfers	-	43,283	410,110	(563,025)	109,632	-
Incorporation of subsidiaries (ii)	-	-	9,027	-	-	9,027
Other	10,574	203,100	(163,599)	(95,340)	61,491	16,226
At December 31, 2017	2,004,150	1,977,037	7,889,025	461,876	287,407	12,619,495
Purchases (i) (iii)	92,412	-	16	652,082	-	744,510
Disposals	(1,102)	(8,158)	(14,546)	-	(291)	(24,097)
Depreciation	-	(89,685)	(938,520)	-	(67,105)	(1,095,310)
Internal transfers	12,948	102,135	528,738	(730,840)	87,019	-
Other	(6,366)	34,645	(33,563)	27,694	(4,536)	17,874
At December 31, 2018	2,102,042	2,015,974	7,431,150	410,812	302,494	12,262,472

(i) Net of recoverable taxes (Note 9).

(ii) See Note 1

(iii) See information in note 1 on the forest assets acquired by Guaricana

Depreciation was mainly allocated to the production cost for the period.

c) Useful live and depreciation method

The table below shows the annual depreciation rates calculated based on the straight-line method, which were applicable in the years ended December 31, 2018 and 2017, defined based on the economically useful live of assets:

	Rate - %
Buildings and construction	2.86 to 3.33
Machinery, equipment and facilities (i)	2.86 to 10
Other	4 to 20

(i) Average rate 8%.

d) Construction in progress

At December 31, 2018, the balance of works and installations in progress refers substantially to projects for the development of its industrial activity, involving the installation of a new debugger and reconditioning of the recovery boiler at the Ortigueira (PR) plant and acquisitions of printers for the unit of Piracicaba (SP).

e) Impairment of property, plant and equipment

The Company, applying the requirements of CPC 01(R1) – Reduction of recoverable value of assets (IAS36), performed the applicable analyses and did not identify indicators that book value exceeds the recoverable value of its assets at December 31, 2018 and 2017.

13 BIOLOGICAL ASSETS

The Company's biological assets comprise the planting of pine and eucalyptus trees for the supply of raw materials for the production of short fiber, long fiber and fluff pulp, used in the manufacture of paper and for sales of logs to third parties.

At December 31, 2018 the Company owned 239 thousand hectares of planted areas (229 thousand hectares at December 31, 2017), not considering the permanent preservation areas and legal reserve that it maintains in compliance with Brazilian environmental legislation.

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All amounts in thousands of reais

The balance of the Company's biological assets recorded at fair value, as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Cost of development of biological assets	1,142,474	1,076,381	1,715,919	1,433,608
Fair value adjustment of biological assets	2,161,300	2,196,115	2,866,712	2,714,171
	3,303,774	3,272,496	4,582,631	4,147,779

The fair value measurement of biological assets considers certain estimates, such as estimates of the price of wood, the discount rate, the harvesting plan for the forests and the productivity level, all of which are subject to uncertainties, which could have an impact on the Company's future results coming from the variations.

For the years ending on December 31, 2018 and 2017, no impairment provision was identified.

a) Assumptions regarding the recognition of the fair value of biological assets

The Company recognizes its biological assets at fair value. In its calculation of this fair value, the Company adopts the following assumptions:

(i) Eucalyptus forests are maintained at historical cost through the third year of planting and pine forests through the fifth year of planting, based on management's understanding that during this period the historical cost of biological assets approximates their fair value, in addition to the fact that an evaluation of growth and expectation of forestry production is only possible after this period;

(ii) After the third and fifth years of the planting of eucalyptus and pine forests, respectively, the forests are measured at fair value, which reflects the sales price of the asset less the costs necessary to prepare the assets for their intended use or sale;

(iii) The methodology utilized in the fair value measurement of biological assets corresponds to the discounted future cash flow estimated according to the projected productivity cycle of the forests, taking into consideration price variations and the growth of biological assets;

(iv) The discount rate utilized for cash flow is the Company's weighted average cost of capital, which is reviewed annually by management;

(v) The projected productivity volumes of forests are determined based on a categorization which considers the forest type, genetic material, handling system, productive potential, rotation which for that age. Together, these characteristics form an index called the Average Annual Growth (AAG) index, which is expressed in cubic meters per hectare/year, and which is utilized as the basis in the projection of productivity. The Company's harvesting plan varies mainly from six to seven years for eucalyptus trees and 14 to 15 years for pine trees;

(vi) The prices of biological assets, denominated in R\$/cubic meter, are obtained through market price surveys carried out by specialized firms. The prices obtained are adjusted by deducting the cost of capital relating to land, since this asset contributes to the planting of forests, and other costs necessary to prepare the assets for sale or consumption;

(vii) Planting expenses relate to the costs of the development of the biological assets;

(viii) The depletion of biological assets is calculated based on the fair value of the biological assets harvested in the year;

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(ix) The Company has decided to review the fair value of its biological assets on a quarterly basis, since it understands that this period is sufficiently short to prevent any significant misstatement in the fair value of the biological assets recorded in its financial statements;

b) Reconciliation and movement in fair value

	Parent company	Consolidated
At December 31, 2016	2,397,462	3,656,596
Planting	150,799	237,371
<u>Depletion:</u>	<u>(800,860)</u>	<u>(946,737)</u>
. Historical cost	(130,795)	(145,263)
. Fair value adjustment	(670,065)	(801,474)
<u>Change in fair value due to:</u>	<u>649,322</u>	<u>789,661</u>
. Price	173,719	251,767
. Growth	475,603	537,894
Incorporation of assets (i)	410,888	410,888
Subsidiary constitution (i)	(227,355)	-
Dissolution of subsidiary (i)	692,240	-
At December 31, 2017	3,272,496	4,147,779
Planting	243,677	338,786
Acquisition of forest assets (i)	-	123,000
<u>Depletion:</u>	<u>(536,030)</u>	<u>(655,301)</u>
. Historical cost	(156,611)	(179,479)
. Fair value adjustment	(379,419)	(475,822)
<u>Change in fair value due to:</u>	<u>466,074</u>	<u>628,367</u>
. Price	185,764	239,346
. Growth	280,310	389,021
Constitution of subsidiary (i)	(142,443)	-
At December 31, 2018	3,303,774	4,582,631

(i) See note 1.

The depletion of biological assets in the periods presented was mainly included in production cost, after allocation to inventory through the harvesting of forests and their use in the production process or their sales to third parties.

Of note in the fair value variation is the use of the new discount rate, which is reduced due to the improvement in the economic indicators that help in the composition of the weighted average cost of capital.

c) Sensitivity analysis

In accordance with the hierarchy set out in CPC 46 (equivalent to IFRS 13), "Measurements at fair value", the calculation of biological assets is classified as Level 3 due to its complexity and calculation structure.

The assumptions applied include sensitivity to the prices used in the evaluation and the discount rate used in the discounted cash flow. Prices refer to the prices obtained in the regions in which the Company is located. The discount rate corresponds to the average cost of capital, taking into consideration the basic interest rate (SELIC) and inflation levels.

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Significant increases (decreases) in the prices used in the appraisal would result in an increase (decrease) in the measurement at fair value of the biological assets. The weighted average price used in the appraisal of the biological assets for the year ended at December 31, 2018 was equivalent to R\$ 67/m³ (R\$ 63/m³ at December 31, 2017).

The effects of a significant increase (decrease) in the discount rate used in the measurement of the fair value of biological assets would result in a decrease (increase) in the values measured. The Company's WACC updates its weighted average cost of capital annually, using the new rate as of the first quarterly valuation of each year, remaining the same used in the calculation of the first quarter for the others. The discount rate used in the appraisal of the biological assets for the year ended at December 31, 2018 was 4.74% in constant currency (5.1% at December 31, 2017).

14 BORROWINGS

a) Composition of borrowings

	Annual interest rate - %	12/31/2018		
		Current	Non-Current	Total
<u>In local currency</u>				
. BNDES - Project Puma	6.0 ou TJLP + 1.98 a 2.48	289,961	1,388,334	1,678,295
. BNDES - Other	TJLP + 2.06 a 3.28	57,724	26,739	84,463
. BNDES - FINAME	2.5 a 5.5 ou TJLP + 2.06 a 3.28	90,697	19,687	110,384
. Export credit notes (in R\$)	102 a 114 CDI	93,047	2,832,215	2,925,262
. CRA	95 a 102 do CDI	19,335	1,795,916	1,815,251
. Other	1.0 a 8.75	18,916	18,443	37,359
. Cost with funding		(11,480)	(53,949)	(65,429)
		558,200	6,027,385	6,585,585
<u>In foreign currency (i)</u>				
. BNDES - Project Puma	USD + 7.18	182,437	911,895	1,094,332
. BNDES - Other	USD + 6.76 a 6.98	31,399	12,131	43,530
. Export prepayments	+ 4.68 a 5.87	596,300	3,962,769	4,559,069
. Export credit notes	USD + Libor 2.50	134,040	452,060	586,100
. Export prepayments in subsidiaries	USD + 5.20 a 6.15	73,417	3,894,174	3,967,591
. BID	USD + Libor + 1.40 a 1.78 ou USD + 1.00	190,528	650,951	841,479
. Finnvera	USD + Libor + 0.82 a 1.05 ou USD + 1.88 a 3.88	167,047	948,024	1,115,071
. ECA	EUR + 0.45%	5,178	33,250	38,428
. Gain / loss on derivative instruments (swap)	5.64 a 5.67	-	114,125	114,125
. Cost with funding		(20,738)	(91,496)	(112,234)
		1,359,608	10,887,883	12,247,491
Total parent company		1,917,808	16,915,268	18,833,076
Subsidiaries:				
<u>In foreign currency (i)</u>				
. Bonds (Notes)	USD + 4.88 a 5.25	72,834	3,874,800	3,947,634
. Cost with funding		(3,446)	(26,677)	(30,123)
		69,388	3,848,123	3,917,511
. Elimination of prepayments in subsidiaries		(73,417)	(3,894,174)	(3,967,591)
Total Consolidated		1,913,779	16,869,217	18,782,996

(i) Principal in U.S. dollars

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All amounts in thousands of reais

	Annual interest rate - %	12/31/2017		
		current	Non-current	Total
<u>In local currency</u>				
. BNDES - Project Puma	6.0 or TJLP + 1.98 to 2.48	289,836	1,662,671	1,952,507
. BNDES - Other	TJLP + 2.06 to 3.28	61,860	79,779	141,639
. BNDES - FINAME	2.50 to 10 or TJLP + 2.06 to 3.28	98,107	110,186	208,293
. Export credit notes (in R\$)	104.50 to 105.50 CDI	148,478	670,000	818,478
. CRA	95 to 97.5 of CDI	14,571	1,445,916	1,460,487
. Other	1.0 to 8.75	26,093	35,115	61,208
. Cost with funding		(4,649)	(23,273)	(27,922)
		634,296	3,980,394	4,614,690
<u>In foreign currency (i)</u>				
. BNDES - Project Puma	USD + 6.75	156,508	931,652	1,088,160
. BNDES - Other	USD + 6.33 to 6.89	32,602	37,076	69,678
. Export prepayments	USD + Libor 1.70 to 4.75 or USD + 4.68 a 6.40	937,183	5,813,860	6,751,043
. Export credit notes	USD + Libor 2.50 or USD + 5.70 to 7.92	123,540	854,567	978,107
. Export prepayments in subsidiaries	USD + 5.20 to 6.15	60,954	3,324,540	3,385,494
. BID	USD + Libor + 1.40 to 1.78 or USD + 1.00	162,491	708,567	871,058
. Finnvera	USD + Libor + 0.82 to 1.05 or USD + 1.88 to 3.88	143,493	944,604	1,088,097
. Cost with funding		(20,944)	(108,834)	(129,778)
		1,595,827	12,506,032	14,101,859
Total parent company		2,230,123	16,486,426	18,716,549
Subsidiaries:				
<u>In foreign currency (i)</u>				
. Bonds (Notes)	USD + 4.88 to 5.25	62,180	3,308,000	3,370,180
. Cost with funding		(725)	(24,969)	(25,694)
		61,455	3,283,031	3,344,486
. Elimination of prepayments in subsidiaries		(60,954)	(3,324,540)	(3,385,494)
Total Consolidated		2,230,624	16,444,917	18,675,541

(i) Principal in U.S. dollars

National Bank for Economic and Social Development (BNDES)

The Company has contracts with BNDES for the financing of industrial development projects, such as the construction of the new paper machine in Correia Pinto (SC), the construction of a new recycled paper machine in Goiana (PE), and the construction of the Project Puma denominated pulp plant, the settlement of which is projected to take place in 2025. This financing is paid monthly, along with the related interest.

Export prepayments and export credit notes

Export prepayment and credit note transactions were carried out for the purposes of working capital management and the development of the Company's operations. These agreements will be settled up to February 2024.

Bonds (Notes)

The Company, through its wholly owned subsidiary Klabin Finance S.A., has issued securities representing debt (Notes) in the international market, which are listed on the Luxembourg Securities Exchange (Euro MTF) under Senior Notes 144A/ Reg S type.

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All amounts in thousands of reais

Concluded on July 16, 2014, the note issued amounts to US\$ 500 million and matures within ten years, with a coupon of 5.25% paid semi-annually, and has the objective of financing the activities of the Company and its subsidiaries in the normal course of business, in accordance with their business objectives.

At September 2017, the Company issued Green Bonds in the amount of USD 500 million, maturing in 10 years and a half-yearly coupon of 4.88%. The resource will be used for reforestation, restoration of native forests, investments in renewable energy, efficient logistics using rail transport, solid waste recycling and the development of eco-efficient products, among other sustainability practices.

Finnvera (Finland Export Credit Agency)

As part of the funds necessary for the execution of the Puma Project, the Company entered into a loan agreement, for the financing of the assets acquired. The commitment amounted to US\$ 460 million maturing in 2026, divided into two tranches: the first of US\$ 414 million accruing interest at 3.4% p.a. and the second tranche of US\$ 46 million, accruing interest of LIBOR 6M + 1% p.a., of which two disbursements in 2015 totaling US\$ 325.7 million and the remaining disbursements of R\$38.6 million in the fourth quarter of 2016, totaling US\$ 364.3 million. The value obtained in USD was lower than originally forecast due to the impact of imports being in Euro and the appreciation of the dollar against the Euro in the period.

IDB (Inter-American Development Bank)

The commitment amounts to US\$ 300 million, divided into two tranches: the first of US\$ 150 million with interest of LIBOR 6M + 1.8% p.a. and the second tranche of US\$ 150 million, with interest of LIBOR 6M + 1.4% p.a., maturing in 2025. In 2016, three releases were made totaling USD 260 million.

CRA – Agribusiness Receivables Certificates

At March 28, 2017, December 28, 2017 and September 18, 2018 the Company concluded its issue of simple debentures of CRAs - Agribusiness Receivables Certificates, through Eco Securitizadora de Direitos Creditórios do Agronegócio S.A. (CRA I and II) and Ápice Securitizadora S.A (CRA III).

The CRA I was issued in a capital market transaction, totalizing R\$ 845.9 million, maturing in 5 years and accruing interest at 95% of the CDI interest rate.

The CRA II was issued in a capital market transaction, totalizing R\$ 600 million, maturing in 6 years and accruing semiannual interest at 97.5% of the CDI interest rate.

The CRA III was issued in a capital market transaction, totalizing R\$ 350 million, maturing in 6 years and accruing semiannual interest at 102% of the CDI interest rate.

Derivative instruments (swap) - gain / loss

In December 2018, the Company entered with Banco Bradesco a new export credit note of R\$ 1,879 million maturing in 2026 with interest of 114% of CDI, without real and non-covenant deposits, but tied together of two foreign exchange swaps and the same rate, but in USD and interest of 5.6%, with the same maturity of the credit note, and no instrument can be settled separately.

The gain and loss of the derivative instrument is determined by its marking to the market, corresponding to its fair value, recognized in the financial result.

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b) Schedule of non-current maturities

The maturity dates of the Company's borrowings at December 31, 2018, classified in non-current liabilities in the consolidated balance sheet, are as follows:

Year	2020	2021	2022	2023	2024	2025	2026 onwards	Total
Amount	1,887,217	1,967,000	3,255,000	2,279,000	2,693,000	1,837,000	2,951,000	16,869,217

c) Summary of changes in borrowing

	Parent Company	Consolidated
At December 31, 2016	17,309,999	17,359,011
Borrowings	4,180,258	4,093,903
Accrued interest	1,052,265	1,028,785
Foreign exchange and monetary variations	240,722	236,459
Repayments	(3,052,812)	(3,049,097)
Payment of interest	(1,013,883)	(993,520)
At December 31, 2017	18,716,549	18,675,541
Borrowing	2,403,318	2,385,592
Gain or loss on financial instruments	114,126	114,126
Accrued interest	1,098,486	1,068,477
Foreign exchange and monetary variations	2,130,114	2,137,491
Repayments	(4,537,099)	(4,531,056)
Payment of interest	(1,092,418)	(1,067,175)
At December 31, 2018	18,833,076	18,782,996

d) Guarantees

The financing agreements with BNDES are guaranteed by the land, buildings, improvements, machinery, equipment and facilities of the plants in Otacílio Costa (SC), Telêmaco Borba (PR) and Ortigueira (PR), which are the object of the related borrowings and escrow deposits, as well as sureties from the controlling shareholder Klabin Irmãos & Cia.

The financing from Finnvera is guaranteed by the industrial plants in Angatuba (SP), Lages (SC), Piracicaba (SP), Betim (MG), and Goiana (PE).

The financing from IDB is guaranteed by the industrial plants in Correia Pinto (SC), Jundiá/ Distrito Industrial (SP) and Jundiá/ Tijuco Preto (SP).

Export credits, export prepayments, and working capital loans are not collateralized.

e) Restrictive covenants

At the end of the reporting period, the Company and its subsidiaries did not have any financing agreements containing restrictive covenants requiring compliance with financial ratios for the contracted transactions, where non-compliance would automatically accelerate the maturity of the debt.

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All amounts in thousands of reais

15 DEBENTURES

a) Sixth issue of debentures

At January 7, 2014, the Company concluded the process of subscription and payment of 27,200,000 debentures issued through private placement, with a unit value of R\$62.50, totaling R\$1.7 billion. The debentures issued are subordinated, issued in a single series and in local currency, without guarantees, and are mandatorily convertible into shares. The conversion of the debentures occurred in the proportion of one debenture for five units, where the certificate of deposit of shares comprises one common registered share (ON) and four preferred registered shares (PN).

The debentures had an effective term of five years, with maturity on January 8, 2019, and were remunerated at 8% p.a., plus the variation in the Brazilian currency in relation to the US Dollar.

In addition, debenture holders were included in any profit distribution to the Company's shareholders, which used to be calculated as if the shares that were to be converted in the future already existed, with the respective amount deducted from the equity due to the debentures' nature as equity instruments.

The funds obtained from the issue of the debentures were allocated to the construction of a pulp plant related to the Puma Project.

In accordance with IAS 32/CPC 39, "Financial instruments: Presentation", the Company recorded these debentures as a compound instrument (hybrid), and the present value of the interest up to the conversion was determined and recognized as a financial liability, whereas the carrying amount of the equity instrument was recorded at the net amount - that is, the total amount of the debentures less the present value of the interest payable and less the issuance costs of the security - in the "Capital Reserve" account in equity.

The debenture holders have the possibility of converting debentures into units in advance at any time, after the lock up period, which corresponds to 18 months after the issue. It is up to the Company the anticipated conversion only after the conclusion of the works of the Puma Project reaching operational levels.

As reported to the debenture holders published on August 02, 2016, the Company reported that it reached the operational level of the pulp plant. Accordingly, on January 31, 2018, the Company converted all outstanding debentures into Units. This procedure is in accordance with item 4.6.3 and 4.6.3.1 of the Deed of Issue, which authorizes the conversion of all outstanding Debentures into Units, by means of Notification of Conversion by the Issuer.

The table below shows the number of shares of the Company at December 31, 2017 and January 31, 2018, after the conversion of the totality of the debentures.

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All amounts in thousands of reais

Quantity of shares on 12/31/2017

Common shares	1,859,852,065
Preferred shares	2,926,236,825
Total	4,786,088,890

Quantity of shares on 01/31/2018

Common shares	1,984,594,655
Preferred shares	3,425,207,185
Total	5,409,801,840

b) Seventh issue of debentures

The Company concluded its seventh issue of debentures on June 23, 2014, issuing 55,555,000 simple debentures, with guarantee, combined with a subscription bonus, at the nominal unit value of R\$ 14.40, totaling R\$ 800 million, divided simultaneously into two series of 27,777,500 debentures each.

	Number	Unit value	Total value (R\$ thousand)	Interest rate	Maturity	Amortization	Interest	Nature	Subscription bonus
First series	27,777,500	14.40	399.996	IPCA + 7.25%	6/15/2020	Without amortization	Semi-annual	Convertible debt	Yes
Second series	27,777,500	14.40	399.996	IPCA + 2.50%	6/15/2022	Semi-annual	Semi-annual	Debt	No
	55,555,000		799.992						

(i) First series - The first series debentures mature on June 15, 2020, and have a yield at the Amplified Consumer Price Index (IPCA) + 7.25% per annum, with payment of interest on a semi-annual basis, and a grace period of two years, without amortization of the principal. They represent a convertible debt, since they can be utilized at any time until their maturity, at the discretion of the holder, to subscribe and pay-up shares issued by the Company, in the form of Units (comprising one common share and four preferred shares), in the proportion of one Unit for each debenture, through the exercise of the subscription bonus, which will be attributed as an additional benefit to the debenture holders.

(ii) Second series - The second series debentures mature on June 15, 2022, and have a yield of IPCA + 2.50% per annum, paid semi-annually, together with the amortization of the principal, and a grace period of two years. This series of debentures is not convertible. Therefore, they are, not linked to the subscription bonus.

Those who acquire the first series are obliged to acquire debentures of the second series. The amount of R\$ 28,503 arising from the subscription bonus on the debentures issued was allocated to equity. The debenture holders have the possibility of converting debentures into units in advance.

The total of 98.86% of the debentures was subscribed by BNDES and the remaining debentures by other shareholders in the market.

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All amounts in thousands of reais

c) Composition of the balance of debentures

	Parent company and consolidated				
	12/31/2018		12/31/2017		
	7th issue	Total	6th issue	7th issue	Total
Current liabilities					
. Principal	61,538	61,538	-	61,538	61,538
. Interest	148	148	130,801	141	130,942
. Monetary restatement/profit sharing	-	-	46,796	-	46,796
	61,686	61,686	177,597	61,679	239,276
Non-current liabilities					
. Principal	553,805	553,805	-	615,343	615,343
. Monetary restatement/profit sharing	75,688	75,688	-	47,754	47,754
. Subscription bonus	(28,503)	(28,503)	-	(28,503)	(28,503)
	600,990	600,990	-	634,594	634,594
Total debenture liability	662,676	662,676	177,597	696,273	873,870
Equity - capital reserve					
. Debentures issued	-	-	1,559,282	-	1,559,282
. Interest up to maturity at present value	-	-	(410,119)	-	(410,119)
. Subscription bonus	28,503	28,503	-	28,503	28,503
. Cost of the issue of debentures	-	-	(29,841)	-	(29,841)
	28,503	28,503	1,119,322	28,503	1,147,825
Total	691,179	691,179	1,296,919	724,776	2,021,695

In 2018, R\$ 179,541 of interest on the debentures of the 6th issue and R\$ 61,827 of interest and R\$ 61,538 of principal on the 7th issue debentures were paid.

d) Change to debenture liabilities

	Parent company and Consolidated
	1,109,536
At December 31, 2016	
Interest and monetary variations on debentures	98,984
Repayments	(244,032)
Payment of interest	(30,769)
Payment of interest and participation in debenture results	(74,945)
Adjustment to present value of interest	15,096
At December 31, 2017	873,870
Interest and monetary variations on debentures	91,712
Repayments	(61,538)
Payment of interest	(241,368)
At December 31, 2018	662,676

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16 TRADE PAYABLES

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Local currency	867,539	630,444	867,671	631,182
Foreign currency	26,791	71,596	36,081	82,430
	894,330	702,040	903,752	713,612

The Company's average payment term to operational suppliers is approximately 50 days (38 days in December 31, 2017). In the case of suppliers of property, plant and equipment, the terms follow the commercial negotiations of each operation; there is no specific average term.

a) Commitments

The Company has several commitments, mainly leases of land for the development of forestry activity in pine and eucalyptus cultivation signed with third parties in the states of São Paulo, Paraná and Santa Catarina, maturing until 2057, in addition to the leasing of industrial and agricultural machinery as well real estate (administrative and warehousing) and assets related to the Company's operational logistic.

The table below shows the projection on December 31, 2018 of the amounts that will be disbursed over the years.

	12/31/2018
	Consolidated
2019	92,941
2020	77,609
2021	55,942
2022	28,987
2023	26,145
2024 - 2028	122,409
2029 - 2033	100,686
2034 - 2038	87,207
2039 - 2056	50,013
	641,939

The Company and its subsidiaries did not have other material future commitments at the end of the reporting period that had not been published.

17 PROVISIONS FOR TAX, SOCIAL SECURITY, LABOR AND CIVIL CONTINGENCIES

a) Provisioned risks

Based on the individual analysis of lawsuits filed against the Company and its subsidiaries and the opinion of legal counsel, provisions have been constituted and classified in non-current liabilities for expected losses on legal and administrative proceedings considered as probable, as follows:

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				12/31/2018
In the parent com	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
<u>Tax:</u>				
. PIS/COFINS	-	-	-	30,601
. ICMS/IPI	-	-	-	21,133
. Income tax/social contribution	(10,411)	3,614	(6,797)	98
. OTHER	(40)	40	-	4,211
	(10,451)	3,654	(6,797)	56,043
Labor	(43,250)	20,999	(22,251)	-
Civil	(10,417)	4,530	(5,887)	-
	(64,118)	29,183	(34,935)	56,043
<u>Subsidiaries:</u>				
Other	-	1,432	1,432	-
Consolidated	(64,118)	30,615	(33,503)	56,043

				12/31/2017
In the parent com	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
<u>Tax:</u>				
. PIS/COFINS	-	-	-	29,744
. ICMS/IPI	-	-	-	22,319
. Income tax/social contribution	(3,573)	3,573	-	139
. OTHER	(1,655)	1,655	-	2,523
	(5,228)	5,228	-	54,725
Labor	(45,775)	18,768	(27,008)	-
Civil	(14,374)	3,659	(10,716)	-
	(65,377)	27,655	(37,724)	54,725
<u>Subsidiaries:</u>				
Other	-	1,001	1,001	-
Consolidated	(65,377)	28,656	(36,723)	54,725

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b) Summary of changes to the provisioned amounts

	Consolidated			
	Taxes	Labor	Civil	Net Exposure
At December 31, 2016	-	(32,911)	(6,647)	(39,558)
New lawsuits/increases	-	(7,721)	(6,105)	(13,826)
(Provision)/reversals	-	10,494	2,708	13,202
Monetary variations	-	2,696	(672)	2,024
Deposit transactions	-	1,435	-	1,435
At December 31, 2017	-	(26,007)	(10,716)	(36,723)
New lawsuits/increases	(6,797)	(2,606)	(706)	(10,109)
(Provision)/reversals	-	4,131	6,087	10,218
Deposit transactions	-	2,231	880	3,111
At December 31, 2018	(6,797)	(22,251)	(4,455)	(33,503)

c) Provisions for tax, social security, labor and civil contingencies not recognized

At December 31, 2018, the Company and its subsidiaries were parties to other tax, labor and civil litigation involving expected losses evaluated as "possible" (i.e. not probable), totaling approximately: R\$ 2,488,226, R\$ 243,557 and R\$ 84,752, respectively. Based on individual analyses of the disputes and the opinion of the Company's legal counsel, management understands that they do not need to be accounted for, since the likelihood of loss is assessed as only possible.

At December 31, 2018, the Company appeared in the passive pole in several processes, such as:

Tax Lawsuits

(i) Lawsuit arising from violation notices, through which the auditor intended to require the IRPJ (Corporate Income Tax) and the CSL (Social Contribution), questioning the lack of deductibility, for corporate income tax purposes, of royalty expenses, undue amortization of goodwill and undue compensation of tax losses and negative bases for calculating the social contribution, due to insufficient balance, arising from glosses – possible risk of loss;

(ii) Tax and administrative processes, proposed by the municipality of Lages-SC and Rio de Janeiro-RJ, under the grounds that the Company stopped collecting ISS (tax on services) on the production and printing of custom packaging classified by the tax authority as "rendering print shop services" – possible risk of loss;

(iii) Court injunction seeking to ensure and safeguard the right of the Company not to submit to taxation established by law n° 10,256/2001, which includes article 22-A in the text of the law n° 8,212/91, creating the social security contribution due from the Agribusiness, whose calculation basis is the gross income from the sale of production, at a 2.6% rate in substitution of tax collection on payroll, at a rate of 20% - risk of possible loss;

(iv) Notice of Infraction resulting from supervision claiming that the company had taxable capital gain in the in a transaction involving a subsidiary - possible risk of loss;

(v) Termination action filed by the Federal Government with the purpose of not correcting by the SELIC rate, and the rates provided for in resolution CLEX No. 2/79 – possible risk of loss.

Civil Lawsuits

(i) Public civil action proposed by the Association of Environmental Fishermen of Paraná, with the purpose of requesting the removal of the plant's open drain pipes on the Tibagi River riverbed, as

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well as the removal from the Tibagi River riverbed of burnt mineral coal used by the Company up to 1998, in the county of Telêmaco Borba – PR – the estimated loss will be only determined after decision probable loss risk;

(ii) Compensation for damages due to its substitution by another supplier of Pallets which, as according to the Author, caused material damages, loss of profits and moral damages - possible loss risk.

Labor Lawsuits

The main requests are related to overtime, night additional, moral damage, material damage, life insurance, additional for insalubrities and unhealthy and dangerousness, as well as indemnities and subsidiary liability of third parties. Although the number of labor lawsuits is high, no lawsuit considered individually is relevant enough to be able to adversely impact in a relevant form the results of the Company and that deserve to be highlighted.

d) Ongoing Lawsuits

At December 31, 2018, the Company was involved in lawsuits involving ongoing causes, for which there are no amounts recognized in its financial statements, and the assets are recognized only after the lawsuits have been settled and the gain is virtually certain.

According to the opinion of the Company's legal advisors, some lawsuits are assessed as "probable" of winning. Among the aforementioned lawsuits, the most notable is the claim to presumed IPI credit on the purchases of electricity, fuel oil and natural gas used in the production process.

ICMS on the basis of calculation of PIS and COFINS

After a manifestation of the Federal Supreme Court (STF) in 2017, considering that the inclusion of ICMS in the calculation base of PIS and COFINS contributions is unconstitutional, lawsuits related to this matter have been made final with a favorable opinion to taxpayers. In this scenario, the Company filed a lawsuit to recover amounts unduly collected, and there was no judgment rendered until the date of disclosure of these financial statements.

The values of eventual gain of the process depend on the terms that are judged and the periods that will be considered in the sentence.

e) Enrollment in the Tax Recovery Program (REFIS)

The Tax Recovery Program (REFIS) (Law 11,941/09 and Law 12,865/13) balance payable recorded for the parent company and consolidated totaled R\$ 339,449 at December 31, 2018, of which R\$ 73,862 is accounted as current liabilities and R\$ 265,587 on non-current liabilities (R\$ 378,943 at December 31, 2017, R\$ 71,467 as current and R\$ 307,476 as non-current). These values are updated by the effective interest rate, which considers future values and the SELIC change. The balance is being paid in monthly installments, with settlement foreseen for 2029.

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18 EQUITY

a) Share Capital

The Company's subscribed and paid-up capital at December 31, 2018 comprises 5,409,801,840 shares (4,786,088,890 at December 31, 2017), without par value, corresponding to R\$4,076,035 (R\$2,516,753 at December 31, 2017), held as follows:

Stockholders	12/31/2018		12/31/2017	
	Common shares	Preferred shares	Common shares	Preferred shares
Klabin Irmãos & Cia	941,837,080	-	941,837,080	-
Niblak Participações S/A	142,023,010	-	142,023,010	-
Capital World Investors	21,661,128	86,644,512	60,208,500	240,834,000
The Bank of New York Departament	60,376,060	241,504,240	54,419,292	217,677,168
Monteiro Aranha S/A	71,356,189	285,456,206	55,333,872	221,366,938
BNDESPAR	56,259,848	225,039,392	42,554,908	170,219,632
BlackRock, Inc	46,610,152	186,440,608	41,730,587	166,922,348
Treasury shares	29,318,686	117,274,744	30,736,688	122,946,752
Other	615,152,502	2,282,847,483	491,008,128	1,786,269,987
	1,984,594,655	3,425,207,185	1,859,852,065	2,926,236,825

Besides common and preferred registered shares, the Company negotiates certificates of deposit of shares, referred to as Units, each corresponding to one common share (ON) and four preferred shares (PN).

The Company's authorized capital comprises 5,600,000,000 common shares (ON) and/ or preferred shares (PN) approved at the Extraordinary General Meeting held on March 20, 2014.

Capital increase for the conversion right of debenture holders

In January 2018, due to the exercise of the conversion right required by the debenture holders of the 6th Issue and due to the final conversion of all debentures from 6th issue, the Board of Directors of the Company approved the increase in subscribed and paid-in capital, within the authorized capital limit, in the amount of R\$ 1,559,282, with issuance of 124,742,590 common shares and 498,970,360 preferred shares, corresponding to the conversion of 24,948,518 debentures.

After the conversion of all the 6th Issue debentures, the Company's subscribed and paid-in capital amounts of R\$ 4,076,035, divided into 5,409,801,840 nominative shares with no par value, of which 1,984,594,655 are common shares and 3,425,207,185 preferred shares.

b) Treasury shares

The Company maintained 146,593,430 shares of its own issue in treasury at December 31, 2018, corresponding to 29,318,686 Units. The price on the São Paulo Stock Exchange was R\$ 15.88 per Unit at December 31, 2018 (code KLBN11 - BM&FBovespa).

In accordance with the stock option plan described in Note 22, granted as long-term remuneration to the Company's executives, 3,655,770 treasury shares were sold in February 2018, corresponding to 731,154 Units. The right to use 3,655,770 shares, corresponding to 731,154 "Units" was also granted. The amount was derecognized from the treasury share account.

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c) Carrying value adjustments

Created by Law 11,638/07, the group "Carrying value adjustments" in the Company's equity comprises adjustments for increases and decreases in assets and liabilities, when applicable.

The balance maintained by the Company corresponds to: the adoption of the deemed cost of property, plant and equipment for forestry land; an option exercised on the initial adoption of the new accounting pronouncements for convergence with IFRS, at January 1, 2009; the foreign exchange variations of the subsidiaries abroad with functional currencies different to the parent company; balances relating to the stock option plan granted to executives (Note 22); and actuarial liability restatements.

	Parent company and consolidated	
	12/31/2018	12/31/2017
Deemed cost of property, plant and equipment (land)	1,057,752	1,058,939
Foreign exchange variations - subsidiaries abroad	(72,362)	(63,018)
Stock option plan	2,952	2,486
Actuarial liability (i)	(11,220)	(10,491)
	977,122	987,916

(i) Net of corresponding deferred taxes, when applicable, at the rate of 34%

Foreign exchange variations - subsidiaries abroad will be transferred to profit or loss only in case of alienation or perishing of the investee. The other items, due to its nature and force of accounting standard, will never be transferred to profit or loss, even in case of their financial realization.

d) Dividends / Interest on Equity

Dividends/ Interest on Equity represent a portion of the profits earned by the Company, which are distributed to the shareholders as remuneration of invested capital in the fiscal year. All shareholders are entitled to receive dividends proportionately to their ownership interest, as guaranteed by the Brazilian corporate legislation and the Company's bylaws. The bylaws also determine that management has the option to prepay interim dividends during the year, "ad referendum" of the Ordinary General Meeting held to consider the accounts for the year.

The interest on shareholders' equity, for purposes of complying with the tax rules, is recorded as a contra entry to the item "Financial expenses." For purposes of preparation of this financial statements, they are reversed from the income statement against retained earnings, comprising the balance of mandatory minimum dividend, as per CVM instruction.

The basis of the calculation of the mandatory dividends, defined in the Company's bylaws, is adjusted in accordance with the constitution, realization and reversal, during the year, of the biological assets reserve, and entitles the Company's shareholders to receive, every year, a mandatory minimum dividend of 25% of the annual adjusted profit. Additionally, the Company is entitled to distribute dividends/ interest on equity with balances of "Profit Reserves" held in Shareholders' Equity.

The profit distribution in 2018 can be presented as follows:

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	Parent company
(=) Net income attributable to Klabin's shareholders	137,455
(-) Tax incentives reserve constitution	(59,368)
(-) Legal reserve constitution (5% of net profit - fiscal incentives reserve)	(3,904)
(+) Realization of demmed cost (land)	1,187
(+) Realization of the biological assets reserve - own	241,173
(-) Constitution of the biological assets reserve - own	(307,609)
(-) Constitution of the biological assets reserve - controlled (i)	(8,934)
(=) Basic profit for distribution of required dividends	-
(=) Minimum required dividend according to by laws (25%)	-
<u>2017 supplementary dividends paid in 2018</u>	
January (paid on Feb 19, 2018)	
. R\$ 32.53 per thousand common and preferred shares	
. R\$ 162.67 per thousand "Units"	171,000
Total of the 2017 supplementary dividends distributed	171,000
<u>Dividends distributed with Profit Reserve in 2018</u>	
April (paid on May 14, 2018)	
. R\$ 28.88 per thousand common and preferred shares	
. R\$ 144.40 per thousand "Units"	152,000
July (paid on Aug 15, 2018)	
. R\$ 33.63 per thousand common and preferred shares	
. R\$ 168.15 per thousand "Units"	177,000
October (paid on Nov 14, 2018)	
. R\$ 14.25 per thousand common and preferred shares	
. R\$ 71.25 per thousand "Units"	75,000
December/ rectification in January 2019 (to be paid on Feb 22, 2019)	
. R\$ 23.75 per thousand common and preferred shares	
. R\$ 118.75 per thousand "Units"	125,000
Total dividends distributed as of 2018 with Profit Reserve	529,000
<u>Interest on capital distributed with Profit Reserve</u>	
October (paid on Nov 14, 2018)	
. R\$ 50.35 per thousand common and preferred shares	
. R\$ 251.75 per thousand "Units"	265,000
December/ rectification in January 2019 (to be paid on Feb 22, 2019)	
. R\$ 23.75 per thousand common and preferred shares	
. R\$ 118.75 per thousand "Units"	125,000
Total interest on capital distributed for 2018	390,000
(=) Total dividends and interest on equity paid in 2018	840,000
(=) Total dividends and interest on shareholders' equity payable in 2019	250,000

(i) Included in equity result

The Company's management will present, at the Ordinary General Meeting to be held on March 14, 2019, together with the request for the approval of the accounts for the year, a proposal for the destination of results for the year 2018.

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19 NET SALES REVENUE

The Company's net sales revenue is composed as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Gross sales revenue	11,462,189	9,678,997	11,516,247	9,727,021
Discounts and rebates	(114,705)	(90,389)	(87,937)	(128,570)
Taxes on sales	(1,338,669)	(1,195,060)	(1,411,849)	(1,225,073)
	10,008,815	8,393,548	10,016,461	8,373,378
. Domestic market	5,524,949	4,999,886	5,533,578	5,019,971
. Foreign market	4,483,866	3,393,662	4,482,883	3,353,407
Net sales revenue	10,008,815	8,393,548	10,016,461	8,373,378

20 COSTS, EXPENSES AND OTHER INCOME BY NATURE

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
<u>Cost of products sold</u>				
Variable costs (raw materials and consumables)	(2,883,476)	(2,718,313)	(2,787,892)	(2,642,301)
Personnel	(1,212,668)	(1,078,987)	(1,224,917)	(1,089,886)
Depreciation and amortization	(1,038,374)	(950,239)	(980,724)	(968,300)
Depletion	(536,030)	(800,860)	(655,301)	(946,737)
Other	(714,967)	(839,500)	(693,572)	(780,268)
	(6,385,515)	(6,387,899)	(6,342,406)	(6,427,492)
<u>Sales expenses</u>				
Freight	(475,390)	(403,761)	(486,930)	(410,803)
Royalties	(51,747)	(50,878)	(51,747)	(50,878)
Commissions	(16,294)	(16,430)	(21,426)	(17,158)
Personnel	(102,006)	(84,016)	(103,036)	(84,865)
Depreciation and amortization	(1,393)	(1,305)	(1,421)	(1,332)
Storage and port expenses	(27,176)	(60,994)	(31,430)	(61,067)
Other	(67,060)	(28,233)	(68,358)	(30,741)
	(741,066)	(645,617)	(764,348)	(656,844)
<u>General and administrative expenses</u>				
Personnel	(304,438)	(310,793)	(307,513)	(313,932)
Services contracted	(131,254)	(112,038)	(132,580)	(113,170)
Depreciation, amortization and depletion	(35,183)	(23,636)	(35,901)	(24,118)
Other	(72,169)	(66,276)	(82,211)	(77,178)
	(543,044)	(512,743)	(558,205)	(528,398)
<u>Other net</u>				
Revenue from sales of prop, plant and equipment	15,398	63,841	15,398	63,841
Cost of sales and write-offs of prop, plant and equip	(866)	(34,522)	(866)	(34,522)
Deemed cost of property, plant and equip. (land)	(1,798)	(39,801)	(1,798)	(39,801)
Other	(21,075)	2,238	(14,962)	(1,395)
	(8,341)	(8,244)	(2,228)	(11,877)
Total	(7,677,966)	(7,554,503)	(7,667,187)	(7,624,611)

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21 FINANCE RESULT

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Finance income				
. Income from financial investments	379,790	562,632	391,869	579,436
. Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income	(19,817)	(35,196)	(19,817)	(35,196)
. Other (ii)	123,351	204,554	123,351	204,378
	483,324	731,990	495,403	748,618
Finance costs				
. Interest on borrowing and debentures	(1,185,188)	(1,124,301)	(1,151,036)	(1,105,624)
. Interest on REFIS (i)	(33,640)	(41,708)	(33,640)	(41,708)
. Derivative financial instruments (SWAP)	(114,126)	-	(114,126)	-
. Amortization of present value adjustments to debentures	-	(15,096)	-	(15,096)
. Loan guarantees from related parties	(28,423)	(30,812)	(28,423)	(30,812)
. Investor remuneration - SPCs	-	-	(38,061)	(35,049)
. Other	(180,357)	(54,150)	(183,504)	(59,565)
	(1,541,734)	(1,266,067)	(1,548,790)	(1,287,854)
Exchange variations				
. Foreign exchange variations on assets	150,947	89,558	156,759	86,469
. Foreign exchange variations on liabilities	(2,141,649)	(245,733)	(2,155,558)	(260,617)
	(1,990,702)	(156,175)	(1,998,799)	(174,148)
Finance result	(3,049,112)	(690,252)	(3,052,186)	(713,384)

(i) See Note 17.

(ii) See Note 9.

22 STOCK OPTION PLAN

The Extraordinary General Meeting of Shareholders held on July 10, 2012 approved the stock option plan as a benefit for the members of the Executive Board and the Company's key personnel.

CVM authorized the Company, through Circular Letter/CVM/SEP/GEA-2/221/2012, to realize private transactions included in the incentive plan for its directors and employees, except for the controlling shareholders, through the private transfer of treasury shares.

Pursuant to this plan, the Company established that its statutory and non-statutory directors could utilize 25% to 70% and managers could utilize 15% to 25% of their variable remuneration for the acquisition of treasury shares, and the Company would grant the right of use of the same amount of shares to the acquirers for three years, transferring ownership of the shares at the end of the three years, provided that the clauses established in the plan are complied with.

The right of use grants the participants the right to dividends distributed in the period during which the benefit is valid.

The acquisition price of treasury shares by the participants of the plan is calculated based on the lower of the average of the market value quotations in the last 60 trading sessions of the Company's shares and their quotation on the acquisition date. The value of shares granted with right of use corresponds to the quotation of shares traded on BM&FBOVESPA on the transaction date.

The clauses that grant the transfer of shares after three years require the participants of the stock option plan to remain in employment in the Company and stipulate that the shares acquired on enrollment in the plan may not be sold during this period. The shares granted can be immediately assigned in the case of the termination of employment by the Company, or the retirement or death of the beneficiary, in which case the right to the shares becomes part of the estate of the deceased.

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The shares granted and the expense proportional to the grant term, recorded in profit and loss, is accumulated in equity in the "Carrying value adjustments" group, up to the end of the grant, which may occur due to the three-year maturity or any other clause of the plan that may terminate the grant.

The table below presents information about the agreed-upon plans:

a) Statutory and non-statutory Board Members

	Plan 2013 (ii)	Plan 2014 (ii)	Plan 2015	Plan 2016	Plan 2017	Total
Start of the plan	03/01/2014	03/01/2015	03/01/2016	02/24/2017	02/28/2018	
Final grant date	03/01/2017	03/01/2018	03/01/2019	02/24/2020	02/28/2021	
Treasury shares acquired by the beneficiaries (i)	2,302,500	1,855,000	1,475,000	2,774,345	2,039,185	10,446,030
Purchase value per share (R\$) (i)	2.34	2.84	4.23	3.04	3.58	
Treasury shares granted with right to use (i)	2,302,500	1,855,000	1,475,000	2,774,345	2,039,185	10,446,030
Value of the right to use per share (R\$) (i)	2.29	3.26	4.30	3.04	3.58	
Accumulated plan expenses - from the beginning	5,263	6,031	6,030	6,376	2,050	25,750
Expenses of the plan - 1/1 to 12/31/2018	-	138	918	1,239	2,050	4,345
Expenses of the plan - 1/1 to 12/31/2017	287	2,344	3,629	5,501	-	11,761

a) Managers

	Plan 2013 (ii)	Plan 2014 (ii)	Plan 2015	Plan 2016	Plan 2017	Total
Start of the plan	04/30/2014	04/30/2015	04/30/2016	02/24/2017	02/28/2018	
Final grant date	04/30/2017	04/30/2018	04/30/2019	02/24/2020	02/28/2021	
Treasury shares acquired by the beneficiaries (i)	-	-	-	1,531,400	1,616,585	3,147,985
Purchase value per share (R\$) (i)	-	-	-	3.04	3.58	
Treasury shares granted with right to use (i)	542,500	372,500	351,000	1,531,400	1,616,585	4,413,985
Value of the right to use per share (R\$) (i)	2.30	3.36	4.34	3.04	3.58	
Accumulated plan expenses - from the beginning	1,269	1,220	1,378	2,476	1,638	7,981
Expenses of the plan - 1/1 to 12/31/2018	-	150	424	1,561	1,638	3,773
Expenses of the plan - 1/1 to 12/31/2017	85	421	860	1,299	-	2,665

(i) Considers the stock split mentioned in Note 1, financial statements at December 31, 2015

(ii) Plan terminated.

23 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to holders of the Company's common and preferred shares by the weighted average number of common and preferred shares available during the year. The Company has debentures mandatorily convertible into shares (see Note 15) recorded in equity - therefore, the future conversion of the debentures into the total amount of shares is already reflected in the weighted average number of shares used for calculation purposes.

The shares from the future conversion of the seventh issue of debentures (Note 15) were not considered in the calculation because such conversion does not have a dilutive effect.

Therefore, the diluted earnings per share are equal to the basic earnings per share. The Company does not have any other instrument that may have a dilutive effect.

As mentioned in Note 18, the changes in the balance of treasury shares affect the weighted average number of preferred shares held in treasury in the calculation for the year ended December 31, 2018, being the weighted average used in the calculation of earnings per share was determined as follows:

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All amounts in thousands of reais

Weighted average number of treasury shares - December 31, 2018 (i)				
Jan	Feb	Mar to Ago	Sep to Dec	12 Months 2018
153.683.440 x 1/12	+ 146.371.900 x 1/12	+ 146.568.150 x 6/12	+ 146.593.430 x 4/12	= 147,153,163
(i) Because the Company only has Units held in treasury, the distribution between common and preferred shares is made according to the composition of the Units.				

The table below, presented in R\$ or number of shares, as applicable, reconciles the profit or loss for the years ending December 31, 2018 and 2017 with the amounts used in the calculation of basic and diluted earnings per share:

	Parent company			Consolidated		
	From 1/1 to 12/31/2018			From 1/1 to 12/31/2018		
	Common (ON)	Preferred (PN)	Total	Common (ON)	Preferred (PN)	Total
Denominator						
Total weighted average number of shares	1,984,594,655	3,425,207,185	5,409,801,840	1,984,594,655	3,425,207,185	5,409,801,840
Weighted average number of treasury shares	(29,430,633)	(117,722,531)	(147,153,163)	(29,430,633)	(117,722,531)	(147,153,163)
Weighted average number of outstanding shares	1,955,164,022	3,307,484,654	5,262,648,677	1,955,164,022	3,307,484,654	5,262,648,677
% of shares in relation to the total	37.15%	62.85%	100%	37.15%	62.85%	100%
Numerator						
Earnings attributable to each class of shares (R\$)	51,066,884	86,388,116	137,455,000	51,066,884	86,388,116	137,455,000
Weighted average number of outstanding shares	1,955,164,022	3,307,484,654	5,262,648,677	1,955,164,022	3,307,484,654	5,262,648,677
Basic and diluted earnings per share (R\$)	0.0261	0.0261		0.0261	0.0261	

	Parent company			Consolidated		
	From 1/1 to 12/31/2017			From 1/1 to 12/31/2017		
	Common (ON)	Preferred (PN)	Total	Common (ON)	Preferred (PN)	Total
Denominator						
Total weighted average number of shares	1,859,852,065	2,926,236,825	4,786,088,890	1,859,852,065	2,926,236,825	4,786,088,890
Number of shares to be converted from debentures	124,742,590	498,970,360	623,712,950	124,742,590	498,970,360	623,712,950
Weighted average number of treasury shares	(30,877,842)	(123,511,369)	(154,389,212)	(30,877,842)	(123,511,369)	(154,389,212)
Weighted average number of outstanding shares	1,953,716,813	3,301,695,816	5,255,412,628	1,953,716,813	3,301,695,816	5,255,412,628
% of shares in relation to the total	37.18%	62.82%	100%	37.18%	62.82%	100%
Numerator						
Earnings attributable to each class of shares (R\$)	197,835,564	334,333,436	532,169,000	197,835,564	334,333,436	532,169,000
Weighted average number of outstanding shares	1,953,716,813	3,301,695,816	5,255,412,628	1,953,716,813	3,301,695,816	5,255,412,628
Basic and diluted earnings per share (R\$)	0.1013	0.1013		0.1013	0.1013	

24 OPERATING SEGMENTS

a) Criteria for identification of operating segments

The Company's operating structure is divided into segments according to the manner in which management manages the business. The operating segments defined by management are as follows:

(i) Forestry segment: involves operations relating to planting and growing pine and eucalyptus trees to supply the Company's plants. Also involves selling timber (logs) to third parties in the domestic market.

(ii) Paper segment: mainly involves the production and sale of cardboard, kraftliner and recycled paper rolls in the domestic and foreign markets

(iii) Conversion segment: involves the production and sale of corrugated cardboard boxes, corrugated cardboard and industrial sacks in the domestic and foreign markets.

(iv) Pulp segment: include the production and sale of short fiber bleached pulp, long fiber bleached pulp, and fluff pulp in the domestic and foreign markets.

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All amounts in thousands of reais

b) Consolidated information about operating segments

	From 1/1 to 12/31/2018				
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations
					Total Consolidated
Net revenue:					
.Domestic market	315,594	1,809,395	2,565,724	851,100	(8,235)
.Foreign market	-	1,367,309	286,666	2,828,908	-
Revenue from sales to third parties	315,594	3,176,704	2,852,390	3,680,008	(8,235)
Revenue between segments	1,420,329	1,419,543	21,257	82,855	(2,943,984)
Total net sales	1,735,923	4,596,247	2,873,647	3,762,863	(2,952,219)
Changes in the fair value of biological assets	628,367	-	-	-	-
Cost of products sold	(2,015,212)	(3,065,783)	(2,440,449)	(1,778,128)	2,957,166
Gross profit	349,078	1,530,464	433,198	1,984,735	4,947
Operating income (expenses)	(89,004)	(438,191)	(361,281)	(365,760)	(64,581)
Operating result before finance result	260,074	1,092,273	71,917	1,618,975	(59,634)
Sales of products (in metric tons)					
.Domestic market	-	579,205	714,975	294,367	-
.Foreign market	-	441,405	52,256	1,106,877	-
.Inter-segmental	-	789,545	3,103	29,549	(822,197)
	-	1,810,155	770,334	1,430,793	(822,197)
Sales of timber (in metric tons)					
.Domestic market	2,109,040	-	-	-	-
.Inter-segmental	13,546,625	-	-	-	(13,546,625)
	15,655,665	-	-	-	(13,546,625)
Investments during the period	527,728	255,619	134,871	140,775	37,350
Depreciation, depletion and amortization	(713,623)	(318,448)	(70,339)	(554,780)	(16,157)
Total assets - 12/31/2018	8,199,582	5,278,254	1,846,732	7,665,484	6,643,691
Total liabilities - 12/31/2018	1,991,580	441,121	364,861	249,909	20,053,042
Equity - 12/31/2018	5,967,007	4,837,133	1,481,871	7,415,575	(13,409,351)
Non-controlling shareholders	240,995				

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	From 1/1 to 12/31/2017					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	330,025	1,637,193	2,460,640	596,822	(4,709)	5,019,971
.Foreign market	-	1,313,568	214,112	1,825,671	56	3,353,407
Revenue from sales to third parties	330,025	2,950,761	2,674,752	2,422,493	(4,653)	8,373,378
Revenue between segments	1,359,939	1,312,464	23,659	62,795	(2,758,857)	-
Total net sales	1,689,964	4,263,225	2,698,411	2,485,288	(2,763,510)	8,373,378
Changes in the fair value of biological assets	789,661	-	-	-	-	789,661
Cost of products sold	(2,177,832)	(3,023,422)	(2,272,631)	(1,702,068)	2,748,461	(6,427,492)
Gross profit	301,793	1,239,803	425,780	783,220	(15,049)	2,735,547
Operating income (expenses)	(95,677)	(379,705)	(332,440)	(333,844)	(41,829)	(1,183,495)
Operating result before finance result	206,116	860,098	93,340	449,376	(56,878)	1,552,052
Sales of products (in metric tons)						
.Domestic market	-	555,590	714,606	294,130	-	1,564,326
.Foreign market	-	548,009	47,221	1,060,880	-	1,656,110
.Inter-segmental	-	777,488	3,085	27,475	(808,048)	-
	-	1,881,087	764,912	1,382,485	(808,048)	3,220,436
Sales of timber (in metric tons)						
.Domestic market	2,595,973	-	-	-	-	2,595,973
.Inter-segmental	13,464,345	-	-	-	(13,464,345)	-
	16,060,318	-	-	-	(13,464,345)	2,595,973
Investments during the period	330,753	277,077	97,029	209,887	10,539	925,285
Depreciation, depletion and amortization	(1,023,699)	(292,418)	(62,525)	(550,628)	(11,217)	(1,940,487)
Total assets - 12/31/2017	7,491,429	5,142,370	1,711,660	8,099,272	8,104,810	30,549,541
Total liabilities - 12/31/2017	1,874,252	364,533	357,192	249,726	20,469,687	23,315,390
Equity - 12/31/2017	5,617,177	4,777,837	1,354,468	7,849,546	(12,364,877)	7,234,151

The balance in the Corporate/eliminations column refers to the corporate unit's expenses not apportioned among the segments, and eliminations refer to adjustments of operations between the segments.

Information about the finance result and income tax was not disclosed in the segment reporting because management does not utilize such data on a segmental basis, and the data is instead managed and analyzed on a consolidated basis.

c) Information on net of external market sales revenue

The table below shows the distribution of net revenue at December 31, 2018 and 2017:

Country	Consolidated 1/1 à 12/31/2018		Country	Consolidated From 1/01 to 12/31/2017	
	Total revenue (R\$/million)	% of total net revenue		Total revenue (R\$/million)	% of total net revenue
Austria	2,679	26.7%	Austria	1,636	19.5%
Argentina	331	3.3%	China	498	5.9%
China	233	2.3%	Argentina	320	3.8%
Ecuador	144	1.4%	Turkey	83	1.0%
Canada	121	1.2%	Ecuador	76	0.9%
Peru	101	1.0%	Switzerland	75	0.9%
South Africa	85	0.8%	South Africa	67	0.8%
Mexico	74	0.7%	Singapore	63	0.8%
Italy	67	0.7%	Colombia	47	0.6%
Other	648	6.5%	Other	488	5.8%
	4,483	45%		3,353	40%

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All amounts in thousands of reais

For the year ended December 31, 2018, in the pulp and paper segments, two clients were responsible for approximately 33% of the Company's net revenue, 11% (R\$ 1,083,529) in the paper segment and 22% (R\$ 2,177,796) in the pulp segment, corresponding to approximately R\$ 3,261,325 (R\$ 2,502,679 on December 31, 2017 or 30%, 15% (R\$ 1,261,279) on paper segment and 15% (R\$ 1,241,400) on Pulp Segment). The remaining customer base is diluted as none of the other customers individually accounts for a material share (above 10%) of the Company's net sales revenue.

25 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Risk management

The Company and its subsidiaries enter into transactions involving financial instruments, all recorded in balance sheet accounts, in order to meet their operational needs and reduce their exposure to financial risks, mainly related to credit risks and investments of funds, market risks (foreign exchange and interest rates) and liquidity risks, to which the Company understands that it is exposed based on the nature of its business and operating structure.

These risks are managed through the definition of strategies prepared and approved by the Company's management, linked to the establishment of control systems and determination of limits. The Company does not enter into transactions involving financial instruments for speculative purposes.

Management also carries out regular assessments of the Company's consolidated position, monitors the financial results obtained, analyzes future projections to ensure compliance with the business plan defined, and monitors the risks to which it is exposed.

The main risks to which the Company is exposed are described below:

Market risk

Market risk is the risk that the fair value of the future cash flow of a financial instrument will fluctuate due to changes in market prices. In the case of the Company market prices are affected by two types of risk: interest rate and foreign exchange. The financial instruments affected by market risk are financial investments, accounts receivables, trade payables, loans payable and fair value through profit or loss.

(i) Foreign Exchange rate risk

The Company has transactions denominated in foreign currencies (mainly in US Dollars) that are exposed to market risks arising from fluctuations in foreign exchange rates. Any fluctuation in a foreign exchange rate could increase or reduce a balance expressed in Reais. The composition of this exposure was as follows:

	Consolidated	
	12/31/2018	12/31/2017
Bank deposits and financial investments	540,855	1,893,535
Trade receivables (net of provision for doubtful del	740,111	533,570
Other assets and liabilities	(22,000)	(50,000)
Borrowing	(12,247,491)	(14,101,859)
Net exposure	(10,988,525)	(11,724,754)

The balance of this net exposure at December 31, 2018 was as follows:

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All amounts in thousands of reais

Year	2019	2020	2021	2022	2023	2024	2025 onwards	Total
Amount	(142,525)	(1,413,000)	(1,496,000)	(2,021,000)	(1,304,000)	(2,403,000)	(2,209,000)	(10,988,525)

The Company did not have derivative contracts to protect against long-term foreign exchange exposure at December 31, 2018. However, in order to protect against this net liability exposure, the Company has a sales plan under which the projected flow of export revenue is approximately US\$ 1 billion annually and the related receipts, if realized, would exceed, or approximate, the flow of payments of the related liabilities, offsetting the cash effect of this foreign exchange exposure in the future.

The only derivative contracted by the Company (note 14) refers to a foreign exchange swap and interest rate linked to the issuance of a certain export credit note.

(ii) Interest rate risk

The Company has loans indexed to the variations in the TJLP, LIBOR, IPCA and the CDI and Marketable securities indexed to the variations in the CDI, SELIC and IPCA, which expose these assets and liabilities to fluctuations in interest rates, as shown in the interest sensitivity analysis below. The Company does not have derivative contracts to swap/ hedge against the exposure to these market risks.

The practice adopted by the Company in relation to interest rate risk is to continuously monitor market interest rates in order to assess the possible need to contract derivatives to hedge against the risk of volatility in these rates. The Company considers that the high cost associated with entering into transactions at fixed interest rates in the Brazilian macroeconomic scenario justifies its choice of floating rates.

The composition of the Company's interest rate risk is as follows:

	12/31/2018	12/31/2017
Financial investments - CDI	5,112,257	5,108,744
Financial investments - Selic	852,778	801,481
Financial investments - IPCA	452,623	434,905
Asset exposure	6,417,658	6,345,130
Financing - CDI	(4,740,513)	(2,278,965)
Financing - TJLP	(1,873,142)	(2,302,439)
Financing - LIBOR	(7,101,719)	(9,688,305)
Debentures - IPCA	(662,676)	(696,273)
Liability exposure	(14,378,050)	(14,965,982)

Risk relating to investment

The Company is exposed to risk relating to the application of funds, including deposits in banks and other financial institutions, foreign exchange transactions, marketable securities and other financial instruments that are contracted. The exposure relates mainly to marketable securities and transactions involving securities, which are described in Notes 4 and 5.

In relation to the quality of the financial assets of the Company invested in financial institutions, an internal policy is applied to the approval of the type of operation being entered into and to the analysis of the rating, applied by the rating agencies, to assess the feasibility of the investment of the funds in a given institution, provided that it meets the acceptance criteria of the policy.

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All amounts in thousands of reais

The table below presents the cash, cash equivalents and marketable securities invested by the Company, classifying the amounts according to the national classification of the financial institutions by the rating agency Fitch/ Moody's:

	Consolidated	
	12/31/2018	12/31/2017
<i>Rating nacional AAA(bra)</i>	4,665,185	5,319,250
<i>Rating nacional AA+(bra)</i>	2,382,019	2,952,345
	7,047,204	8,271,595

Credit risk

Credit risk is the risk that counterparty to a transaction will not fulfill an obligation established in a financial instruments or contract with a customer, leading to a financial loss. In addition to the investments referred to above, the Company is exposed to credit risk in its operating activities (mainly in connection with accounts receivables).

At December 31, 2018, the maximum exposure to credit risk was the carrying amount of the accounts receivables shown in Note 6. Information on customer concentration is described in note 24.

Credit risk in the Company's operating activities is managed based on specific rules regarding the acceptance of customers, credit analysis and the establishment of exposure limits in respect of customers, which are periodically reviewed. Overdue receivables are monitored on a regular basis to ensure their realization, registering estimated losses with doubtful credit liquidation for items that have a risk of not being received.

Beginning in April 2017, the Company started to hold an insurance policy guaranteeing the effective receipt of its sales made after the policy was contracted, except for sales of timber and customers that may not be accepted in the policy under the insurer's rules, such as continuity and liquidity, analyzed by the insurance company to be incorporated in the policy. The current policy is valid until August 2020.

Liquidity risk

The Company monitors the risk of shortages of funds by managing its resources through a recurring liquidity-planning tool, so that it has funds available for the fulfillment of its obligations, mainly concentrated on financing from financial institutions.

The table below shows the maturity of the financial liabilities hired by the Company and reported in the consolidated balance sheet, where the amounts include principal and future interest on transactions, calculated using the rates and indexes prevailing on December 31, 2018:

	2019	2020	2021	2022	2023	2024 onwards	Total
Trade payables	(903,752)	-	-	-	-	-	(903,752)
Financing/debt	(3,131,669)	(2,948,789)	(2,980,040)	(4,439,219)	(3,357,073)	(8,413,843)	(25,270,633)
Total	(4,035,421)	(2,948,789)	(2,980,040)	(4,439,219)	(3,357,073)	(8,413,843)	(26,174,385)

The budget projection for the coming years approved by the Board of Directors indicates that the Company has the ability to meet these obligations.

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Capital management

The Company's capital structure comprises net debt, consisting of borrowings (Note 14) and debentures (Note 15) less cash and cash equivalents and marketable securities (Notes 4 and 5), and equity (Note 18), including the balance of issued capital and all of the constituted reserves.

The Company's net indebtedness ratio is comprised as follows:

	12/31/2018	12/31/2017
Cash and cash equivalents and marketable securities	7,047,204	8,271,595
Borrowing and debentures	(19,445,672)	(19,549,411)
Net indebtedness	(12,398,468)	(11,277,816)
Equity	6,292,235	7,234,151
Net indebtedness ratio	(1.97)	(1.56)

b) Financial instruments, by category

The Company has the following categories of financial instruments:

	Consolidated	
	12/31/2018	12/31/2017
Assets - at amortized cost		
. Cash and cash equivalents	5,733,854	7,028,422
. Trade receivables (net of allowance for doubtful accounts)	2,040,931	1,754,063
. Other assets	685,133	705,305
	8,459,918	9,487,790
Assets - fair value by through profit or loss		
. Marketable securities	1,313,350	1,243,173
	1,313,350	1,243,173
Liabilities - at amortized cost		
. Borrowing and debentures	19,445,672	19,549,411
. Trade payables	903,752	713,612
. Other payables	1,146,722	1,125,820
	21,496,146	21,388,843

(i) Amortized cost

The financial instruments included in this group refer to balances arising from usual transactions, such as accounts receivables, trade payables, borrowings and debentures, marketable securities and cash and cash equivalents maintained by the Company. All these instruments are recorded at their notional amounts plus, when applicable, contractual charges and interest, in respect of which the related income and expenses are recognized in the results for the year.

(ii) Fair value through profit or loss

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The Company classifies its investments in LFTs and NTN-B (Note 5) as financial assets, since they can be traded in the future. These are recorded at fair value, which, in practice, corresponds to the invested amount plus interest on the transaction.

c) Sensitivity analysis

The Company presents below the sensitivity analysis of foreign exchange and interest rate risks to which it is exposed, considering that any effects would affect the future results, based on the exposure at December 31, 2018. The effects on equity are the same as those on the results.

(i) Foreign Exchange exposure

The Company had assets and liabilities indexed to a foreign currency in the balance sheet at December 31, 2018, and, for sensitivity analysis purposes, it adopted as scenario I the future market rate in effect at the end of the reporting period. For scenarios II and III this rate was adjusted by 25% and 50%, respectively

It is important to point out that most of the financing maturities will not occur in 2018, according to the maturity schedule shown in Note 14, and, therefore, foreign exchange variations in this analysis will not have an immediate effect on cash. On the other hand, the Company's exports should substantially be subject to the cash impact of the foreign exchange variation as they occur.

The sensitivity analysis of the foreign exchange variation is calculated in respect of the net foreign exchange exposure (borrowings, accounts receivables and trade payables in foreign currency), not considering the effect on the scenarios of projected export sales that, as previously mentioned, will offset any future foreign exchange losses.

Accordingly, the table below shows a simulation of the effect of the foreign exchange variation on the future results for the next 12 months, if all other variables remain constant, considering the consolidated balances at December 31, 2018:

	At 12/31/2018	Scenario I		Scenario II		Scenario III	
	US\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Assets							
Cash and cash equivalents	139,583	3.72	(21,733)	4.65	108,204	5.58	238,016
Trade receivables, net of allowance for doubtful debts	191,006	3.72	(29,740)	4.65	148,068	5.58	325,704
Other assets and liabilities	(5,678)	3.72	884	4.65	(4,401)	5.58	(9,682)
Financing	(3,160,806)	3.72	492,137	4.65	(2,450,257)	5.58	(5,389,806)
Net effect on finance results			441,548		(2,198,386)		(4,835,768)

(ii) Exposure to interest rate fluctuations

Marketable securities, borrowings and debentures, are indexed to TJLP, IPCA, SELIC, LIBOR, and CDI floating interest rate. For sensitivity analysis purposes, the Company adopted the rates prevailing at dates close to the presentation dates of financial statement, extracted on the website of the Central Bank of Brazil, using these same rates for SELIC, LIBOR, IPCA and CDI, due to their proximity, in the scenario I projection. For scenarios II and III, these rates were adjusted by 25% and 50%, respectively.

Accordingly, with all other variables held constant, the table below shows a simulation of the effect of the interest rate variation on the future results for the next 12 months consolidated, considering the balances at December 31, 2018:

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KLABIN S.A.

All amounts in thousands of reais

		At 12/31/2018	Scenario I		Scenario II		Scenario III	
		R\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Financial investments								
CDBs	CDI	5,112,257	6.42%	(1,022)	8.00%	80,774	9.60%	162,570
LFTs	Selic	852,778	6.43%	(256)	8.00%	13,389	9.60%	27,033
NTN - B	IPCA	452,623	3.69%	1,448	5.01%	5,986	6.02%	10,523
Financing								
Export Credit Notes - NCE (R\$)								
and Agribusiness Receivables								
Certificate - CRA	CDI	(4,740,513)	6.42%	948	8.00%	(74,900)	9.60%	(150,748)
BNDES	TJLP	(1,873,142)	6.98%	(937)	8.79%	(33,857)	10.55%	(66,778)
Debentures	IPCA	(662,676)	3.69%	(2,121)	5.01%	(8,764)	6.02%	(15,407)
Export prepayment, BID and Finnvera	Libor	(7,101,719)	3.01%	2,880	3.71%	(49,759)	4.45%	(102,398)
Net effect on finance results				940		(67,131)		(135,205)

26 EMPLOYEE BENEFITS PLAN AND PENSION PLAN

The Company and its subsidiaries grant their employees' life insurance, healthcare and pension plan benefits. These benefits are recognized on the accruals basis, and their granting is discontinued at the end of the employment relationship.

In 2018, the total expenses under these defined contribution plans amounted to R\$ 10,408 (R\$ 10,243 in 2017).

a) Private pension plan

Klabin S.A.'s pension plan - the Prever Plan, administered by Itaú Vida e Previdência S.A. - was established in 1986 as a defined benefit plan. In 1998, the plan was restructured, becoming a defined contribution plan.

In November 2001, a new pension plan was established—Plano de Aposentadoria Complementar Klabin (PACK) (a complementary pension plan), administered by Bradesco Vida e Previdência S.A. and structured as a free benefit generating plan (PGBL).

The participants in the Prever Plan were offered the option to migrate to the new plan. In neither plan does the Company assume any responsibility for guaranteeing minimum benefit levels for retiring participants.

b) Healthcare

Under the agreement entered into with the Union of the Pulp and Paper Workers of the State of São Paulo, the Company pays for a lifetime healthcare plan (Hospital SEPACO, main plan) for its former employees who had retired by 2001, as well as for their dependents, until they reach the age of majority, and for their spouses. New beneficiaries cannot be added.

The Company understands that this healthcare benefit is considered as a defined benefit plan. For this reason, maintains a provision for the estimated actuarial liability, amounting to R\$ 112,716 at December 31, 2018 (R\$ 108,059 at December 31, 2017), in non-current liabilities, under "Other payables and provisions".

In the actuarial valuation, the following economic and biometric assumptions were utilized: nominal discount rate of 9.3% p.a., nominal growth rate of variable medical costs starting at 11.80% p.a. in 2018 and decreasing to 6.08% p.a. in 2030, long-term inflation of 4 % p.a., and biometric mortality

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of reais

table RP-2000. Actuarial restatements are maintained in equity in the group "Carrying value adjustments (comprehensive income (loss))", as required by IAS19/CPC 33 (R1) – "Employee benefits".

The increase or decrease by one percentage point in the rates used in the actuarial calculations does not have a material effect on the Company's financial statements.

This plan does not have assets for disclosure.

c) Other employee benefits

The Company grants its employees the following benefits: healthcare, day nursery reimbursement, assistance to parents with children with special needs, agreement for discounts at drugstores, school supplies, dental care plan, private pension plan and life insurance, in addition to the benefits established by law (meal vouchers, transportation vouchers, profit sharing and food purchase vouchers). Furthermore, the Company has an organizational development program for its employees. For the year ended December 31, 2018, expenditure on training programs totaled R\$ 13,372 (R\$ 10,790 for the year ended December 31, 2017).

All these benefits are recognized on an accruals basis and are discontinued at the end of the employee's employment relationship with the Company.

27 INSURANCE COVERAGE

To protect its operational, assets and liabilities risks, the Company had insurance against many types of events that could impact on equity and operations.

Within the best market practices, the Company maintains operational risk insurance against fire, lightning, explosions, electrical damage and windstorms for its industrial and administrative facilities and inventory.

The Company also has other insurance coverage, such as for general civil liability, responsibility of directors and officers, National and International Transportation and forest insurance.

28 EVENTS AFTER THE REPORTING PERIOD

2019 interim dividend distribution

The Extraordinary Meeting of the Board of Directors held on February 06, 2019 approved the distribution of additional dividends for 2019 of R\$ 20,000, corresponding to R\$ 3.80 per thousand common and preferred shares and R\$ 19.00 per thousand Units, the amount will be paid on February 25, 2019.

Klabin S.A.



**Financial statements at December 31, 2017 and 2016 and
independent auditor's report**

(A free translation from Portuguese into English of Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB) and consistently with the standards issued by the Brazilian Securities Commission (CVM).

INDEPENDENT AUDITOR’S REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The
Board of Directors and Shareholders
Klabin S.A.
São Paulo – SP

Opinion

We have audited the accompanying individual and consolidated financial statements of Klabin S.A. (“Company”), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2017 and the income statement, statements of comprehensive income, of changes in shareholders’ equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Klabin S.A. as at December 31, 2017, and its individual and consolidated financial performance and individual and consolidated cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of individual and consolidated financial statements” section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements provided for in the Code of Ethics for Professional Accountants and in the professional standards issued by Brazil’s National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were the most significant in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the overall individual and consolidated financial statements, and in forming our opinion on the individual and consolidated financial statements. Therefore, we do not express a separate opinion on these matters. For each of the matters below, a description of how our audit has addressed them, including any comments on the results of our procedures is presented in the context of the financial statements taken as a whole.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of individual and consolidated financial statements” section, including those relating to these key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our procedures, including those performed to address the matters below, provide the basis for our audit opinion on the Company’s individual and consolidated financial statements.

Tax credits

At December 31, 2017, recoverable tax credits amounting to R\$ 1,842,318 thousand and R\$ 1,854,748 thousand in the parent company, and R\$ 951,657 thousand and R\$ 951,706 thousand in the consolidated, as disclosed in Notes 9 and 10 , respectively, mainly arise from income and social contribution tax credits on temporary differences, which are directly associated with projected future taxable profits, and State VAT (ICMS) and Federal VAT (IPI) credits to be recovered, which are directly associated with the expected ICMS and IPI taxes payable for offsetting of such credits.

Due to the magnitude of the amounts involved and the complexity of the measurement process for projections of future taxable profits, which are based on estimates and assumptions whose realization is affected by uncertain market conditions and economic scenarios, as well as to the complexity of tax legislation and accounting and tax consequences of the grant provided by the State of Paraná, specifically as regards to ICMS tax, this was considered to be a key audit matter in our audit.

Our audit procedures included, among others, the engagement of tax experts to help us evaluate the tax impacts involved, as well as the engagement of valuation experts to assist us in reviewing the assumptions used by the Company and its subsidiaries in drawing up the model used to measure the recoverable amount of tax credits, which considers estimates of future financial results, estimates of future sales and discounts, projected inflation, exchange rates of foreign currencies, profitability of the business of the Company and its subsidiaries and profit margin.

We also reviewed the information disclosed by the Company in Notes 9 and 10, the source of the funds, and the assumptions used in relation to estimates of future profitability and realization of referred to credits over the short and the long term.

Based on the results of audit procedures performed on the tax credits, which are consistent with management’s assessment, we believe that the assumptions and criteria used by the Company’s management as to realization of referred to tax credits, as well as the respective disclosures in Notes 9 and 10, are acceptable in regards to the financial statements taken as a whole.

Measurement of biological assets

Company records its pine and eucalyptus forests (biological assets) at fair value. As at December 31, 2017, the fair value of biological assets as disclosed in Note 13 corresponded to R\$ 4,147,779 thousand.

Due to the magnitude of the amounts involved and the complexity of the process of determining the fair value of biological assets, which, as disclosed in Notes 2.2 j) and 13, takes into consideration several assumptions that involved a high degree of judgment of the Company's management, such as: forest growth ratio, forest age when fair value differs from historical cost, interest rates for cash flow discounts, productivity estimates, harvest volume projections, and standing timber prices, this was considered to be a key audit matter in our audit.

Our audit procedures included, among others, the assessment of internal controls related to the forestry activity of the Company and its subsidiaries, the engagement of our subject matter experts in evaluating the assumptions and methodologies used by the Company, particularly as regards the estimates of forest growth ratio, the age of the forests when their fair value differs from their historical cost, interest rates for discounts of cash flows, productivity estimates, harvest volume projections and standing timber prices, as well as evaluation of the appropriate disclosure by the Company with respect to the assumptions used in the calculations of the measurement of the respective fair value, both in noncurrent assets and their effects in the income statement in the financial statements.

Based on the results of audit procedures performed on measurement of the fair value of biological assets, which are consistent with management's assessment, we understand that the assumptions and criteria used by the Company's management as to measurement of the fair value of biological assets, as well as the respective disclosures in Notes 2.2j and 13, are acceptable in regards to the financial statements taken as a whole.

Other matters**Audit of corresponding individual and consolidated figures**

The individual and consolidated financial statements of Klabin S.A. for the year ended December 31, 2016, presented for comparison purposes, were examined by another independent auditor who issued their report on January 31, 2017 with an unmodified opinion on these financial statements.

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2017, prepared under the responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purpose of forming our opinion, we evaluate whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria set forth in this Accounting Pronouncement and are consistent with the overall individual and consolidated financial statements.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of these individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either

intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the overall individual and consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and International standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

-
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, of the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, including those regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, January 31, 2018

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP034519/O-6

Rita de C. S. Freitas
Accountant CRC-1SP214160/O-5

BALANCE SHEET AT DECEMBER 31, 2017 AND 2016
(in thousand of reais)

		Parent Company		Consolidated	
	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
ASSETS					
Current					
Cash and cash equivalents	4	6,650,697	5,243,120	7,028,422	5,872,720
Marketable securities	5	1,236,386	591,303	1,243,173	591,303
Accounts receivable:					
. Trade receivables	6	1,633,696	1,421,418	1,794,196	1,666,626
. Allowance for doubtful debts	6	(40,096)	(41,168)	(40,133)	(41,246)
Related parties	7	307,544	534,405	-	-
Inventory	8	873,341	794,715	933,161	876,915
Taxes recoverable	9	555,596	794,628	567,079	803,355
Other assets		274,338	189,009	277,691	190,362
Total current assets		11,491,502	9,527,430	11,803,589	9,960,035
Non current					
long term receivables					
Judicial deposits	17	82,380	84,249	83,381	85,704
Taxes recoverable	9	1,286,722	1,554,672	1,287,669	1,554,672
Other assets		348,001	386,559	344,233	385,706
		1,717,103	2,025,480	1,715,283	2,026,082
Investments:					
. Interests in subsidiaries and joint venture	11	1,106,103	2,192,633	171,673	544,402
. Other		1,773	10,944	1,773	10,943
Property, plant and equipment	12	12,599,191	12,737,303	12,619,495	13,030,184
Biological assets	13	3,272,496	2,397,462	4,147,779	3,656,596
Intangible assets		89,919	27,171	89,949	85,487
		17,069,482	17,365,513	17,030,669	17,327,612
Total non-current assets		18,786,585	19,390,993	18,745,952	19,353,694
Total assets		30,278,087	28,918,423	30,549,541	29,313,729

The explanatory notes are an integral part of the financial statements

BALANCE SHEET AT DECEMBER 31, 2017 AND 2016
(In thousand of reais)

	Note	Parent Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
LIABILITIES AND EQUITY					
Current					
Borrowings	14	2,230,123	2,588,259	2,230,624	2,593,029
Debentures	15	239,276	245,080	239,276	245,080
Trade payables	16	702,040	619,902	713,612	634,856
Tax obligations		55,445	47,558	55,673	53,643
Social security and labor obligations		276,981	253,873	281,466	257,712
Dividends payable		-	180,000	-	180,000
Enrollment in Tax Recovery Program (REFIS)	17	71,467	66,884	71,467	66,884
Other payables and provisions		146,205	120,113	155,215	112,460
Total current liabilities		3,721,537	4,121,669	3,747,333	4,143,664
Non-current					
Borrowings	14	16,486,426	14,721,740	16,444,917	14,765,982
Debentures	15	634,594	864,456	634,594	864,456
Deferred income tax and social contribution	10	1,528,670	1,376,262	1,544,578	1,476,866
Provision for tax, social security, labor and civil contingencies	17	65,377	70,483	65,377	70,483
Payables - Investors in Special Partnership Companies (SPCs)		-	-	272,938	229,315
Enrollment in Tax Recovery Program (REFIS)	17	307,476	340,364	307,476	340,364
Other payables and provisions		299,856	323,113	298,177	322,263
Total non-current liabilities		19,322,399	17,696,418	19,568,057	18,069,729
Total liabilities		23,043,936	21,818,087	23,315,390	22,213,393
Equity					
Share capital		2,516,753	2,384,484	2,516,753	2,384,484
Capital reserves		1,187,329	1,301,907	1,187,329	1,301,907
Revaluation reserve		48,705	48,705	48,705	48,705
Profit reserves		2,699,577	2,543,084	2,699,577	2,543,084
Carrying value adjustments		987,916	1,028,238	987,916	1,028,238
Treasury shares		(206,129)	(206,082)	(206,129)	(206,082)
Total equity	18	7,234,151	7,100,336	7,234,151	7,100,336
Total liabilities and equity		30,278,087	28,918,423	30,549,541	29,313,729

The explanatory notes are an integral part of the financial statements

STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousand of reais, except for basic profit/diluted per share)

	No te	Parent Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
Net sales revenue	19	8,393,548	7,009,262	8,373,378	7,090,798
Variation in the fair value of biological assets	13	649,322	120,363	789,661	532,911
Cost of products sold	20	(6,387,899)	(5,198,866)	(6,427,492)	(5,227,023)
Gross profit		<u>2,654,971</u>	<u>1,930,759</u>	<u>2,735,547</u>	<u>2,396,686</u>
Operating expenses					
Sales	20	(645,617)	(570,081)	(656,844)	(586,075)
General and administrative	20	(512,743)	(453,286)	(528,398)	(466,493)
Other, net	20	(8,244)	(1,440)	(11,877)	4,707
		<u>(1,166,604)</u>	<u>(1,024,807)</u>	<u>(1,197,119)</u>	<u>(1,047,861)</u>
Equity in the results of joint venture	11	<u>76,396</u>	<u>586,945</u>	<u>13,624</u>	<u>49,321</u>
Profit before finance result and taxes		1,564,763	1,492,897	1,552,052	1,398,146
Finance result	21	<u>(690,252)</u>	<u>1,865,706</u>	<u>(713,384)</u>	<u>1,816,789</u>
Profit before taxes on income		874,511	3,358,603	838,668	3,214,935
Income tax and social contribution					
. Current	10	(292,730)	(177,665)	(299,948)	(190,023)
. Deferred	10	(49,612)	(698,992)	(6,551)	(542,966)
		<u>(342,342)</u>	<u>(876,657)</u>	<u>(306,499)</u>	<u>(732,989)</u>
Profit for the year		<u>532,169</u>	<u>2,481,946</u>	<u>532,169</u>	<u>2,481,946</u>
Basic and diluted earnings per common share - R\$	23	<u>0.1013</u>	<u>0.4722</u>	<u>0.1013</u>	<u>0.4722</u>
Basic and diluted earnings per preferred share - R\$	23	<u>0.1013</u>	<u>0.4722</u>	<u>0.1013</u>	<u>0.4722</u>

The explanatory notes are an integral part of the financial statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousand of reais)

	Parent company and Consolidated	
	12/31/2017	12/31/2016
Profit for the year	532,169	2,481,946
Other comprehensive income:		
. Foreign currency translation adjustments (i)	(6,509)	(24,730)
. Actuarial liability restatement (ii)	(5,911)	(6,188)
Total comprehensive income for the year, net of taxes	519,749	2,451,028

(i) Effects that may in the future impact the result only in case of sale or loss of the investee.
(ii) Effects that will never be transferred to profit or loss.

The explanatory notes are an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands of reais)

	Parent company and Consolidated									
	Revaluation Reserve			Profit reserves			Carrying value			
	Share capital	Capital reserves	Own equity	Legal	Tax Incentives	Biological assets	Proposed dividends	Investment and working capital	Treasury shares	Retained earnings
At December 31, 2015	2,385,104	1,291,662	48,702	1,613	30,175	7,414	-	-	(18,774)	2,382,310
Profit for the year	-	-	-	-	-	-	-	-	-	2,481,940
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	(50,948)
Comprehensive income for the year	-	-	-	-	-	-	-	-	-	2,430,962
Conversion of mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	-	2,481,940
Acquisition of treasury shares	1,380	(1,380)	-	-	-	-	-	-	-	2,481,940
Stock option plan	-	-	-	-	-	-	-	-	-	2,481,940
Treasury shares sold	-	-	-	-	-	-	-	-	(24,262)	(24,262)
Award of treasury shares	-	-	-	-	-	-	-	-	1,709	6,246
Recognition of the stock option plan remuneration	-	-	-	-	-	-	-	-	2,165	7,380
Maturity of the stock option plan	-	-	-	-	-	-	-	-	-	7,380
Dividend payment with revenue reserves - GSH	-	-	-	-	-	-	-	-	-	7,380
Profit sharing - mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	-	7,380
Allocation of profit for the year	-	-	-	-	-	-	-	-	-	7,380
Legal reserve constitution	-	-	-	-	-	-	-	-	-	7,380
Realization of biological assets reserves (own)	-	-	-	-	-	-	-	-	-	7,380
Realization of deemed cost of land (own)	-	-	-	-	-	-	-	-	-	7,380
Constitution of biological asset reserves (own)	-	-	-	-	-	-	-	-	-	7,380
Constitution of biological asset reserves (subsidiaries) (*)	-	-	-	-	-	-	-	-	-	7,380
Constitution of tax incentive reserves	-	-	-	-	-	-	-	-	-	7,380
Profit sharing - mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	-	7,380
Prepaid dividends for the year 2016	-	-	-	-	-	-	-	-	-	7,380
Proposed additional dividends for the year 2016	-	-	-	-	-	-	-	-	-	7,380
Constitution of investment and working capital reserves	-	-	-	-	-	-	-	-	-	7,380
At December 31, 2016	2,386,484	1,301,927	48,702	122,610	30,176	569,858	-	1,472,842	(206,082)	2,100,336

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands of reais)

	Parent company and Consolidated									
	Share capital		Reserves		Profit reserves		Carrying value adjustments		Total	
	At December 31, 2016	At December 31, 2017	At December 31, 2016	At December 31, 2017	At December 31, 2016	At December 31, 2017	At December 31, 2016	At December 31, 2017	At December 31, 2016	At December 31, 2017
At December 31, 2016	2,384,484	2,384,484	38,705	129,810	1,473,812	1,473,812	1,028,238	1,028,238	7,100,336	7,100,336
Profit for the year	-	-	-	-	-	-	-	-	532,169	532,169
Other comprehensive income for the year	-	-	-	-	-	-	(12,423)	(12,423)	(12,423)	(12,423)
Comprehensive income for the year	-	-	-	-	-	-	-	-	532,169	532,169
Conversion of mandatory debentures convertible into shares	132,369	(132,369)	-	-	-	-	(11,458)	(11,458)	-	-
Purchase of treasury shares	-	-	-	-	-	-	5,756	5,756	13,144	13,144
Stock option plan:	-	-	-	-	-	-	14,425	14,425	14,425	14,425
- Treasury shares sold	-	7,305	-	-	-	-	(5,754)	(5,754)	-	-
- Award of treasury shares	-	-	-	-	-	-	(5,754)	(5,754)	-	-
- Recognition of the stock option plan remuneration	-	-	-	-	-	-	(5,754)	(5,754)	-	-
- Maturity of stock option plan	-	10,305	-	-	-	-	(5,754)	(5,754)	-	-
- Grant plan outflow	-	-	-	-	-	-	(5,754)	(5,754)	-	-
Allocation of net income for the year	-	-	-	-	-	-	-	-	-	-
- Constitution of legal reserves	-	-	-	21,570	-	-	-	-	(21,570)	(21,570)
- Realization of biological asset reserves (own)	-	-	-	-	-	(659,353)	-	-	659,353	659,353
- Realization of deemed cost of land (own)	-	-	-	-	-	-	(28,362)	(28,362)	28,362	28,362
- Constitution of biological asset reserves (own)	-	-	-	-	-	428,853	-	-	(428,853)	(428,853)
- Constitution of biological asset reserves (subsidiaries) (*)	-	-	-	-	-	50,937	-	-	(50,937)	(50,937)
- Constitution of tax incentive reserves	-	-	-	54,773	-	-	-	-	(54,773)	(54,773)
Profit sharing - mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	(74,943)	(74,943)
Proposed dividends for the year 2017	-	-	-	-	-	-	-	-	(158,000)	(158,000)
Proposed additional dividends for the year 2017	-	-	-	-	-	-	-	-	(171,000)	(171,000)
Constitution of investment and working capital reserves	-	-	-	-	-	171,000	-	-	(171,000)	(171,000)
At December 31, 2017	2,516,753	2,516,753	38,705	149,810	1,508,782	1,508,782	98,316	98,316	7,354,154	7,354,154

(*) Net effect between the addition, reversal or realization of the business contained in the equity in the results of operations. The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands of reais)

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Net cash provided by operating activities	2,063,560	1,262,333	1,792,978	1,202,849
Cash provided by operations	2,202,815	1,338,020	2,049,877	1,360,848
Net profit for the year	532,169	2,481,946	532,169	2,481,946
Depreciation and amortization	973,875	791,670	993,750	748,221
Change in fair value of biological assets	(649,322)	(120,363)	(789,661)	(532,911)
Depletion of biological assets	800,860	617,417	946,737	674,891
Deferred income tax and social contribution	49,612	698,992	6,551	542,966
Interest and foreign exchange variations on borrowings	1,292,987	(1,486,175)	1,265,244	(1,486,137)
Interest and monetary variations on debentures	98,984	60,166	98,984	60,166
Amortization - adjustment to present value of debentures	15,096	29,016	15,096	29,016
Payment of interest on borrowings	(831,857)	(969,215)	(993,519)	(970,694)
Accrued interest - REFIS	41,708	48,777	41,708	48,777
Result on disposal of assets	(29,319)	(44,670)	(29,319)	(44,670)
Equity in the result of investees	(76,396)	(586,945)	(13,624)	(49,321)
Income tax and social contribution paid	-	(130,446)	(5,098)	(134,244)
Other	(15,582)	(52,150)	(19,141)	(7,158)
Changes in assets and liabilities	(139,255)	(75,687)	(256,899)	(157,999)
Trade receivables and related parties	37,136	(9,678)	(128,683)	(124,281)
Inventories	(69,388)	(180,904)	(56,246)	(175,789)
Taxes recoverable	506,982	(335,468)	508,377	(327,644)
Marketable securities	(645,083)	(34,160)	(651,870)	(34,160)
Other assets	(52,374)	(249,412)	(51,005)	(249,208)
Suppliers	100,456	628,062	97,074	637,094
Tax obligations	7,887	11,174	2,030	8,243
Social security and labor obligations	23,108	61,634	23,754	62,363
Other liabilities	(47,979)	33,065	(330)	45,383
Net cash used in investing activities	(746,331)	(2,618,087)	(838,817)	(2,648,153)
Purchase of property, plant and equipment	(682,578)	(2,387,647)	(687,914)	(2,421,779)
Planting cost of biological assets	(150,799)	(112,467)	(237,371)	(144,868)
Proceeds from disposal of assets	81,368	10,799	81,368	10,799
Acquisition of investments and payment of capital in subsidiaries (cash)	(1,558)	(130,440)	-	(93,063)
Dividends received from subsidiaries	7,236	1,668	5,100	758
Net cash provided by financing activities	90,348	2,567,690	201,541	2,264,301
New borrowings	4,180,258	4,855,343	4,093,903	4,505,275
Repayment of borrowings	(3,234,838)	(1,371,964)	(3,049,098)	(1,371,314)
Payment of interest and participation in debenture results	(349,746)	(450,140)	(349,746)	(450,140)
Purchase of treasury shares	(11,468)	(24,262)	(11,468)	(24,262)
Disposal of treasury shares	13,142	6,216	13,142	6,216
Entry of investors - SPCs	-	-	132,766	65,000
Withdrawal of investors - SPCs	-	-	(79,907)	-
Dividends paid SPCs	-	-	(41,051)	(18,971)
Dividends paid	(507,000)	(447,503)	(507,000)	(447,503)
Increase in cash and cash equivalents	1,407,577	1,211,936	1,155,702	818,997
Cash and cash equivalent at the beginning of the year	5,243,120	4,031,184	5,872,720	5,053,723
Cash and cash equivalent at the end of the year	6,650,697	5,243,120	7,028,422	5,872,720

The explanatory notes are an integral part of the financial statements

STATEMENT OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands of reais)

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Revenues				
. Sales of products	9,901,965	8,315,257	9,912,712	8,423,584
. Change in fair value of biological assets	649,322	120,363	789,661	532,911
. Other income	81,366	12,059	81,367	12,057
. Allowance for doubtful debts	1,072	(3,261)	1,090	(3,273)
	10,633,725	8,444,418	10,784,830	8,965,279
Inputs acquired from third parties				
. Cost of products sold	(3,720,459)	(2,980,911)	(3,642,741)	(3,018,659)
. Materials, electricity, outsourced services and other	(1,558,678)	(1,284,734)	(1,564,675)	(1,279,843)
	(5,279,137)	(4,265,645)	(5,207,416)	(4,298,502)
Gross value added	5,354,588	4,178,773	5,577,414	4,666,777
Retentions				
. Depreciation, amortization and depletion	(1,805,600)	(1,409,087)	(1,940,487)	(1,423,112)
Net value added generated	3,548,988	2,769,686	3,636,927	3,243,665
Value added received through transfer				
. Equity in the results of investees	76,396	586,945	13,624	49,321
. Finance income, including exchange variations	821,549	644,848	835,088	717,935
	897,945	1,231,793	848,712	767,256
Total value added to distribute	4,446,933	4,001,479	4,485,639	4,010,921
Distribution of value added:				
Personnel				
. Direct compensation	978,440	899,316	987,511	922,464
. Benefits	285,929	255,168	305,384	256,227
. Government Severance Indemnity Fund for Employees (FGTS)	80,199	70,917	80,362	71,072
	1,344,568	1,225,401	1,373,257	1,249,763
Taxes and contributions				
. Federal	887,764	1,357,359	861,110	1,220,435
. State	160,780	143,964	160,780	143,964
. Municipal	9,851	13,667	9,851	13,667
	1,058,395	1,514,990	1,031,741	1,378,066
Remuneration of third-party capital				
. Interest	1,511,801	(1,220,858)	1,548,472	(1,098,854)
	1,511,801	(1,220,858)	1,548,472	(1,098,854)
Remuneration of own capital				
. Dividends and participation in 6th debenture issue results	401,943	512,365	401,943	512,365
. Profits reinvested for the year	130,226	1,969,581	130,226	1,969,581
	532,169	2,481,946	532,169	2,481,946
	4,446,933	4,001,479	4,485,639	4,010,921

The explanatory notes are an integral part of the financial statements

Notes to the financial statements are presented in thousands of Reais unless otherwise stated

1 GENERAL INFORMATION

Klabin S.A. (the “Company”) and its subsidiaries operate in segments of the paper and pulp industry supplying the domestic and foreign markets with wood, pulp, packaging paper, paper sacks and corrugated cardboard boxes. Their operations are fully integrated, from forestry activities to the production of the final products. Klabin is a publicly held corporation whose shares and certificates of deposit of shares (Units) are traded on the São Paulo Stock Exchange – BM&FBovespa under the ticker KLBN11. The Company is domiciled in Brazil and headquartered in São Paulo.

The parent company (Klabin S.A.) also has investments in Special Partnership Companies (SPCs), for the specific purpose of raising funds from third parties for reforestation projects. The Company, as an ostensive partner, has contributed forest assets, mainly forests and land, by means of the granting of the right to use, whereas the other investing stockholders have contributed cash to these SPCs. These SPCs give Klabin S.A. a preemptive right to acquire forestry products at market prices and conditions.

The Company also has ownership interests in other companies (Notes 3 and 11) whose operational activities relate to the Company’s business objectives.

The issue of these financial statements of Klabin S.A. (“The Company”) and its subsidiaries was authorized by the Board of Directors on January 31, 2018.

1.1 Final adjustment of the purchase price allocation in business combination

In February 2017 Management concluded, with the use of a Valuation Report prepared by a specialized appraisal company, as required by Accounting Pronouncements Committee - CPC 15 (R1) or IFRS 3 and IN RFB No. 1.700 / 2017, the purchase price allocation of the fair values of the assets and liabilities acquired and goodwill related to the acquisition of Embalplan Indústria e Comércio de Embalagens S.A. held on December 1, 2016.

In preparing the financial statements for the year ended December 31, 2016, management made a preliminary assessment of the allocation of the purchase price, given the short timeframe between the conclusion of the transaction and the issuance of the Company’s year-end financial statements on January 31, 2017, as provided for in CPC 15 (R1) - Business Combination.

Since the final purchase price allocation was different from that presented in the financial statements as of December 31, 2016, based on the terms of CPC 15 (R1), the Company is retrospectively adjusting the preliminary purchase price allocation for the price allocation with the final amounts on December 31, 2016, as shown below:

	Provisional	Final
	12/31/2016	12/31/2016
Current assets	22,714	22,714
Non-current assets	12,898	65,648
Goodwill (Intangible assets)	93,063	40,313
Current liabilities	(4,293)	(4,293)
	124,382	124,382

The difference presented here refers substantially to the allocation of the purchase price, previously allocated to goodwill, in the preliminary purchase price allocation to property, plant and equipment and intangible assets for R\$34,777 and R\$17,973, respectively.

1.2 Merger of Embalplan Indústria e Comércio de Embalagens S.A.

On March 2, 2017, a resolution of the Extraordinary Shareholders' Meeting approved the merger of the Company's subsidiary Embalplan Indústria e Comércio de Embalagens S.A. ("Embalplan") into Klabin S.A. at book value without a subscribed capital increase. The Management's justification for proceeding with the merger is in line with its strategic objective of expanding its activities in the conversion segment.

Being a wholly-owned subsidiary, the balances of Embalplan were already included in the consolidated financial statements, therefore there was no impact to the Company's consolidated financial statements, with the said transaction incorporating the balances of the individual information open in all balance sheet rows, as it was in the consolidated.

The shareholders' equity of Embalplan on the merger date was R\$36,396.

1.3 Distribution of certain assets of Florestal Vale do Corisco S.A. to shareholders

A resolution of the Extraordinary Meeting of the Board of Directors held on April 28, 2017 approved the distribution of certain assets of Florestal Vale do Corisco S.A. ("Vale do Corisco"), to Klabin and its joint venture partner Arauco. The objective of this transaction is part of the Company's strategy to use certain forest assets in a more autonomous and efficient manner, with a view to supplying wood to plants located in the regions in which they are located. This transaction was duly approved without restrictions by the Brazilian antitrust authorities, CADE - Conselho Administrativo de Defesa Econômica.

Vale do Corisco's net assets were valued by outsourced appraisal specialists and were presented to the Company's shareholders prior to a the General Meeting. The net assets of Vale do Corisco, incorporated by the Company, corresponds to R\$379,143, equivalent to a 51% interest in the spun-off portion of Vale do Corisco total capital, which is substantially comprised of forests that will be absorbed in the operation, and the related deferred tax balances.

The share of assets in the joint venture acquired by the Company correspond to:

	<u>Assets</u>		<u>Liabilities</u>
Current	26,580		
Non-current	36,545		
Biological assets	410,888	Non-current liabilities	102,448
Property, plant and equipment	9,027	Equity	380,592
	<u>483,040</u>		<u>483,040</u>

Vale do Corisco continues to operate managing forested land, as a jointly-controlled entity, with 51% of the shares held by the Company and 49% by Arauco.

1.4 Dissolution of Special Partnership Companies ("SPC")

On August 31, 2017, SCP Correia Pinto, located in the state of Santa Catarina, was dissolved by determination of its partners. In the liquidation of assets, non-controlling shareholders received R\$79,907 in cash and the Company incorporated other assets and liabilities totaling R\$740,723, mainly biological assets and forestry land.

1.5 Establishment of Special Partnership Companies (“SPC”)

SPC Serrana

On July 3, 2017, the Company established a new SPC, located in the state of Santa Catarina, named Serrana, with the specific purpose of raising funds from third parties for reforestation projects.

For the establishment of the new SPC, the Company contributed R\$20 million in forestry assets at book values, R\$29 million in forestry assets at fair value and right to use land, while investing partners contributed R\$48 million in cash to the Company. The SPC ensures that the Company has preemptive rights on the purchase of forestry products at market prices and conditions.

SPC Araucária

On September 22, 2017, the Company established a new SPC, located in the state of Paraná, named Araucária, with the specific purpose of raising funds from third parties for reforestation projects.

For the establishment of the new SPC, the Company, as an ostensive partner, contributed R\$68 million in forestry assets at book value, R\$63 million in forestry assets at fair value and right to the use of land, while investing partners contributed R\$84 million in cash to the Company. The SPC ensures that the Company has preemptive rights on the purchase of forestry products at market prices and conditions.

2 BASIS OF PRESENTATION OF THE INCOME STATEMENT AND MAIN ACCOUNTING POLICIES

2.1 Basis for presentation of the financial statements

The parent company and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the standards of the Brazilian Securities and Exchange Commission (CVM) and the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and evidence all relevant information specific to the Financial Statements, and only those, which are consistent with those used by Management in its administration.

The preparation of Financial Statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's Management in the process of applying the accounting policies of the Company and its subsidiaries. Those areas that require a higher level of judgment and are more complex, as well as the areas in which assumptions and estimates are significant for the financial statements are disclosed in note 2.2.r.

The financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets, other assets, financial liabilities and biological asset measured at fair value.

2.2 Summary of the significant accounting practices adopted

The main accounting practices adopted by the Company and its subsidiaries are defined below and were applied consistently for the years presented.

Revisions to accounting standards and interpretations that came into effect in 2017 and had no material impact on the Company's financial statements, including the revision of IAS 41 / CPC 29

that introduced the distinction between bearer plants and other biological assets. This revision does not impact the Company because its forests are harvested and replanted, there is no second cut.

a) Functional currency and translation of foreign currencies

The financial statements are presented in Brazilian Reais (R\$), which is the functional and presentation currency of the Company and its subsidiaries, except for subsidiaries Klabin Argentina and Klabin Finance (Note 3), whose functional currency are the Argentine Peso (A\$) and US Dollar (USD), respectively.

(i) Transactions and balances

Foreign currency transactions are originally recorded at the foreign exchange rate effective as at the transaction date. Foreign exchange gains and losses resulting from the difference between the translation of assets and liabilities in foreign currency at the end of the reporting period are recognized in the Company's statement of operations.

(ii) Foreign subsidiaries

Foreign subsidiaries with the characteristics of a branch have the same functional currency as the Company. The foreign exchange differences arising for the subsidiaries, which have a different functional currency to the Company, resulting from the translation of financial statements, are recorded separately in an equity account, named "carrying value adjustments" (comprehensive income). On the sale of a foreign subsidiary, the accumulated deferred amount recognized in equity relating to this foreign subsidiary is recognized in the statement of operations.

The assets and liabilities of foreign subsidiaries are translated using the foreign exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the foreign exchange rates prevailing at the dates of the transactions.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and highly-liquid short term investments that are readily convertible into a known amount of cash and are subject to an immaterial risk in changes of value.

c) Financial instruments

Financial instruments are initially recognized at fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. They are subsequently measured at the end of each reporting period based on the classification of financial instruments in the following categories: 1) financial assets: (i) measured at fair value through profit or loss, (ii) loans and receivables, and (iii) available for sale; 2) financial liabilities: (i) measured at fair value through profit or loss, and (ii) other financial liabilities.

(i) Marketable securities

Marketable securities are considered as available-for-sale and are recognized in finance income (costs), according to their fair value

(ii) Borrowing

The balance of borrowing refers to the amount of funds raised, plus interest and charges proportional to the period incurred, less installments paid. When applicable, borrowings include foreign exchange variation on liabilities.

(iii) Debentures

The balance of debentures mandatorily convertible into shares, considered hybrid (compound) financial instruments due to their nature, and are segregated, upon issuance, into debt components and equity. The amount of interest to be paid to the debenture holders up to the date of conversion, measured at present value, plus foreign exchange on liabilities, when applicable, are recorded as a liability account.

The debentures that are not mandatorily convertible are recorded in liabilities at the amount corresponding to the total raised funds, plus interest and charges, proportionately to the time elapsed, less amortized installments and interest paid.

Financial assets and liabilities are offset, and the net amount is presented in the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

d) Trades receivable

Trade receivables are stated at the original amounts sale invoices of products, plus foreign exchange variations when applicable. The allowance for doubtful debts is recorded based on an individual analysis of the receivables and at an amount considered by management as necessary and sufficient to cover probable losses on their realization, which can be modified as a result of the recovery of receivables from default customers or a change in a customer's financial situation.

The adjustment to present value of trade receivables is not material due to the short period of their realization.

e) Inventory

Inventory is stated at average purchase cost, net of taxes to be offset, when applicable, and the fair value of biological assets at the cut-off date, which are both lower than their net realizable values. Inventory of finished products is valued based on the cost of processed raw materials, direct labor and other production costs.

When necessary, inventory is reduced by a provision for losses, which is set up in cases of inventory devaluation, obsolescence of products and physical inventory losses. In addition, because of the nature of the Company's products, obsolete finished products may be recycled for reuse in production.

f) Income tax and social contribution

The Company calculates current and deferred corporate income tax (IRPJ) and social contribution (CSLL), current and deferred, based on the rate of 15%, plus a 10% surcharge on any taxable profit exceeding R\$ 240, for income tax and 9% on any taxable profit for social contribution. The balances are recognized in the Company's results on an accruals basis.

The amounts of deferred income tax and social contribution are recorded net in the balance sheet, in non-current assets or liabilities.

Subsidiaries have their taxes calculated and accrued in accordance with the legislation of their country and/or their specific tax system, including, in some cases, the presumed profit. The provision for current income tax and social contribution for the year is stated in the balance sheet net of tax prepayments made during the year.

g) Investments

These refer to investments in subsidiaries and jointly-controlled subsidiaries accounted for using the equity accounting method, based on the Company's ownership interest in these companies. The financial statements of subsidiaries and jointly-controlled subsidiaries are prepared for the same reporting period as that adopted by the Company. When necessary, adjustments are made to bring their accounting policies in line with those adopted by the Company.

Unrealized gains and losses resulting from transactions between the Company and its subsidiaries and jointly-controlled subsidiaries are eliminated for equity accounting purposes in the parent company balance sheet, as well as for consolidation purposes.

At the end of each reporting period, the Company determines if there is objective evidence that the investments in subsidiaries or jointly-controlled subsidiaries are impaired. If there is an indication of impairment, the Company calculates the amount of the impairment loss and recognizes it in the statement of operations.

The foreign exchange variation on investments in foreign subsidiaries recognized under "Comprehensive income" is classified as a carrying value adjustment and realized through the realization of the investment to which it refers.

In the consolidated financial statements of the Company, the investors' interest in SPCs (Notes 3 and 11) is presented in the balance sheet in liabilities, under "Other payables - investors in SPCs", as these meet the criteria for classification as financial liabilities, and not as equity instruments, in accordance with IAS 32 / CPC 39 – "Financial instruments: Presentation".

The Company's management treats Special Partnerships as independent entities with the characteristics of subsidiaries, which are recorded in the parent company financial statements under the equity accounting method.

h) Property, plant and equipment

Property, plant and equipment are stated at their cost of acquisition or construction, less taxes to be offset, when applicable, and accumulated depreciation. In addition, based on the option exercised by the Company upon the first-time adoption of IFRS, the deemed cost of property, plant and equipment (land) was determined based on the attributed value of the cost of these class of assets.

Depreciation is calculated on a straight line basis, taking into consideration the estimated useful life of the assets, based on the expected future economic benefits, except for land, which is not depreciated. The estimated useful life of the assets are reviewed annually and adjusted, if necessary, and may vary based on the technological stage of each unit. The useful life of the Company's assets are stated in Note 12.

The costs of maintaining the Company's assets are allocated directly to profit for the year, when effectively realized. Finance charges are capitalized to property, plant and equipment, when incurred on construction in progress, if applicable.

i) Impairment of assets

Property, plant and equipment, goodwill and other assets are tested for impairment on an annual basis or whenever significant events or changes in circumstances indicate that their carrying amounts may not be recoverable. When this is the case, the recoverable amount is calculated to determine whether assets are impaired.

The recoverable amount of an asset is the higher of the net sales price and the value in use of the asset or the Cash-Generating Unit (CGU) to which it belongs, and is determined individually for each asset, unless the asset does not generate cash inflows that are independent from those of other assets or groups of assets. In estimating the value in use, estimated future cash flow is discounted to its present value, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the net sales price and the value in use of that asset.

j) Biological assets

Biological assets refer to eucalyptus and pine forests, which are used for the production of packaging paper, paper sacks and corrugated cardboard boxes, as well as being sold to third parties. Harvesting and replanting have an approximate cycle of 7 - 14 years, which varies based on the crop and genetic material to which they refer. Biological assets are measured at fair value, less estimated selling costs at the time of harvest.

Significant assumptions for determining the fair value of biological assets are stated in Note 13.

The valuation of biological assets is carried out on a quarterly basis by the Company, and any gain or loss is recognized in the statement of operations in the period in which it occurs, in a specific line named "Change in fair value of biological assets". The depletion of biological assets is measured based on the amount of wood cut, carried at fair value.

For the years ending on December 31, 2017 and 2016, no impairment provision was identified.

k) Non-current assets and liabilities

Non-current assets and liabilities comprise receivables and payables maturing more than 12 months after the end of the reporting period, plus corresponding charges and monetary variations incurred, if applicable, through the end of the reporting period.

l) Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, when applicable.

m) Provisions

A provision is recognized when the Company has a present legal or constructive obligation because of past events, and a probability that a future outflow of resources will be required to settle the obligation, measured based on a reliable provisioned value.

The expense related to any provision is presented in the statement of operations, net of any reimbursement. If the time effect of the amount is material, the provision is discounted using a discount rate that reflects the risks specific to the inherent obligation.

The Company records provisions for tax, social security, labor and civil claims, which are accrued when lawsuits are assessed by the Company's legal counsel and management as being likely to lead to losses. This assessment is carried out considering the nature of the lawsuits, similarities to prior lawsuits and the progress of ongoing litigation.

When the Company expects that the amount of a provision will be fully or partially reimbursed, this asset is recognized only when realization is considered clear and certain, with no recognition of assets in scenarios of uncertainty.

n) Sales revenues

Sales revenue is stated net of taxes, discounts and rebates, and is recognized when all the risks and rewards of ownership of the product are transferred to the buyer, to the extent that it is probable that economic benefits will be generated and will flow to the Company and its subsidiaries and jointly-controlled subsidiaries, and when these benefits can be reliably measured based on the fair value of the consideration received or receivable, net of discounts, rebates and taxes or charges on sales.

o) Employee benefits and private pension plan

The Company grants employee benefits such as life insurance, healthcare, profit sharing and other benefits, which are recognized on an accruals basis and are discontinued at the end of the employment relationship with the Company.

Additionally, the Company granted a private pension and healthcare plan to former employees who had retired up to 2001. The liability and the result relating to these benefits are recognized based on an actuarial valuation prepared by an independent expert. Gains and losses on the actuarial valuation of benefits generated by changes in actuarial assumptions are recognized in an account in equity named "Carrying value adjustments" (comprehensive income), as required by IAS19/CPC 33 (R1) – "Employee benefits".

p) Stock options plan

The stock option plan offered by the Company is measured at fair value on the date on which it is granted, and the related expense is recognized in the statement of operations during the period in which the granting right is acquired, against equity in the "Carrying value adjustments" group.

q) Government grants

Government grants received by the Company are recognized to the extent that the requirements relating to the grant are complied with. Grants received for the purpose of offsetting expenses are recognized as a reduction of the expenses expected to be offset.

In the case of government grants for the purpose of investment in assets, the benefits are recorded in the balance sheet in the form being granted by the governmental agency, and can be either recorded as a liability as deferred revenue, recorded as revenue on a systematic basis throughout the useful life of the acquired asset, or deducted from the grant-related asset, thereby being recognized as revenue through credit to the depreciation recorded as an expense in the result.

In case the benefits received in the form of government grants must not be distributed to the stockholders, the related amounts are reclassified through the allocation of the result for the year to a specific "Tax incentive reserve" account, in equity.

r) Significant accounting judgments, estimates and assumptions

In preparing the financial statements, judgments, estimates and assumptions are utilized to account for certain assets, liabilities and other transactions and in registering income and expenses for the periods. The accounting judgments, estimates and assumptions adopted by management are made using the best available information at the financial statement reporting date, involving experience of past events, forecasts of future events and the assistance of experts, when applicable.

The financial statements include various estimates, including, but not limited to, the realization of deferred tax assets, the fair value measurement of biological assets, and the provision for tax, social security, civil and labor claims and adjustment at the present value of the balances.

Actual results may differ from these estimates, and the Company could be exposed to material losses.

s) Statement of value added

The Brazilian corporate legislation requires listed companies to present the statement of value added as part of the set of financial statements of a company. The purpose of this statement is to show the wealth created by the Company and its distribution during the reporting period.

IFRS does not require the presentation of this statement. Therefore, the presentation of such statements is considered supplementary information, and not part of the set of financial statements.

2.3 New technical pronouncements, revisions and interpretations not yet effective

The International Accounting Standards Board (IASB) approved and issued the following new standards, which have not yet become effective or been adopted early by the Company. Management has been studying the possible future impacts of the adoption as mentioned below:

(i) IFRS 15 – Revenue from contracts with customers (CPC 47)

This standard brings the principles that an entity will apply to determine how revenue is measured and how when it is recognized. It came into force on January 1, 2018 replacing IAS11 – "Construction Contracts", IAS 18 – "Revenue" and related interpretations. The changes establish the criteria for the measurement and recording of sales, in the form that they were effectively performed with due presentation, as well as the registration for the values that the Company is entitled to in the operation, considering eventual value loss estimates. The effective date of this revision was January 1, 2018.

Management has evaluated this new standard and in its opinion it does not have a material effect on its financial statements, considering the nature of its sales transactions, where performance obligations are clear (delivery of paper, converted products, pulp or wood) and the transfer of control of goods and services is not complex, being made to the extent that the responsibility is transferred to the purchaser.

Additionally, the Company already adopted the practice of recognizing sales, net of bonus, with revenues representing the effective value generated in the transaction, based on the conditions established with clients. Loss estimates have no significant impact on revenue recognition, since the Company's products do not offer guarantees, as well as the loss of value with doubtful debts not presenting relevant impact due to credit policies maintained by the Company (see Note 25).

(ii) IFRS 9 – Financial instruments (CPC 48)

This standard addresses the classification, measurement and recognition of financial assets and liabilities. The main changes resulting from IFRS 9 are the new criteria for the classification of financial assets in two categories (measured according to fair value and measured according to

amortized cost) depending on the characteristics of each instrument, and can be classified in financial result or in comprehensive result, the new impairment model for financial assets a hybrid of expected and incurred losses, replacing the present incurred loss model, and relaxation of requirements for the adoption of hedge accounting. The effective date of this revision was January 1, 2018.

Management considered the new pronouncement and, considering its current transactions, did not identify changes that could have a material impact on the Company's financial statements, because the financial instruments that it maintains are not complex and do not present impact risk in measurement, and also do not present impairment risk or significant value reduction risk as a function of future loss expectations.

(iii) IFRS 16 – Leases (there is still no equivalent CPC)

This new standard, which replaces IAS 17 - "Leases" and related interpretations, requires lessees to recognize the liability for the future payments and the right of use of the leased asset for virtually all lease contracts, including operating leases. Certain short term and low-value contracts may be out of the scope of this new standard. The criteria for the recognition and measurement of leases in the financial statements of the lessors are substantially maintained. This new standard becomes effective as from January 1, 2019.

Management is in the process of evaluating the impacts, mainly related to the lease of third-party lands, corresponding to 83 thousand hectares of forest land and future commitments of R\$ 546 million (see note 16). For the time being, the understanding is that the potential effect is the recognition of a value close to this as an asset and as a liability, with a higher expense distribution at the beginning and lower at the end, when compared to the current accounting of lease expenses. Given the complexity of the topic, it may be that, until the initial adoption of this standard, the conclusion is revised.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements

3 CONSOLIDATION OF FINANCIAL STATEMENTS

Subsidiaries are fully consolidated from the date of acquisition of control and continue to be consolidated until the date on which such control ceases to exist, except for jointly-controlled entities (joint ventures), which are accounted for using the equity accounting method both in the parent company financial statements and in the consolidated financial statements.

The subsidiaries' financial statements are prepared for the same reporting period as that of the parent company, using accounting policies that are consistent with the policies adopted by the parent company. The following criteria are adopted for consolidation purposes: (i) investments in subsidiaries and equity in the results of investees are eliminated, and (ii) profits from intercompany transactions and the related assets and liabilities are eliminated.

The consolidated financial statements comprise Klabin S.A. and its subsidiaries as at December 31, 2017 and 2016, as follows:

				Ownership - %	
	Country	Activity	Participation	12/31/2017	12/31/2016
Subsidiaries:					
Klabin Argentina S.A.	Argentina	Industrial sacks	Direct	100	100
Klabin Ltd.	Cayman Islands	Investments in other companies	Direct	100	100
Klabin Trade	United Kingdom	Sale of products in the foreign market	Indirect	100	100
Klabin Forest Products Company	USA	Sale of products in the foreign market	Direct	100	100
IKAPÊ Empreendimentos Ltda.	Brazil	Hotels	Direct	100	100
Klabin do Paraná Produtos Florestais Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klafito	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klabin Florestal Ltda.	Brazil	Forestry	Direct	100	100
Monterla Holdings S.A.	Brazil	Investment in companies	Direct	100	100
Klabin Finance S.A.	Luxembourg	Finance	Direct	100	100
Klabin Áustria GmbH	Austria	Sale of products in the foreign market	Direct	100	100
Embalplan Ind. e Com. de Embalagens S.A. (i)	Brazil	Packaging paper	Direct	-	100
SPCs:					
Correia Pinto (i)	Brazil	Reforestation	Direct	-	91
CG Forest	Brazil	Reforestation	Direct	80	83
Monte Alegre	Brazil	Reforestation	Direct	83	80
Harmonia	Brazil	Reforestation	Direct	73	74
Serrana (i)	Brazil	Reforestation	Direct	64	-
Araucária (i)	Brazil	Reforestation	Direct	64	-
Joint ventures (not consolidated)					
Florestal Vale do Corisco S.A. (ii)	Brazil	Reforestation	Direct	51	51
(i) and (ii) See Note 1.					

(i) and (ii) See Note 1.

Investment in joint ventures

Considering its characteristics, the investment in Florestal Vale do Corisco S.A. is classified as a joint venture, and is recorded based on the equity accounting method in the parent company and consolidated financial statements.

4 CASH AND CASH EQUIVALENTS

In accordance with its policy, the Company has made low-risk investments with no significant risk of changes in value with financial institutions considered by management as prime banks both in Brazil and abroad, based on the ratings assigned to them by risk ratings agencies as described in Note 25. Management records these financial assets as cash and cash equivalents due to their immediate liquidity with financial institutions, and their insignificant risk of changes in value.

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash and bank deposits - local currency	25,371	29,578	26,143	33,591
Cash and bank deposits - foreign currency (i)	-	-	32,241	7,985
Marketable securities- local currency	4,923,068	4,807,936	5,108,744	4,979,048
Marketable securities - foreign currency (i)	1,702,258	405,606	1,861,294	852,096
	6,650,697	5,243,120	7,028,422	5,872,720

(i) In U.S. dollars

Financial investments in local currency, relating to Bank Deposit Certificates (CDBs) and other repurchase transactions, are indexed to the Interbank Deposit Certificate (CDI) rate with an average annual yield of 6.95% (13.76% at December 31, 2016). Financial investments in foreign currency,

relating to time deposits in US Dollars and over night, have an average annual yield of 1.69% and 1.29%, respectively (overnight with 0.53% at December 31, 2016). These investments have daily liquidity, as guaranteed by the financial institutions.

5 MARKETABLE SECURITIES

Marketable securities comprise National Treasury Bills (LFTs) and National Treasury Notes (NTN-B). LFT has yields indexed to the Special System for Settlement and Custody (SELIC) interest rate, and with maturities up to 2020 and NTN-B Notes have yields indexed to the Amplified Customer Price Index (IPCA) + 6% p.a. interest rate, and with maturities up to 2020 and 2022, with a balance of R\$ 1,236,386 at December 31, 2017 (R\$591,303 at December 31, 2016).

Additionally, in December 2017, through its wholly-owned subsidiary Klabin Finance, the Company acquired a dollar denominated Bond with an indexed yield of 3.52% to 4.02% and maturing in 2027 and 2037. The balance of this asset at December 31, 2017 was R\$ 6,787.

At December 31, 2017, the balance of these securities was R\$ 1,236,386 at the parent company and of R\$1,243,173 in the consolidated financial statements (R\$ 591,303 at December 31, 2016 for parent company and consolidated financial statements). Management has classified these securities as available-for-sale financial assets. There is an active trading market for these securities. Considering their characteristics, their fair value substantially represents the principal plus originally established interest.

Marketable securities are included in Level 1 of the fair value measurement hierarchy, according to the hierarchy defined in CPC 46 (equivalent to IFRS 13), "Fair value measurement", since they are assets with prices quoted in the market.

6 ACCOUNTS RECEIVABLE

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Trade receivables				
. Local	1,260,514	1,101,562	1,260,589	1,111,455
. Foreign	373,182	319,856	533,607	555,171
Total trade receivables	1,633,696	1,421,418	1,794,196	1,666,626
Allowance for doubtful debts ("AFDD")	(40,096)	(41,168)	(40,133)	(41,246)
	1,593,600	1,380,250	1,754,063	1,625,380
Overdue	63,408	65,039	67,743	69,880
% on total portfolio (without AFDD)	1.43%	1.68%	1.53%	1.72%
1 to 10 days	6,667	6,128	6,667	6,128
11 to 30 days	13,516	9,448	16,010	14,211
31 to 60 days	1,215	7,217	2,833	7,217
61 to 90 days	54	168	203	168
Over 90 days	41,956	42,078	42,030	42,156
Not yet due	1,570,288	1,356,379	1,726,453	1,596,746
Total portfolio	1,633,696	1,421,418	1,794,196	1,666,626

The average collection period for trade receivables was approximately 82 days at December 31, 2017 (78 days at December 31, 2016), for domestic market sales and approximately 137 days (135 days at December 31, 2016) for foreign market sales, and interest is charged after the contractual maturity

date. As mentioned in Note 25, the Company has rules for monitoring receivables and overdue notes as well as for the risk of not receiving the amounts arising from credit sale transactions.

In management's understanding, the provision for doubtful debts is considered sufficient to cover any losses on the outstanding receivables. The changes in the provision for doubtful debts were as follows:

	Parent company	Consolidated
At December 31, 2015	(37,907)	(37,972)
Allowance for doubtful debts	(20,885)	(20,898)
Reversals	12,003	12,003
Definitive write-off	5,621	5,621
At December 31, 2016	(41,168)	(41,246)
Allowance for doubtful debts	(4,393)	(4,393)
Reversals	1,119	1,160
Definitive write-off	4,346	4,346
At December 31, 2017	(40,096)	(40,133)

The balance of the provision for doubtful debts relates mainly to trade notes overdue for more than 90 days and/or with high risk of not being paid. The expense incurred on the recognition of the provision for doubtful debts is recorded in the statement of operations, under "Selling expenses".

Begging on April 2017 the Company maintains an insurance policy against default for receivables in the domestic and foreign markets for all business units, except for the wood customers of the Forest unit, and certain customers that do not meet the insurance company's requirements to be covered by the policy, such as continuity and liquidity, analyzed by the insurance companies to be incorporated in the insurance policy. The current insurance policy expires in July 2018.

7 RELATED PARTIES

a) Balances and transactions with related parties

	Parent company											
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Type of relationship												
Balances												
Current assets	122,511	38,725	115,617	21,567	21,567	21,567	9,124	307,544	548,277	548,277	307,544	548,277
Non-current assets								2,575	1,894	1,894	2,575	1,894
Current liabilities	1,535	60,954	10,751	10,751	10,751	10,751	638,913	715,336	801,049	801,049	715,336	801,049
Non-current liabilities	660	3,324,011					2,821,364	6,146,635	5,491,151	5,491,151	6,146,635	5,491,151
Transactions												
Sales revenue	758,818	33,091	157,310	80,241	80,241	80,241	12,852	1,042,312	1,150,103	1,150,103	1,042,312	1,150,103
Purchases				(76,012)	(76,012)	(76,012)		(76,012)	(56,002)	(56,002)	(76,012)	(56,002)
Interest expenses on financing								(443,281)	(443,927)	(443,927)	(443,281)	(443,927)
Guarantee commission - expenses				(123,713)	(123,713)	(123,713)		(30,812)	(30,226)	(30,226)	(30,812)	(30,226)
Royalty expenses								(50,877)	(49,250)	(49,250)	(50,877)	(49,250)
(i) Balance receivable from product sale transactions carried out under terms and conditions established between the parties (180 days);												
(ii) Purchase of timber at usual market prices and on normal terms and conditions;												
(iii) Licensing for the use of brands;												
(iv) Guarantee commission, calculated based on the ENDES financing balance of 0.8% semiannually;												
(v) Supply of seedlings, seeds and services at usual market prices and under normal terms and conditions;												
(vi) Loans raised based on normal market conditions;												
(vii) Advances on future capital subscriptions.												

	Consolidated				
			12/31/2017		12/31/2016
	Klabin Irmãos & Cia. (i) and (ii) Shareholder	BNDES (iii) Shareholder	Other (i)	Total	Total
Type of relationship					
Balances					
Current assets				-	917
Current liabilities	3,183	638,913	1,183	643,279	751,048
Non-current liabilities		2,821,364		2,821,364	3,909,635
Transactions					
Interest expenses on borrowings		(319,568)		(319,568)	(340,773)
Guarantee commission - expenses	(30,812)			(30,812)	(30,226)
Royalty expenses	(37,253)		(13,624)	(50,877)	(49,250)
(i) Licensing for the use of brands;					
(ii) Guarantee commission, calculated based on the BNDES financing balance of 0.8% semiannually;					
(iii) Loans obtained based on usual market conditions;					

b) Management and Fiscal Board remuneration and benefits

Management and Fiscal Board remuneration is determined by stockholders at the Annual General Meeting, in accordance with the Brazilian corporate legislation and the Company's bylaws. Accordingly, at the Annual General Meeting held on March 8, 2017, the stockholders established the overall amount of the annual remuneration of the members of the Board of Directors and Statutory Audit Board as up to R\$ 62,251 for 2017 (R\$ 56,100 for 2016).

The table below shows the remuneration of the members of the Board of Directors, Fiscal Board and statutory directors:

	Parent company and Consolidated							
	Short term		Long term					
	Board of directors remuneration		Pension plan		Remuneration based on shares		Total benefits	
	01/01 to 12/31/2017	01/01 to 12/31/2016	01/01 to 12/31/2017	01/01 to 12/31/2016	01/01 to 12/31/2017	01/01 to 12/31/2016	01/01 to 12/31/2017	01/01 to 12/31/2016
Fiscal Board and statutory director's	33,217	32,212	765	931	14,657	4,627	48,639	37,770

Management remuneration includes the fees paid to the Board members, along with the fees paid to, and variable remuneration of officers. Long term benefits relate to contributions made by the Company to the pension plan and calculation of stock option plan. These amounts are mainly recorded under "Operating expenses - administrative".

In addition, the Company grants a stock option plan to the statutory directors and other executives, as described in Note 22.

8 INVENTORY

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Finished products	175,641	161,499	209,537	212,632
Raw materials	194,327	219,019	205,805	241,930
Timber and logs	276,823	214,153	276,823	214,153
Maintenance supplies	217,652	195,527	222,303	200,485
Estimated losses	(10,627)	(13,481)	(10,757)	(13,481)
Other	19,525	17,998	29,450	21,196
	873,341	794,715	933,161	876,915

Raw materials inventory includes paper rolls transferred from paper units to conversion units .

Expenses incurred with the recognition of estimated losses are recorded in the statement of operations under "Cost of products sold".

The Company does not have any inventory pledged as collateral.

9 TAXES RECOVERABLE

	12/31/2017		12/31/2016	
	Current assets	Non-current assets	Current assets	Non-current assets
Value-added Tax on Sales and Services (ICMS)	143,095	1,076,958	188,865	1,174,309
Social Integration Program (PIS)	6,649	10,878	35,265	14,117
Social Contribution on Revenue (COFINS)	26,866	62,298	153,595	77,314
Income tax/social contribution	253,615	-	366,564	-
Tax on Industrialized Products (IPI)	84,045	136,588	20,968	271,742
Other	41,326	-	29,371	17,190
Parent company	555,596	1,286,722	794,628	1,554,672
Subsidiaries	11,483	947	8,727	-
Consolidated	567,079	1,287,669	803,355	1,554,672

The Company recognizes credits of taxes and contributions levied on purchases of property, plant and equipment, as permitted by the prevailing legislation, in addition to the ICMS government grant obtained from the Government of the State of Paraná in relation to the new pulp plant (the "Puma Project"). The credits are being offset against taxes payable of the same nature or against other taxes, when applicable. ICMS credits from the Puma Project is indexed to the FCA – Paraná State conversion and monetary correction factor.

On May, 2016, the Company recognized credits of IPI gain in tax litigation, final and a decision without right of appeal, substantially allocated in finance result, as only the original value was accounted for an IPI expense. Credits are already available to offset in accordance with tax legislation in force.

PIS/COFINS, IPI and ICMS on current assets are expected to be offset against the same taxes payable in the next 12 months, according to management's estimate.

The Company, based on budget analyses and estimates approved by Management does not foresee risks of non realization of these taxes, as long as the budget estimates are realized.

10 INCOME TAX AND SOCIAL CONTRIBUTION

a) Nature and expected realization of deferred taxes

The balances of deferred tax assets and liabilities were as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Provision for tax, social security, labor and civil contingencies	21,668	23,964	21,668	23,964
Income tax and social contribution losses	664,775	801,307	664,823	801,363
Actuarial liability	36,740	30,212	36,740	30,212
Provision for labor	44,617	42,046	44,617	42,046
Other temporary differences	183,857	127,061	183,858	127,061
Non-current assets	951,657	1,024,590	951,706	1,024,646
Fair value of biological assets	746,679	532,081	762,635	560,120
Revision of useful life of property, plant and equipment (Law 12,973/14)	434,269	370,625	434,269	370,625
Deemed cost of property, plant and equipment (land)	545,514	486,426	545,514	559,047
Adjustment to present value of balances	41,299	43,938	41,299	43,938
	151,137	166,269	151,137	166,269
Deferred foreign exchange variations (i)	518,674	749,303	518,674	749,303
	42,755	52,210	42,756	52,210
Non-current liabilities	2,480,327	2,400,852	2,496,284	2,501,512
Net balance (liability)	1,528,670	1,376,262	1,544,578	1,476,866

(i) Management opted for tax recognition of the exchange variations of its foreign currency of its receivables and payables on the cash basis for the year 2016, thereby generating temporary differences, which will be taxed according to the settlement of the receivables and payables denominated in foreign currency. The option was maintained in 2017.

Management, based on the approved budget, estimates that tax credits arising from temporary differences, tax losses and negative social contribution base will be realized as follows:

	12/31/2017	
	Parent company	Consolidated
2018	203,750	203,750
2019	268,979	268,979
2020	245,954	245,954
2021	129,489	129,489
2022	6,312	6,312
2023 onwards	97,173	97,222
	951,657	951,706

The projected realization of the balance, considers, especially regarding tax losses and negative bases, the compensation limitation of 30% of the actual profit for the year. In addition, the projection may not materialize if the estimates used in the preparation of these financial statements differ from those actually performed.

Information regarding the Company's taxes that are subject to litigation is disclosed in Note 17.

b) Analyses of income tax and social contribution in the statement of operations:

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Current tax expense	(298,727)	(164,008)	(305,945)	(176,366)
Prior-year adjustment	5,997	(13,657)	5,997	(13,657)
Current	(292,730)	(177,665)	(299,948)	(190,023)
Recognition and reversal of temporary differences	61,138	(612,782)	101,194	(582,219)
Revisions to useful lives of property, plant and equipment	63,644	48,593	63,644	48,593
Taxation regime effect on the closing of subsidiaries over incorporated biological assets (i)	(167,372)	-	(167,372)	-
Variation in fair value and depletion of biological assets	(7,022)	(134,803)	(4,017)	(9,340)
Deferred	(49,612)	(698,992)	(6,551)	(542,966)

(i) Corresponds to the effect over incorporated biological assets after the dissolution of the special partnership company ("SPC" Correia Pinto. See Note 1)

c) Reconciliation of income tax and social contribution with the result of applying the statutory tax rate

	Parent Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Income before income tax and social contribution	874,511	3,358,603	838,668	3,214,935
Income tax and social contribution at the rate of 34%	(297,334)	(1,141,925)	(285,147)	(1,093,078)
Tax effect on permanent differences:				
Difference in taxation - subsidiaries (i)	(167,371)	-	62,259	292,238
Equity in the results of investees	25,975	199,561	4,632	16,769
Adjustment of corporate tax regime (ii)	-	-	-	-
Other effects	96,388	65,707	(88,243)	51,082
	(342,342)	(876,657)	(306,499)	(732,989)
Income tax and social contribution				
. Current	(292,730)	(177,665)	(299,948)	(190,023)
. Deferred	(49,612)	(698,992)	(6,551)	(542,966)
Income tax and social contribution expense	(342,342)	(876,657)	(306,499)	(732,989)

- (i) The tax effect of the difference in subsidiaries taxation is caused, substantially, by differences between Company's real profit system and deemed profit system adopted by some of the subsidiaries.
- (ii) As mentioned in Note 1, SCP Correia Pinto was liquidated with assets and liabilities incorporated by the parent company. Incorporated balances substantially correspond to forestry assets measured at fair value, with deferred tax calculated on deemed profit. Since the parent company maintains real profit as its tax regime, the effects of the deferred taxes were recalculated based on the new tax rate applied with its effect on results.

	Klabin Finance S.A.	Soc. Conta de Participação Correia Pinto	Soc. Conta de Participação CG Forest	Soc. Conta de Participação Mt Alegre	Soc. Conta de Participação Harmonia	Soc. Conta de Participação Araucária	Florestal Vale do Corisco S.A. (i)
At December 31, 2015	54,120	457,698	83,050	153,471	-	-	495,839
Acquisitions and capital contributions					102,354		
Dividends distributed			(910)				(758)
Equity in the results of investees (ii)	(597)	294,005	49,573	103,496	83,277		49,321
Foreign exchange variations on investments abroad (iii)							
At December 31, 2016	53,523	751,703	131,713	256,967	185,631	-	544,402
Acquisitions and capital contributions						130,647	
Merge of subsidiary Embalplan (iv)							
Corisco (v)							(381,253)
Dissolution of subsidiary (vi)		(824,800)					
Dividends distributed			(122)	(2,014)			(5,100)
Equity in the results of investees (ii)	16,709	73,097	(17,660)	(57,710)	6,797	34,283	13,624
Foreign exchange variations on investments abroad							
At December 31, 2017	70,232	-	113,931	197,243	192,428	164,930	171,673
<u>Summary of the financial information of subsidiaries at December 31, 2017</u>							
Total assets	3,416,731	-	145,437	241,274	267,282	263,247	438,635
Total liabilities	3,346,497	-	2,693	4,707	4,231	3,928	102,022
Equity	70,234	-	142,744	236,567	263,051	259,319	336,613
Profit for the period	15,710	80,161	(10,163)	(38,146)	6,797	34,283	7,095

(i) Because it is a joint venture (Note 3), Vale do Corisco is not consolidated and is the only investment in the consolidated balance sheet that is accounted for on an equity basis.

(ii) Includes the effects of variations in, and the realization of, fair value of biological assets (Note 13).

(iii) Subsidiary and associated companies

(iv), (v) and (vi) Refer to information in Note 1.

12 PROPERTY, PLANT AND EQUIPMENT

a) Composition of property, plant and equipment

	12/31/2017			12/31/2016		
Parent company	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	1,998,046	-	1,998,046	1,832,779	-	1,832,779
Buildings and construction	2,136,768	(372,508)	1,764,260	2,070,718	(298,540)	1,772,178
Machinery, equipment and facilities	11,623,373	(3,589,607)	8,033,766	11,241,954	(2,798,607)	8,443,347
Construction in progress	565,161	-	565,161	458,199	-	458,199
Other (i)	759,519	(521,561)	237,958	637,850	(407,050)	230,800
	17,082,867	(4,483,676)	12,599,191	16,241,500	(3,504,197)	12,737,303
Consolidated						
Land	2,004,105	-	2,004,105	2,067,898	-	2,067,898
Buildings and construction	2,140,596	(374,426)	1,766,170	2,108,452	(300,534)	1,807,918
Machinery, equipment and facilities	11,643,268	(3,599,231)	8,044,037	11,284,447	(2,828,346)	8,456,101
Construction in progress	566,423	-	566,423	459,405	-	459,405
Other (i)	761,700	(522,940)	238,760	647,192	(408,330)	238,862
	17,116,092	(4,496,597)	12,619,495	16,567,394	(3,537,210)	13,030,184

(i) Refers to leasehold improvements, vehicles, furniture and fittings and IT equipment.

Information about property, plant and equipment pledged as collateral in transactions carried out by the Company is disclosed in Note 14.

b) Summary of changes in property, plant and equipment

	Parent company				
	Land	Building and construction	Machinery, equipment and facilities	Construction in progress	Other
At December 31, 2015	1,776,761	552,977	3,117,457	6,106,857	204,877
Purchases (i)	34,290	-	-	1,650,269	(1,270)
Disposals	(16,041)	(7,734)	(71,453)	(148)	51,430
Depreciation	-	(61,831)	(635,363)	-	(87,708)
Internal transfers	40,908	1,303,963	6,045,631	(7,505,427)	114,925
Interest capitalized (ii)	-	-	-	130,640	-
Other	(3,139)	(15,197)	(12,925)	76,008	(51,454)
At December 31, 2016	1,832,779	1,772,178	8,443,347	458,199	230,800
Purchases (i)	3,374	-	4	660,882	-
Disposals	(77,696)	(2,152)	(5,030)	-	(632)
Depreciation	-	(74,976)	(820,925)	-	(121,981)
Internal transfers	-	34,082	404,981	(553,920)	114,857
Incorporation of subsidiaries (iii)	228,961	32,744	19,159	-	2,112
Other	10,628	2,384	(7,770)	-	12,802
At December 31, 2017	1,998,046	1,764,260	8,033,766	565,161	237,958

(i) Net of recoverable taxes (Note 9).

(ii) Interest capitalized related to the borrowing obtained for investment projects, such as the Puma Project (Notes 14, 15, and 21).

(iii) See Note 1

	Consolidated				
	Land	Building and construction	Machinery, equipment and facilities	Construction in progress	Other
At December 31, 2015	2,008,613	556,369	3,125,234	6,113,248	205,682
Purchases (i)	37,732	33,453	25,484	1,648,987	6,463
Disposals	(16,041)	(7,734)	(71,453)	(148)	51,526
Depreciation	-	(61,955)	(655,942)	-	(87,935)
Internal transfers	40,908	1,303,963	6,063,638	(7,463,811)	55,302
Interest capitalized (ii)	-	-	-	130,640	-
Other	(3,314)	(16,178)	(30,860)	30,489	7,824
At December 31, 2016	2,067,898	1,807,918	8,456,101	459,405	238,862
Purchases (i)	3,374	-	4,870	660,901	451
Disposals	(77,696)	(2,152)	(5,247)	(65)	(757)
Depreciation	-	(75,112)	(822,236)	-	(122,273)
Internal transfers	-	43,283	410,110	(563,025)	109,632
Incorporation of subsidiaries (iii)	-	-	9,027	-	-
Other	10,628	9,753	(9,546)	(294)	(17)
At December 31, 2017	2,004,105	1,766,170	8,044,037	566,423	238,760

(i) Net of recoverable taxes (Note 9).

(ii) Interest capitalized related to the borrowing obtained for investment projects, such as the Puma Project (Notes 14, 15, and 21).

(iii) See Note 1

Depreciation was mainly allocated to the production cost for the period.

With the beginning of the Puma Project operations in April 2016, interest capitalization to property plant and equipment was interrupted.

c) Useful life and depreciation method

The table below shows the annual depreciation rates calculated based on the straight line method, which were applicable in the years ended December 31, 2017 and 2016, defined based on the economically useful life of assets:

	Rate - %
Buildings and construction	2.86 to 3.33
Machinery, equipment and facilities (i)	2.86 to 10
Other	4 to 20

(i) Predominant rate 8%.

d) Construction in progress

The balance of construction in progress at December 31, 2017 relates to the following main projects: (i) concluding of the Product Research and Development Technology Center in Paraná, (ii) acquisition of new printer for the Conversion segment (iii) renewal of the cutting and forestry machinery, (iv) other current investments in the Company's continuing operations.

e) Impairment of property, plant and equipment

The Company, applying the requirements of CPC 01(R1) – Reduction of recoverable value of assets (IAS36), performed the applicable analyses and did not identify indicators that the accounting value exceeds the recoverable value of its assets at December 31, 2017 and 2016.

13 BIOLOGICAL ASSETS

The Company's biological assets comprise the planting of pine and eucalyptus trees for the supply of raw materials for the production of short fiber, long fiber and fluff pulp, used in the manufacture of paper and for sales of logs to third parties.

At December 31, 2017 the Company owned 229 thousand hectares of planted areas (232 thousand hectares at December 31, 2016), not considering the permanent preservation areas and legal reserve that it maintains in compliance with Brazilian environmental legislation.

The balance of the Company's biological assets recorded at fair value, as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cost of development of biological assets	1,076,381	832,519	1,433,608	1,181,274
Fair value adjustment of biological assets	2,196,115	1,564,943	2,714,171	2,475,322
	3,272,496	2,397,462	4,147,779	3,656,596

The fair value measurement of biological assets considers certain estimates, such as estimates of the price of wood, the discount rate, the harvesting plan for the forests and the productivity level, all of which are subject to uncertainties, which could have an impact on the Company's future results coming from the variations.

a) Assumptions regarding the recognition of the fair value of biological assets

The Company recognizes its biological assets at fair value. In its calculation of this fair value, the Company adopts the following assumptions:

(i) Eucalyptus forests are maintained at historical cost through the third year of planting and pine forests through the fifth year of planting, based on management's understanding that during this period the historical cost of biological assets approximates their fair value, in addition to the fact that an evaluation of growth and expectation of forestry production is only possible after this period;

(ii) After the third and fifth years of the planting of eucalyptus and pine forests, respectively, the forests are measured at fair value, which reflects the sales price of the asset less the costs necessary to prepare the assets for their intended use or sale;

(iii) The methodology utilized in the fair value measurement of biological assets corresponds to the discounted future cash flow estimated according to the projected productivity cycle of the forests, taking into consideration price variations and the growth of biological assets;

(iv) The discount rate utilized for cash flow is the Company's weighted average cost of capital, which is reviewed annually by management;

(v) The projected productivity volumes of forests are determined based on a categorization which considers the forest type, genetic material, handling system, productive potential, rotation and age. Together, these characteristics form an index called the Average Annual Growth (AAG) index, which is expressed in cubic meters per hectare/year, and which is utilized as the basis in the projection of productivity. The Company's harvesting plan varies mainly from six to seven years for eucalyptus trees and 14 to 15 years for pine trees;

(vi) The prices of biological assets, denominated in R\$/cubic meter, are obtained through market price surveys carried out by specialized firms. The prices obtained are adjusted by deducting the cost of capital relating to land, since this asset contributes to the planting of forests, and other costs necessary to prepare the assets for sale or consumption;

(vii) Planting expenses relate to the costs of the development of the biological assets ;

(viii) The depletion of biological assets is calculated based on the fair value of the biological assets harvested in the period;

(ix) The Company has decided to review the fair value of its biological assets on a quarterly basis, since it understands that this period is sufficiently short to prevent any significant misstatement in the fair value of the biological assets recorded in its financial information;

b) Reconciliation and movement in fair value

	Parent company	Consolidated
At December 31, 2015	2,857,142	3,606,389
Planting	112,467	144,868
Depletion:		
. Historical cost	(100,575)	(114,509)
. Fair value adjustment	(516,842)	(560,382)
Change in fair value due to:	120,363	532,911
. Price	2,376	(3,355)
. Growth	117,987	536,266
Purchase of assets	81,263	81,263
Sale of assets	(33,944)	(33,944)
Creation of subsidiaries (ii)	(122,412)	-
At December 31, 2016	2,397,462	3,656,596
Planting	150,799	237,371
Depletion:		
. Historical cost	(130,795)	(145,263)
. Fair value adjustment	(670,065)	(801,474)
Change in fair value due to:	649,322	789,661
. Price	173,719	251,767
. Growth	475,603	537,894
Incorporation of assets (i)	410,888	410,888
Subsidiary constitution (ii)	(227,355)	-
Dissolution of subsidiary (iii)	692,240	-
At December 31, 2017	3,272,496	4,147,779

- (i) Incorporation of Vale do Corisco's forestry assets, as described in Note 1.
- (ii) Constitution of Partnership companies Harmonia, Serrana e Araucária, see Note 1
- (iii) Dissolution of Special Partnership Company Correia Pinto, as explained in Note 1.

The depletion of biological assets in the periods presented was mainly included in production cost, after allocation to inventory through the harvesting of forests and their use in the production process or their sales to third parties. The highlight of the fair value changes the use of the new discount rate after the first valuation of the year.

c) Sensitivity analysis

In accordance with the hierarchy set out in CPC 46 (equivalent to IFRS 13), "Measurements at fair value", the calculation of biological assets is classified as Level 3 due to its complexity and calculation structure.

The assumptions applied include sensitivity to the prices used in the evaluation and the discount rate used in the discounted cash flow. Prices refer to the prices obtained in the regions in which the Company is located. The discount rate corresponds to the average cost of capital, taking into consideration the basic interest rate (SELIC) and inflation levels.

Significant increases (decreases) in the prices used in the appraisal would result in an increase (decrease) in the measurement at fair value of the biological assets. The weighted average price used in the appraisal of the biological assets for the year ended 2017 was equivalent to R\$ 63/m³ (R\$ 59/m³ at December 31, 2016).

The effects of a significant increase (decrease) in the discount rate used in the measurement of the fair value of biological assets would result in a decrease (increase) in the values measured. The Company's WACC is updated on an annual basis. The new rate is applied from the date of the first quarterly evaluation for each year, and this rate remains unchanged for the year. The discount rate used in the appraisal of the biological assets for the year ended 2017 was 5.1% in constant currency (6.4% at December 31, 2016).

14 BORROWINGS

a) Composition of borrowings

	Annual interest rate - %	12/31/2017		
		current	Non-current	Total
<u>In local currency</u>				
. BNDES - Project Puma	6.0 or TJLP + 1.98 a 2.48	289,836	1,662,671	1,952,507
. BNDES - Other	TJLP + 2.06 to 3.28	61,860	79,779	141,639
. BNDES - FINAME	2.50 to 10 or TJLP + 2.06 to 3.28	98,107	110,186	208,293
. Export credit notes (in R\$)	104.50 to 105.50 CDI	148,478	670,000	818,478
. CRA	95 a 97.5 of CDI	14,571	1,445,916	1,460,487
. Other	1.0 to 8.75	26,093	35,115	61,208
. Cost with funding		(4,649)	(23,273)	(27,922)
		634,296	3,980,394	4,614,690
<u>In foreign currency (ii)</u>				
. BNDES - Project Puma	USD + 6.75	156,508	931,652	1,088,160
. BNDES - Other	USD + 6.33 to 6.89	32,602	37,076	69,678
. Export prepayments	USD + Libor 1.70 to 4.75 or USD + 4.68 a 6.40	937,183	5,813,860	6,751,043
. Export credit notes	USD + Libor 2.50 or USD + 5.70 to 7.92	123,540	854,567	978,107
. Export prepayments in subsidiaries	USD + 5.20 to 6.15	60,954	3,324,540	3,385,494
. BID	USD + Libor + 1.40 a 1.78 or USD + 1.00	162,491	708,567	871,058
. Finnvera	USD + Libor + 0.82 to 1.05 or USD + 1.88 to 3.88	143,493	944,604	1,088,097
. Cost with funding		(20,944)	(108,834)	(129,778)
		1,595,827	12,506,032	14,101,859
Total parent company		2,230,123	16,486,426	18,716,549
<u>Subsidiaries:</u>				
<u>In foreign currency (ii)</u>				
. Bonds (Notes)	USD + 4.88 to 5.25	62,180	3,308,000	3,370,180
. Cost with funding		(725)	(24,969)	(25,694)
		61,455	3,283,031	3,344,486
. Elimination of prepayments in subsidiaries		(60,954)	(3,324,540)	(3,385,494)
Total Consolidated		2,230,624	16,444,917	18,675,541

(i) Currency basket mainly comprising US Dollars

	Annual interest rate - %	12/31/2016		
		Current	Non-current	Total
<u>In local currency</u>				
. BNDES - Project Puma	6.0 or TJLP + 1.98 to 2.48	275,339	1,840,803	2,116,142
. BNDES - Other	TJLP + 1.72 to 4.82	171,488	526,220	697,708
. BNDES - FINAME	2.50 to 10 or TJLP + 1.72 to 4.41	102,389	210,599	312,988
. Export credit notes (in R\$)	104.50 to 106.00 CDI	79,415	942,500	1,021,915
. Other	1.0 to 12.75	55,020	57,224	112,244
. Cost with funding		(1,588)	(7,589)	(9,177)
		682,063	3,569,757	4,251,820
<u>In foreign currency (ii)</u>				
. BNDES - Project Puma	USD + 6.62	154,950	1,068,765	1,223,715
. BNDES - Other	USD + 6.33 to 6.76	41,935	263,248	305,183
. Export prepayments	USD + Libor 1.50 to 4.75 or USD + 4.68 to 6.40	1,105,909	5,554,579	6,660,488
. Export credit notes	USD + Libor 2.50 to 3.20 or USD + 4.90 to 7.92	441,995	896,253	1,338,248
. Export prepayments in subsidiaries	USD + 6.15	33,495	1,580,664	1,614,159
. BID	USD + Libor + 1.40 to 1.78	7,057	847,366	854,423
. Finnvera	USD + Libor + 0.82 to 1.05 or USD + 1.88 to 3.88	133,506	1,031,148	1,164,654
. Other	USD + 1.9	8,158	32,591	40,749
. Cost with funding		(20,809)	(122,631)	(143,440)
		1,906,196	11,151,983	13,058,179
Total parent company		2,588,259	14,721,740	17,309,999
<u>Subsidiaries:</u>				
<u>In foreign currency (ii)</u>				
. Bonds (Notes)	USD + 5.25	38,980	1,629,550	1,668,530
. Commission		(715)	(4,644)	(5,359)
		38,265	1,624,906	1,663,171
. Elimination of prepayments in subsidiaries		(33,495)	(1,580,664)	(1,614,159)
Total Consolidated		2,593,029	14,765,982	17,359,011

(i) Currency basket mainly comprising US Dollars

(ii) In US Dollars

National Bank for Economic and Social Development (BNDES)

The Company has contracts with BNDES for the financing of industrial development projects, such as the construction of the new paper machine in Correia Pinto (SC), the construction of a new recycled paper machine in Goiana (PE), and the construction of the Project Puma denominated pulp plant, the settlement of which is projected to take place in 2025. This financing is paid monthly, along with the related interest.

Export prepayments and export credit notes

Export prepayment and credit note transactions were carried out for the purposes of working capital management and the development of the Company's operations. These agreements will be settled up to February 2024.

Bonds (Notes)

The Company, through its wholly-owned subsidiary Klabin Finance S.A., has issued securities representing debt (Notes) in the international market, which are listed on the Luxembourg Securities Exchange (Euro MTF) under Senior Notes 144A/Reg S type

Concluded on July 16, 2014, the note issued amounts to US\$ 500 million and matures within ten years, with a coupon of 5.25% paid semi-annually, and has the objective of financing the activities

of the Company and its subsidiaries in the normal course of business, in accordance with their business objectives.

In September 2017 the Company issued Green Bonds in the amount of USD500 million, maturing in 10 years and a half-yearly coupon of 4.88%. The resource will be used for reforestation, restoration of native forests, investments in renewable energy, efficient logistics using rail transport, solid waste recycling and the development of eco-efficient products, among other sustainability practices.

Finnvera (Finish Export Credit Agency)

As part of the funds necessary for the execution of the Puma Project, the Company entered into a loan agreement, for the financing of the assets acquired. The commitment amounted to US\$ 460 million maturing in 2026, divided into two tranches: the first of US\$ 414 million accruing interest at 3.4% p.a. and the second tranche of US\$ 46 million, accruing interest of LIBOR 6M + 1% p.a., of which two disbursements in 2015 totaling US\$ 325.7 million and the remaining disbursements of R\$38.6 million in the fourth quarter of 2016, totaling US\$ 364.3 million. The value obtained in USD was lower than originally forecast due to the impact of imports being in Euro and the appreciation of the dollar against the Euro in the period.

IDB (Inter-American Development Bank)

The commitment amounts to US\$ 300 million, divided into two tranches: the first of US\$ 150 million with interest of LIBOR 6M +1.8% p.a. and the second tranche of US\$ 150 million, with interest of LIBOR 6M + 1.4% p.a., maturing in 2025. In 2016 three disbursements occurred totaling US\$ 260 million. The remaining amount was canceled during the fourth quarter of 2017.

CRA – Agribusiness Receivables Certificates

On March 28, 2017 and December 28, 2017, the Company concluded its issue of simple debentures of CRAs - Agribusiness Receivables Certificates, through Eco Securitizadora de Direitos Creditórios do Agronegócio S.A. "CRA".

The CRA I was issued in a capital market transaction, totalizing R\$845.9 million, maturing in 5 years and accruing interest at 95% of the CDI interest rate.

The CRA II was issued in a capital market transaction, totalizing R\$600 million, maturing in 6 years and accruing semiannual interest at 97.5% of the CDI interest rate.

b) Schedule of non-current maturities

The maturity dates of the Company's borrowing at December 31, 2017, classified in non-current liabilities in the consolidated balance sheet, are as follows:

Year	2019	2020	2021	2022	2023	2024	2025 onwards	Total
Amount	2,332,900	2,260,100	2,398,100	3,315,900	2,081,600	2,333,800	1,722,517	16,444,917

c) Summary of changes in borrowing

	Parent company	Consolidated
At December 31, 2015	16,151,370	16,551,241
Borrowing	4,855,343	4,505,275
Accrued interest	989,976	980,258
Foreign exchange and monetary variations	(2,345,511)	(2,335,755)
Repayments and payment of interest	(2,341,179)	(2,342,008)
At December 31, 2016	17,309,999	17,359,011
Borrowing	4,180,258	4,093,903
Accrued interest	1,052,265	1,028,785
Foreign exchange and monetary variations	240,722	236,459
Repayments and payment of interest	(4,066,695)	(4,042,617)
At December 31, 2017	18,716,549	18,675,541

d) Guarantees

The financing agreements with BNDES are guaranteed by the land, buildings, improvements, machinery, equipment and facilities of the plants in Otacílio Costa (SC), Telêmaco Borba (PR) and Ortigueira (PR), which are the object of the related borrowings and escrow deposits, as well as sureties from the controlling shareholder Klabin Irmãos & Cia.

The financing from Finnvera is guaranteed by the industrial plants in Angatuba (SP), Lages (SC), Piracicaba (SP), Betim (MG), and Goiana (PE).

The financing from IDB is guaranteed by the industrial plants in Correia Pinto (SC), Jundiaí/Distrito Industrial (SP) and Jundiaí/Tijuco Preto (SP).

Export credits, export prepayments, and working capital loans are not collateralized.

e) Restrictive covenants

At the end of the reporting period, the Company and its subsidiaries did not have any financing agreements containing restrictive covenants requiring compliance with financial ratios for the contracted transactions, where non-compliance would automatically accelerate the maturity of the debt.

15 DEBENTURES

a) Sixth issue of debentures

On January 7, 2014, the Company concluded the process of subscription and payment of 27,200,000 debentures issued through private placement, with a unit value of R\$62.50, totaling R\$1.7 billion. The debentures issued are subordinated, issued in a single series and in local currency, without guarantees, and are mandatorily convertible into shares. The conversion of the debentures will be in the proportion of one debenture for five units, where the certificate of deposit of shares comprises one common registered share (ON) and four preferred registered shares (PN).

The debenture holders have the possibility of converting debentures into units in advance at any time, after the lock up period, which corresponds to 18 months after the issue. It is up to the Company the anticipated conversion only after the conclusion of the works of the Puma Project reaching operational levels..

The funds obtained from the issue of the debentures were allocated to the construction of a pulp plant related to the Puma Project.

The debentures have an effective term of five years, with maturity on January 8, 2019, and are remunerated at 8% p.a., plus the variation in the Brazilian currency in relation to the US Dollar.

In addition, debenture holders are included in any profit distribution to the Company's shareholders, which is calculated as if the shares that will be converted in the future already existed, with the respective amount deducted from the equity due to the debentures' nature as equity instruments.

As of July 7 2015, the debentures started to be traded on the São Paulo Commodities, Futures and Stock Exchange (BM&FBOVESPA), under the ticker symbol KLBN-DCA61.

In accordance with IAS 32/CPC 39, "Financial instruments: Presentation", the Company recorded these debentures as a compound instrument (hybrid), and the present value of the interest up to the conversion was determined and recognized as a financial liability, whereas the carrying amount of the equity instrument was recorded at the net amount - that is, the total amount of the debentures less the present value of the interest payable and less the issuance costs of the security - in the "Capital Reserve" account in equity.

As reported to the debenture holders published on August 02, 2016, the Company reported that it reached the operational level of the pulp plant in accordance with item 4.6.3 of the Deed of Issue, with the production and sale of 300 thousand tons of pulp. Accordingly, on January 31, 2018, the Company will convert all outstanding debentures into Units.

Due to the right to exercise the conversion required by part of the 6th debenture issue holders, 2,251,482 debentures were converted since the end of the lock up period on July 6, 2015. Of this total 22,082 debentures were converted in 2016 and 2,116,310 in 2017.

b) Seventh issue of debentures

The Company concluded its seventh issue of debentures on June 23, 2014, issuing 55,555,000 simple debentures, with guarantee, combined with a subscription bonus, at the nominal unit value of R\$14.40, totaling R\$800 million, divided simultaneously into two series of 27,777,500 debentures each.

	Number	Unit value	Total value (R\$ thousand)	Interest rate	Maturity	Amortization	Interest	Nature	Subscription bonus
First series	27,777,500	14.40	399.996	IPCA + 7.25%	6/15/2020	Without amortization	Semi-annual	Convertible debt	Yes
Second series	27,777,500	14.40	399.996	IPCA + 2.50%	6/15/2022	Semi-annual	Semi-annual	Debt	No
	55,555,000		799.992						

(i) First series - The first series debentures mature on June 15, 2020, and have a yield at the Amplified Consumer Price Index (IPCA) + 7.25% per annum, with payment of interest on a semi-annual basis, and a grace period of two years, without amortization of the principal. They represent a convertible debt, since they can be utilized at any time until their maturity, at the discretion of the holder, to subscribe and pay-up shares issued by the Company, in the form of Units (comprising one common share and four preferred shares), in the proportion of one Unit for each debenture, through the exercise of the subscription bonus, which will be attributed as an additional benefit to the debenture holders.

(ii) Second series - The second series debentures mature on June 15, 2022, and have a yield of IPCA + 2.50% per annum, paid semi-annually, together with the amortization of the principal, and a grace period of two years. This series of debentures is not convertible. They are, therefore, not linked to the subscription bonus.

Those who acquire the first series are obliged to acquire debentures of the second series. The amount of R\$28,503 arising from the subscription bonus on the debentures issued was allocated to equity. The debenture holders have the possibility of converting debentures into units in advance.

A total of 98.86% of the debentures was subscribed by BNDES and the remaining debentures by other shareholders in the market .

c) Composition of the balance of debentures

	Parent company and consolidated			Parent company and consolidated		
	6th issue	7th issue	12/31/2017	6th issue	7th issue	12/31/2016
Current liabilities						
. Principal	-	61,538	61,538	-	61,538	61,538
. Interest	130,801	141	130,942	136,000	69	136,069
. Monetary restatement/profit sharing	46,796	-	46,796	47,473	-	47,473
. Adjustment to present value of interest	-	-	-	-	-	-
	177,597	61,679	239,276	183,473	61,607	245,080
Non-current liabilities						
. Principal	-	615,343	615,343	-	676,881	676,881
. Interest	-	-	-	136,000	-	136,000
. Adjustment to present value of interest	-	-	-	(15,093)	-	(15,093)
. Monetary restatement/profit sharing	-	47,754	47,754	62,799	32,372	95,171
. Subscription bonus	-	(28,503)	(28,503)	-	(28,503)	(28,503)
	-	634,594	634,594	183,706	680,750	864,456
Total debenture liability	177,597	696,273	873,870	367,179	742,357	1,109,536
Equity - capital reserve						
. Debentures issued	1,559,282	-	1,559,282	1,691,552	-	1,691,552
. Interest up to maturity at present value	(410,119)	-	(410,119)	(410,119)	-	(410,119)
. Subscription bonus	-	28,503	28,503	-	28,503	28,503
. Cost of the issue of debentures	(29,841)	-	(29,841)	(29,841)	-	(29,841)
	1,119,322	28,503	1,147,825	1,251,592	28,503	1,280,095
Total	1,296,919	724,776	2,021,695	1,618,771	770,860	2,389,631

Interest on debentures paid in 2017 was R\$ 186,003 for the sixth issue of debentures and R\$88,798 for the seventh issue of debentures.

d) Change to debenture liabilities

	Parent company and Consolidated
At December 31, 2015	1,470,489
Interest and monetary variations on debentures	125,029
Payment of interest	(450,140)
Payment of interest and participation in debenture results	(64,863)
Present value adjustments	29,016
At December 31, 2016	1,109,536
Interest and monetary variations on debentures	98,984
Payment of interest	(274,801)
Payment of interest and participation in debenture results	(74,945)
Present value adjustments	15,096
At December 31, 2017	873,870

16 TRADE PAYABLES

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Local currency	630,444	590,754	631,182	591,234
Foreign currency	71,596	29,148	82,430	43,622
	702,040	619,902	713,612	634,856

The Company's average payment term to operational suppliers is approximately 38 days (36 days in December 31, 2016). In the case of suppliers of property, plant and equipment, the terms follow the commercial negotiations of each operation; there is no specific average term.

a) Commitments

The Company has several land lease agreements for the development of forestry activities in pine and eucalyptus entered in to with third parties in the states of São Paulo, Parana and Santa Catarina with maturity up to 2041. The lease is calculated based on the real / hectare agreed between the parties for the defined periods.

The table below shows the projection on December 31, 2017 of the amounts that will be disbursed over the years.

	12/31/2017
	Consolidated
2018	37,803
2019	36,922
2020	34,860
2021	31,323
2022	28,397
2023 - 2027	122,451
2028 - 2032	101,938
2033 - 2037	86,632
2038 - 2056	66,065
	546,391

The Company and its subsidiaries did not have other material future commitments at the end of the reporting period that had not been published.

17 PROVISIONS FOR TAX, SOCIAL SECURITY, LABOR AND CIVIL CONTINGENCIES**a) Provisioned risks**

Based on the individual analysis of lawsuits filed against the Company and its subsidiaries and the opinion of legal counsel, provisions have been constituted and classified in non-current liabilities for expected losses on legal and administrative proceedings considered as probable, as follows:

				12/31/2017
				Unrestricted
				judicial
				deposits
In the parent company:	Provisioned	Restricted	Net	
	amount	judicial	liability	
		deposits		
Tax:				
. PIS/COFINS	-	-	-	29,744
. ICMS/IPI	-	-	-	22,319
. Income tax/social contribution	(3,573)	3,573	-	139
. OTHER	(1,655)	2,557	-	1,621
	(5,228)	6,130	-	53,823
Labor	(45,775)	18,768	(27,008)	-
Civil	(14,374)	3,659	(10,716)	-
	(65,377)	28,557	(37,724)	53,823
Subsidiaries:				
Other	-	1,001	1,001	-
Consolidated	(65,377)	29,558	(36,723)	53,823

				12/31/2016
				Unrestricted
				judicial
				deposits
In the parent company:	Provisioned	Restricted	Net	
	amount	judicial	liability	
		deposits		
Tax:				
. PIS/COFINS	-	-	-	28,366
. ICMS/IPI	-	-	-	22,320
. Income tax/social contribution	(3,573)	3,573	-	139
OTHER	(1,546)	1,546	-	2,499
	(5,119)	5,119	-	53,324
Labor	(54,386)	21,475	(32,911)	-
Civil	(10,978)	4,331	(6,647)	-
	(70,483)	30,925	(39,558)	53,324
Subsidiaries:				
Other	-	-	-	1,455
Consolidated	(70,483)	30,925	(39,558)	54,779

b) Summary of changes to the provisioned amounts

				Consolidated
				Net Exposure
	Tax	Labor	Civil	
At December 31, 2015	-	(34,488)	(7,941)	(42,429)
New lawsuits/increases	-	(5,707)	(1,439)	(7,146)
(Provision)/reversals	-	5,148	1,568	6,716
Monetary variations	(5,119)	(19,339)	(3,165)	(27,623)
Deposit transactions	5,119	21,475	4,330	30,924
At December 31, 2016	-	(32,911)	(6,647)	(39,558)
New lawsuits/increases	-	(7,721)	(6,105)	(13,826)
(Provision)/reversals	-	10,494	2,708	13,202
Monetary variations	-	2,696	(672)	2,024
Deposit transactions	-	1,435	-	1,435
At December 31, 2017	-	(26,007)	(10,716)	(36,723)

c) Provisions for tax, social security, labor and civil contingencies not recognized

At December 31, 2017, the Company and its subsidiaries were parties to other tax, labor and civil litigation involving expected losses evaluated as "possible" (i.e. not probable), totaling approximately: R\$2,980,576, R\$251,702 and R\$104,080, respectively. Based on individual analyses of the disputes and the opinion of the Company's legal counsel, management understands that they do not need to be accounted for, since the likelihood of loss is assessed as only possible.

At December 31, 2017 the Company appeared in the passive pole in several processes, such as:

Tax Lawsuits

(i) Lawsuit arising from violation notices, through which the auditor intended to require the IRPJ (Corporate Income Tax) and the CSL (Social Contribution), questioning the lack of deductibility, for corporate income tax purposes, of royalty expenses, undue amortization of goodwill and undue compensation of tax losses and negative bases for calculating the social contribution, due to insufficient balance, arising from glosses – possible risk of loss;

(ii) Tax and administrative processes, proposed by the municipality of Lages-SC and Rio de Janeiro-RJ, under the grounds that the Company stopped collecting ISS (tax on services) on the production and printing of custom packaging classified by the tax authority as “rendering print shop services” – possible risk of loss;

(iii) Court injunction seeking to ensure and safeguard the right of the Company not to submit to taxation established by law n° 10,256/2001, which includes article 22-A in the text of the law 8,212/91 n°, creating the social security contribution due from the Agribusiness, whose calculation basis is the gross income from the sale of production, at a 2.6% rate in substitution of tax collection on payroll, at a rate of 20% - risk of possible loss;

(iv) Notice of Infraction resulting from supervision claiming that the company had taxable capital gain in the in a transaction involving a subsidiary - possible risk of loss;

(v) Termination action filed by the Federal Government with the purpose of not correcting by the SELIC rate, and the rates provided for in resolution CIEX No. 2/79 – possible risk of loss;

(vi) PIS and COFINS Notice of Infraction for the payment of appropriated credits related to forest and general expenses, inseparable from the Company's production process, but understood by the Brazilian Federal Revenue Service as inputs that are not eligible to the credit of the contributions – remote risk of loss;

Civil Lawsuits

(i) Public civil action proposed by the Association of Environmental Fishermen of Paraná, with the purpose of requesting the removal of the plant's open drain pipes on the Tibagi River riverbed, as well as the removal from the Tibagi River riverbed of burnt mineral coal used by the Company up to 1998, in the county of Telêmaco Borba – PR – probable loss risk.;

(ii) Public civil action proposed by the Association of Environmental Fishermen of Paraná, whose purpose is to recover the soil and permanent preservation area, affected by caustic soda leakage, used by the Company to treat coal in industrial landfill located in the County of Telêmaco Borba – PR – risk of remote loss;

(iii) Compensation for damages due to its substitution by another supplier of Pallets which, as according to the Author, caused material damages, loss of profits and moral damages - possible loss risk.

Labor Lawsuits

The main requests are related to overtime, night additional, moral damage, material damage, life insurance and additional for insalubrities and unhealthy and dangerousness, as well as indemnities and subsidiary liability of third parties. Although the number of labor lawsuits is high, no lawsuit considered individually is relevant enough to be able to adversely impact and in a relevant form the results of the Company and that deserve to be highlighted.

d) Ongoing Lawsuits

At December 31, 2017, the Company was involved in lawsuits involving ongoing causes, for which there are no amounts recognized in its financial statements, and the assets are recognized only after the lawsuits have been settled and the gain is virtually certain.

According to the opinion of the Company's legal advisors some lawsuits are assessed as "probable" of winning. Among the aforementioned lawsuits, the most notable is the claim to presumed IPI credit on the purchases of electricity, fuel oil and natural gas used in the production process.

e) Enrollment in the Tax Recovery Program (REFIS)

The Tax Recovery Program (REFIS) (Law 11,941/09 and Law 12,865/13) balance payable recorded for the parent company and consolidated totaled R\$ 378,943 at December 31, 2017, of which R\$ 71,467 is accounted as current liabilities and R\$ 307,476 on non-current liabilities (R\$ 407,248 at December 31, 2016, R\$ 66,884 as current and R\$ 340,364 as non-current). These values are updated by the effective interest rate, which considers future values and the SELIC change. The balance is being paid in monthly installments, with settlement foreseen for 2029.

18 EQUITY

a) Share Capital

The Company's subscribed and paid-up capital at December 31, 2017 comprises 4,786,088,890 shares (4,733,181,140 at December 31, 2016), without par value, corresponding to R\$2,516,753 (R\$2,384,484 at December 31, 2016), held as follows:

Stockholders	12/31/2017		12/31/2016	
	Common shares	Preferred shares	Common shares	Preferred shares
Klabin Irmãos & Cia	941,837,080	-	941,837,080	-
Niblak Participações S/A	142,023,010	-	142,023,010	-
Capital World Investors	60,208,500	240,834,000	58,026,600	232,106,400
The Bank of New York Departament	54,419,292	217,677,168	57,901,224	231,604,896
Monteiro Aranha S/A	55,333,872	221,366,938	49,290,692	197,194,218
BNDESPAR	42,554,908	170,219,632	42,573,128	170,292,512
BlackRock, Inc	41,730,587	166,922,348	30,186,337	120,745,348
Treasury shares	30,736,688	122,946,752	31,947,800	127,791,200
Other	491,008,128	1,786,269,987	495,484,644	1,804,176,051
	1,859,852,065	2,926,236,825	1,849,270,515	2,883,910,625

Besides common and preferred registered shares, the Company negotiates certificates of deposit of shares, referred to as Units, each corresponding to one common share (ON) and four preferred shares (PN).

The Company's authorized capital comprises 5,600,000,000 common shares (ON) and/or preferred shares (PN) approved at the Extraordinary General Meeting held on March 20, 2014.

Capital increase for the conversion right of debenture holders

Due to the right of conversion required by the sixth issue debenture holders, the Board of directors of the Company, during the year of 2017, approved a capital increase, within the limit of authorized capital, of R\$ 132,269, with issuance of 10,581,550 common shares and 42,326,200 preferred shares, corresponding to the conversion of 2,116,310 debentures.

With the aforementioned debenture conversion, the Company's subscribed and paid-in capital increased to R\$ 2,516,753,063, comprised of 4,786,088,890 registered shares with no par value, of which 1,859,852,065 are common shares and 2,926,236,825 are preferred shares.

b) Treasury shares

The Company maintained 153,683,440 shares of its own issue in treasury at December 31, 2017, corresponding to 30,736,688 Units. The price on the São Paulo Stock Exchange was R\$17.60 per Unit at December 31, 2017 (code KLBN11 - BM&FBovespa).

The Company bought back 550,000 Units in January, 2017, at an average price of R\$16.58 per Unit, totaling R\$11,468.

In accordance with the stock option plan described in Note 22, granted as long-term remuneration to the Company's executives, 4,420,270 treasury shares were sold in February 2017, corresponding to 884,054 Units. The right to use 4,420,270 shares, corresponding to 884,054 "Units" was also granted. The amount was derecognized from the treasury share account.

c) Carrying value adjustments

Created by Law 11,638/07, the group "Carrying value adjustments" in the Company's equity comprises adjustments for increases and decreases in assets and liabilities, when applicable.

The balance maintained by the Company corresponds to: the adoption of the deemed cost of property, plant and equipment for forestry land; an option exercised on the initial adoption of the new accounting pronouncements for convergence with IFRS, at January 1, 2009; the foreign exchange variations of the subsidiaries abroad with functional currencies different to the parent company; balances relating to the stock option plan granted to executives (Note 22); and actuarial liability restatements.

	Parent company and Consolidated	
	<u>12/31/2017</u>	<u>12/31/2016</u>
Deemed cost of property, plant and equipment (land)	1,058,939	1,085,208
Foreign exchange variations - subsidiaries abroad	(63,018)	(56,509)
Stock option plan	2,486	4,119
Actuarial liability	<u>(10,491)</u>	<u>(4,580)</u>
	987,916	1,028,238

Foreign exchange variations - subsidiaries abroad will be transferred to profit or loss only in case of alienation or perishing of the investee. The other items, due to its nature and force of accounting standard, will never be transferred to profit or loss, even in case of their financial realization.

d) Dividends

Dividends represent a portion of the profits earned by the Company which are distributed to the shareholders as remuneration of invested capital in the fiscal year. All shareholders are entitled to receive dividends proportionately to their ownership interest, as guaranteed by the Brazilian corporate legislation and the Company's bylaws. The bylaws also determine that management has the option to prepay interim dividends during the year, "ad referendum" of the Ordinary General Meeting held to consider the accounts for the year.

The basis of the calculation of the mandatory dividends, defined in the Company's bylaws, is adjusted in accordance with the constitution, realization and reversal, during the year, of the biological assets reserve, and entitles the Company's shareholders to receive, every year, a mandatory minimum dividend of 25% of the annual adjusted profit. Additionally, the Company is entitled to distribute dividends with balances of "Profit Reserves" held in Shareholders' Equity.

The profit distribution in 2017 can be presented as follows:

	Parent company
(=) Net profit for the year	532,169
(-) Fiscal incentives reserve constitution	(54,775)
(-) Legal reserve constitution (5 % of net profit - fiscal incentives reserve)	(23,870)
(-) Biological asset reserve constitution - own	(428,553)
(+) Biological asset reserve realization - own	609,554
(-) Biological asset reserve constitution - subsidiaries (i)	(50,937)
(+) Realization of deemed cost of property (land)	26,269
(=) Basic profit for distribution of required dividends	609,857
 (=) Minimum required dividend according to By Laws (25%)	 152,464
<u>Distributed dividends in the year 2017</u>	
April (payed on May 12 2017) - Distribution with earnings reserve	
. R\$ 12.67 per one thousand common and preferred shares	
. R\$ 63.33 per thousand "Units"	58,000
April (payment on August 11, 2017) - Distribution with earning reserves	
. R\$ 22.05 per thousand common and preferred shares	
. R\$ 110.27 per thousand "Units"	101,000
Total dividends distributed in 2017 with earnings reserves	159,000
 July (paid on August 11, 2017)	
. R\$ 3.93 per thousand common and preferred shares	
. R\$ 19.65 per thousand "Units"	18,000
October (paid on November 14, 2017)	
. R\$ 32.75 per thousand common and preferred shares	
. R\$ 163.77 per thousand "Units"	150,000
Total dividends distributed on 2017 earnings	168,000
<u>Proposal for additional dividends on results of 2017 for approval during the GSM (ii)</u>	
. R\$ 32.53 per thousand common and preferred shares	
. R\$ 162.67 per thousand "Units"	171,000
 (-) Total dividends distributed in relation to 2017 earnings	339,000
(-) Mandatory convertible into shares debentures' stake in profits	74,944
(-) Reserve constitution for investment and working capital	195,913
	609,857

(i) Included in equity result

(ii) Does not consider the quantity of shares in the mandatory debentures (6th issue - see Note 15) that will convert on January 31, 2018

The Company's management will present, at the Ordinary General Meeting to be held on March 8, 2018, together with the request for the approval of the accounts for the year, a proposal for the destination of results for the year 2017.

The balance of complementary dividends proposed for the year is maintained in a specific account in equity denominated "Proposed Dividend Reserve" up to its effective approval by the Ordinary Shareholders Meeting and payment.

In 2017 R\$ 507,00 was effectively paid out, of R\$ 386,985 in interim dividends for the year of 2017 and R\$120,015 from Profit Reserves.

e) Share of profits of mandatory convertible debentures

As mentioned in Note 15, the holders of debentures mandatorily convertible into shares of the sixth issue are entitled to a share of the profits upon the distribution of dividends to the Company's shareholders.

The amount is calculated considering the number of shares that will be converted in the future, corresponding to 124,742,590 common shares and 498,970,360 preferred shares, after the conversions in advance occurred up to December 31, 2017. In 2017 R\$74,945 of share of profits was paid to debenture holders of the 6th emission.

19 NET SALES REVENUE

The Company's net sales revenue is composed as follows:

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Gross sales revenue	9,678,997	8,081,481	9,727,021	8,204,424
Discounts and rebates	(90,389)	(34,464)	(128,570)	(61,718)
Taxes on sales	(1,195,060)	(1,037,755)	(1,225,073)	(1,051,908)
	8,393,548	7,009,262	8,373,378	7,090,798
. Domestic market	4,999,886	4,218,569	5,019,971	4,229,957
. Foreign market	3,393,662	2,790,693	3,353,407	2,860,841
Net sales revenue	8,393,548	7,009,262	8,373,378	7,090,798

20 COSTS, EXPENSES AND OTHER INCOME BY NATURE

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
<u>Cost of products sold</u>				
Variable costs (raw materials and consumables)	(2,718,313)	(2,284,403)	(2,642,301)	(2,228,400)
Personnel	(1,078,987)	(954,843)	(1,089,886)	(964,488)
Depreciation and amortization	(950,239)	(776,080)	(969,632)	(732,474)
Depletion	(800,860)	(617,417)	(946,737)	(674,891)
Other	(839,500)	(566,123)	(778,936)	(626,770)
	(6,387,899)	(5,198,866)	(6,427,492)	(5,227,023)
<u>Sales expenses</u>				
Freight	(403,761)	(334,182)	(410,803)	(340,808)
Royalties	(50,878)	(49,256)	(50,878)	(49,256)
Commission	(16,430)	(80,120)	(17,158)	(21,297)
Other	(174,548)	(106,523)	(178,005)	(174,714)
	(645,617)	(570,081)	(656,844)	(586,075)
<u>General and administrative expenses</u>				
Personnel	(310,793)	(260,313)	(313,932)	(262,942)
Services contracted	(112,038)	(103,364)	(113,170)	(104,408)
Depreciation, amortization and depletion	(23,636)	(15,590)	(24,118)	(15,747)
Other	(66,276)	(74,019)	(77,178)	(83,396)
	(512,743)	(453,286)	(528,398)	(466,493)
<u>Other net</u>				
Revenue from sales of prop, plant and equipment	63,841	105,289	63,841	105,289
Cost of sales and write-offs of prop, plant and equip.	(34,522)	(60,619)	(34,522)	(60,619)
Deemed cost of property, plant and equip. (land)	(39,801)	(8,094)	(39,801)	(8,094)
Other	2,238	(38,016)	(1,395)	(31,869)
	(8,244)	(1,440)	(11,877)	4,707
Total	(7,554,503)	(6,223,673)	(7,624,611)	(6,274,884)

21 FINANCE RESULT

	Parent company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Finance income				
. Income from financial investments	562,632	605,476	579,436	624,599
. Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income	(35,196)	(53,081)	(35,196)	(53,081)
. Other (i)	204,554	307,414	204,378	307,427
	731,990	859,809	748,618	878,945
Finance costs				
. Interest on borrowing and debentures	(1,124,301)	(1,101,086)	(1,105,624)	(1,095,332)
. Interest on REFIS (ii)	(41,708)	(48,777)	(41,708)	(48,777)
. Capitalized interest in property, plant and equipment	-	130,640	-	130,640
. Amortization of present value adjustments to debt	(15,096)	(29,016)	(15,096)	(29,016)
. Loan guarantees from related parties	(30,812)	(30,226)	(30,812)	(30,226)
. Investor remuneration - SPCs	-	-	(35,049)	(39,729)
. Other	(54,150)	(114,338)	(59,565)	(118,648)
	(1,266,067)	(1,192,803)	(1,287,854)	(1,231,088)
Exchange variations				
. Foreign exchange variations on assets	89,558	(214,961)	86,469	(214,090)
. Foreign exchange variations on liabilities	(245,733)	2,413,661	(260,617)	2,383,022
	(156,175)	2,198,700	(174,148)	2,168,932
Finance result	(690,252)	1,865,706	(713,384)	1,816,789

(i) See Note 9 relative to IPI credits gain in tax litigation.

(ii) See Note 17.

(iii) See Note 12.

22 STOCK OPTION PLAN

The Extraordinary General Meeting of Shareholders held on July 10, 2012 approved the stock option plan as a benefit for the members of the Executive Board and the Company's key personnel.

CVM authorized the Company, through Circular Letter/CVM/SEP/GEA-2/221/2012, to realize private transactions included in the incentive plan for its directors and employees, except for the controlling shareholders, through the private transfer of treasury shares.

Pursuant to this plan, the Company established that its statutory and non-statutory directors could utilize 25% to 70% and managers could utilize 15% to 25% of their variable remuneration for the acquisition of treasury shares, and the Company would grant the right of use of the same amount of shares to the acquirers for three years, transferring ownership of the shares at the end of the three years, provided that the clauses established in the plan are complied with.

The right of use grants the participants the right to dividends distributed in the period during which the benefit is valid.

The acquisition price of treasury shares by the participants of the plan is calculated based on the lower of the average of the market value quotations in the last 60 trading sessions of the Company's shares and their quotation on the acquisition date. The value of shares granted with right of use corresponds to the quotation of shares traded on BM&FBOVESPA on the transaction date.

The clauses that grant the transfer of shares after three years require the participants of the stock option plan to remain in employment in the Company and stipulate that the shares acquired on enrollment in the plan may not be sold during this period. The shares granted can be immediately assigned in the case of the termination of employment by the Company, or the retirement or death of the beneficiary, in which case the right to the shares becomes part of the estate of the deceased.

The shares granted and the expense proportional to the grant term, recorded in profit and loss, is accumulated in equity in the "Carrying value adjustments" group, up to the end of the grant, which may occur due to the three-year maturity or any other clause of the plan that may terminate the grant.

The table below presents information about the agreed-upon plans:

a) Statutory and non-statutory Board Members

	Plan 2012 (ii)	Plan 2013 (ii)	Plan 2014	Plan 2015	Plan 2016	Total
Start of the plan	03/01/2013	03/01/2014	03/01/2015	03/01/2016	02/24/2017	
Final grant date	03/01/2016	03/01/2017	03/01/2018	03/01/2019	02/24/2020	
Treasury shares acquired by the beneficiaries (i)	1,904,500	2,302,500	1,855,000	1,475,000	2,774,345	10,311,345
Purchase value per share (R\$) (i)	2.57	2.34	2.84	4.23	3.04	
Treasury shares granted with right to use (i)	1,904,500	2,302,500	1,855,000	1,475,000	2,774,345	10,311,345
Value of the right to use per share (R\$) (i)	2.67	2.29	3.26	4.30	3.04	
Accumulated plan expenses - from the beginning	5,089	5,263	6,031	5,309	5,501	27,193
Expenses of the plan - 1/1 to 12/31/2016	283	1,783	2,189	1,762	-	6,017
Expenses of the plan - 1/1 to 12/31/2017	-	287	2,344	3,629	5,501	11,761

(i) Considers the stock split mentioned in Note 1, financial statements at December 31, 2015

(ii) Plan terminated.

b) Managers

	Plan 2012 (iii)	Plan 2013 (iii)	Plan 2014	Plan 2015	Plan 2016	Total
Start of the plan (ii)	03/01/2013	04/30/2014	04/30/2015	03/30/2016	02/24/2017	
Final grant date	03/01/2016	04/30/2017	04/30/2018	03/30/2019	02/24/2020	
Treasury shares acquired by the beneficiaries (i)	-	-	-	-	1,531,400	1,531,400
Purchase value per share (R\$) (i)	-	-	-	-	3.04	
Treasury shares granted with right to use (i)	682,500	542,500	372,500	351,000	1,531,400	3,479,900
Value of the right to use per share (R\$) (i)	2.67	2.30	3.36	4.34	3.04	
Accumulated plan expenses - from the beginning	1,824	1,269	1,183	1,058	1,299	6,633
Expenses of the plan - 1/1 to 12/31/2016	101	423	457	380	-	1,361
Expenses of the plan - 1/1 to 12/31/2017	-	85	421	860	1,299	2,665

(i) The 2012 plan was granted in June 2013, on a retrospective basis.

(ii) Considers the stock split mentioned in Note 1, financial statements at December 31, 2015.

(iii) Plan terminated

23 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss for the period attributable to holders of the Company's common and preferred shares by the weighted average number of common and preferred shares available during the period. The Company has debentures mandatorily convertible into shares (see Note 15) recorded in equity - therefore, the future conversion of the debentures into the total amount of shares is already reflected in the weighted average number of shares used for calculation purposes.

The shares from the future conversion of the seventh issue of debentures (Note 15) were not considered in the calculation because such conversion does not have a dilutive effect.

Therefore, the diluted earnings per share are equal to the basic earnings per share.

As mentioned in Note 18, the changes in the balance of treasury shares affect the weighted average number of preferred shares held in treasury in the calculation for the year ended December 31,

2017, being the weighted average used in the calculation of earnings per share was determined as follows:

Weighted average number of treasury shares - December 31, 2017 (i)			
Jan	Feb to Nov	Dec	12 Months 2017
$162,489,000 \times 1/12 + 153,649,810 \times 10/12 + 153,683,440 \times 1/12 = 154,389,212$			
(i) Because the Company only has Units held in treasury, the distribution between common and preferred shares is made according to the composition of the Units.			

The table below, presented in R\$, reconciles the profit or loss for the years ending December 31, 2017 and 2016 with the amounts used in the calculation of basic and diluted earnings per share:

	Parent company and Consolidated		
	1/1 to 12/31/2017		
	Common (ON)	Preferred (PN)	Total
<u>Denominator</u>			
Total weighted average number of shares	1,859,852,065	2,926,236,825	4,786,088,890
Number of shares to be converted from debentures	124,742,590	498,970,360	623,712,950
Weighted average number of treasury shares	(30,877,842)	(123,511,369)	(154,389,212)
Weighted average number of outstanding shares	1,953,716,813	3,301,695,816	5,255,412,628
% of shares in relation to the total	37.18%	62.82%	100%
<u>Numerator</u>			
Earnings attributable to each class of shares (R\$)	197,835,564	334,333,436	532,169,000
Weighted average number of outstanding shares	1,953,716,813	3,301,695,816	5,255,412,628
Basic and diluted earnings per share (R\$)	0.1013	0.1013	

	Parent company and Consolidated		
	1/1 to 12/31/2016		
	Common (ON)	Preferred (PN)	Total
<u>Denominator</u>			
Total weighted average number of shares	1,849,270,515	2,883,910,625	4,733,181,140
Number of shares to be converted from debentures	135,324,140	541,296,560	676,620,700
Weighted average number of treasury shares	(30,819,917)	(123,279,667)	(154,099,583)
Weighted average number of outstanding shares	1,953,774,738	3,301,927,518	5,255,702,257
% of shares in relation to the total	37.17%	62.83%	100%
<u>Numerator</u>			
Earnings attributable to each class of shares (R\$)	922,648,042	1,559,297,958	2,481,946,000
Weighted average number of outstanding shares	1,953,774,738	3,301,927,518	5,255,702,257
Basic and diluted earnings per share (R\$)	0.4722	0.4722	

24 OPERATING SEGMENTS

a) Criteria for identification of operating segments

The Company's operating structure is divided into segments according to the manner in which management manages the business. The operating segments defined by management are as follows:

(i) Forestry segment: involves operations relating to planting and growing pine and eucalyptus trees to supply the Company's plants. Also involves selling timber (logs) to third parties in the domestic market.

(ii) Paper segment: mainly involves the production and sale of cardboard, kraftliner and recycled paper rolls in the domestic and foreign markets

(iii) Conversion segment: involves the production and sale of corrugated cardboard boxes, corrugated cardboard and industrial sacks in the domestic and foreign markets.

(iv) Pulp segment: include the production and sale of short fiber bleached pulp, long fiber bleached pulp, and fluff pulp in the domestic and foreign markets.

b) Consolidated information about operating segments

	From 1/1 to 12/31/2017					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	330,025	1,637,193	2,460,640	596,822	(4,709)	5,019,971
.Foreign market	-	1,313,568	214,112	1,825,671	56	3,353,407
Revenue from sales to third parties	330,025	2,950,761	2,674,752	2,422,493	(4,653)	8,373,378
Revenue between segments	1,359,939	1,312,464	23,659	62,795	(2,758,857)	-
Total net sales	1,689,964	4,263,225	2,698,411	2,485,288	(2,763,510)	8,373,378
Changes in the fair value of biological assets	789,661	-	-	-	-	789,661
Cost of products sold	(2,177,832)	(3,023,422)	(2,272,631)	(1,702,068)	2,748,461	(6,427,492)
Gross profit	301,793	1,239,803	425,780	783,220	(15,049)	2,735,547
Operating income (expenses)	(95,677)	(379,705)	(332,440)	(333,844)	(41,829)	(1,183,495)
Operating result before finance result	206,116	860,098	93,340	449,376	(56,878)	1,552,052
Sales of products (in metric tons)						
.Domestic market	-	555,590	714,606	294,130	-	1,564,326
.Foreign market	-	548,009	47,221	1,060,880	-	1,656,110
.Inter-segmental	-	777,488	3,085	27,475	(808,048)	-
	-	1,881,087	764,912	1,382,485	(808,048)	3,220,436
Sales of timber (in metric tons)						
.Domestic market	2,595,973	-	-	-	-	2,595,973
.Inter-segmental	13,464,345	-	-	-	(13,464,345)	-
	16,060,318	-	-	-	(13,464,345)	2,595,973
Investments during the period	330,753	277,077	97,029	209,887	10,539	925,285
Depreciation, depletion and amortization	(1,023,699)	(292,418)	(62,525)	(550,628)	(11,217)	(1,940,487)
Total assets - 12/31/2017	7,491,429	5,142,370	1,711,660	8,099,272	8,104,810	30,549,541
Total liabilities - 12/31/2017	1,874,252	364,533	357,192	249,726	20,469,687	23,315,390
Equity - 12/31/2017	5,617,177	4,777,837	1,354,468	7,849,546	(12,364,877)	7,234,151

	From 1/1 to 12/31/2016					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	324,361	1,559,274	2,163,545	185,449	(2,672)	4,229,957
.Foreign market	-	1,530,321	264,428	1,066,092	-	2,860,841
Revenue from sales to third parties	324,361	3,089,595	2,427,973	1,251,541	(2,672)	7,090,798
Revenue between segments	1,101,307	1,219,165	18,335	13,615	(2,352,422)	-
Total net sales	1,425,668	4,308,760	2,446,308	1,265,156	(2,355,094)	7,090,798
Changes in the fair value of biological assets	532,911	-	-	-	-	532,911
Cost of products sold	(1,621,872)	(2,847,660)	(2,059,276)	(1,075,843)	2,377,628	(5,227,023)
Gross profit	336,707	1,461,100	387,032	189,313	22,534	2,396,686
Operating income (expenses)	(45,170)	(421,517)	(309,707)	(245,085)	22,939	(998,540)
Operating result before finance result	291,537	1,039,583	77,325	(55,772)	45,473	1,398,146
<u>Sales of products (in metric tons)</u>						
.Domestic market	-	553,071	659,394	103,874	-	1,316,339
.Foreign market	-	590,875	48,955	693,414	-	1,333,244
.Inter-segmental	-	763,464	2,975	9,040	(775,479)	-
	-	1,907,410	711,324	806,328	(775,479)	2,649,583
<u>Sales of timber (in metric tons)</u>						
.Domestic market	2,461,870	-	-	-	-	2,461,870
.Inter-segmental	11,922,206	-	-	-	(11,922,206)	-
	14,384,076	-	-	-	(11,922,206)	2,461,870
Investments during the period	284,644	311,162	228,844	1,726,589	15,408	2,566,647
Depreciation, depletion and amortization	(724,057)	(273,467)	(51,663)	(368,549)	(5,376)	(1,423,112)
Total assets - 12/31/2016	7,293,614	5,612,131	1,489,221	8,605,092	6,313,671	29,313,729
Total liabilities - 12/31/2016	1,562,441	601,323	244,223	330,453	19,474,953	22,213,393
Equity - 12/31/2016	5,731,173	5,010,808	1,244,998	8,274,639	(13,161,282)	7,100,336

The balance in the Corporate/eliminations column refers to the corporate unit's expenses not apportioned among the segments, and eliminations refer to adjustments of operations between the segments.

Information about the finance result and income tax was not disclosed in the segment reporting because management does not utilize such data on a segmental basis, and the data is instead managed and analyzed on a consolidated basis.

c) Information on net Sales revenue

The table below shows the distribution of net revenue in 2017 and 2016:

Country	Consolidated	
	From 1/01 to 12/31/2017	
	Total revenue (R\$/million)	% of total net revenue
Austria	1,636	19.5 %
China	498	5.9 %
Argentina	320	3.8 %
Turkey	83	1.0 %
Ecuador	76	0.9 %
Switzerland	75	0.9 %
South Africa	67	0.8 %
Singapore	63	0.8 %
Colom bia	47	0.6 %
Other	488	5.8 %
	3,353	40%

Country	Consolidated	
	From 1/01 to 12/31/2016	
	Total revenue (R\$/million)	% of total net revenue
Austria	884	12.5 %
Argentina	501	7.1 %
China	308	4.3 %
Singapore	236	3.3 %
Italy	152	2.1 %
Ecuador	130	1.8 %
Turkey	60	0.8 %
France	52	0.7 %
Belgium	51	0.7 %
Other	487	5.8 %
	2,861	40%

For the year ended December 31, 2017, in the pulp and paper segments, two clients were responsible for approximately 30% of the Company's net revenue, 15% (R\$1,261,279) in the paper segment and 15% (R\$1,241,400) in the pulp segment, corresponding to approximately R\$2,502,679 (R\$2,064,316 on December 31, 2016 or 29%, 19% (R\$1,380,773) on paper segment and 10% (R\$683,543) on Pulp Segment). The remaining customer base is diluted as none of the other customers individually accounts for a material share (above 10%) of the Company's net sales revenue.

d) Pro forma net Sales revenue

As mentioned in Note 3, the Company is party to a joint venture that operates in the forestry segment, Vale do Corisco, which is not consolidated, and which is accounted for using the equity accounting method, considering its share of the investment.

Had the joint venture been consolidated in the Company's financial statements, pro forma net sales revenue for year ended December 31, 2017 would have been R\$8,392,000 (R\$7,158,000 in the year ended December 31, 2016).

25 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Risk management

The Company and its subsidiaries enter into transactions involving financial instruments, all recorded in balance sheet accounts, in order to meet their operational needs and reduce their exposure to financial risks, mainly related to credit risks and investments of funds, market risks (foreign exchange and interest rates) and liquidity risks, to which the Company understands that it is exposed based on the nature of its business and operating structure.

These risks are managed through the definition of strategies prepared and approved by the Company's management, linked to the establishment of control systems and determination of limits. The Company does not enter into transactions involving financial instruments for speculative purposes

Management also carries out regular assessments of the Company's consolidated position, monitors the financial results obtained, analyzes future projections to ensure compliance with the business plan defined, and monitors the risks to which it is exposed

The main risks to which the Company is exposed are described below:

Market risk

Market risk is the risk that the fair value of the future cash flow of a financial instrument will fluctuate due to changes in market prices. In the case of the Company, market prices are affected by two types of risk: interest rate and foreign exchange. The financial instruments affected by market risk are financial investments, trade receivables, trade payables, loans payable, available-for-sale instruments.

(i) Foreign Exchange rate risk

The Company has transactions denominated in foreign currencies (mainly in US Dollars) that are exposed to market risks arising from fluctuations in foreign exchange rates. Any fluctuation in a foreign exchange rate could increase or reduce a balance expressed in Reais. The composition of this exposure was as follows:

	Consolidated	
	12/31/2017	12/31/2016
Bank deposits and financial investments	1,893,535	860,081
Trade receivables (net of provision for doubtful debts)	533,570	555,093
Other assets and liabilities	(50,000)	(29,100)
Borrowing	(14,101,859)	(13,107,191)
Net exposure	(11,724,754)	(11,721,117)

The balance of this net exposure at December 31, 2017 was as follows:

Year	2018	2019	2020	2021	2022	2023	2024 onwards	Total
Amount	718,346	(1,822,500)	(1,729,800)	(1,927,000)	(2,084,000)	(1,108,900)	(3,770,900)	(11,724,754)

The Company did not have derivative contracts to hedge against long term foreign exchange exposure at December 31, 2017. However, in order to hedge against this net liability exposure, the Company has a sales plan under which the projected flow of export revenue is approximately US\$ 1 billion annually and the related receipts, if realized, would exceed, or approximate, the flow of payments of the related liabilities, offsetting the cash effect of this foreign exchange exposure in the future.

(ii) Interest rate risk

The Company has loans indexed to the variations in the TJLP, LIBOR, IPCA and the CDI and Marketable securities indexed to the variations in the CDI, SELIC and IPCA, which expose these assets and liabilities to fluctuations in interest rates, as shown in the interest sensitivity analysis below. The Company does not have derivative contracts to swap/hedge against the exposure to these market risks.

The practice adopted by the Company in relation to interest rate risk is to continuously monitor market interest rates in order to assess the possible need to contract derivatives to hedge against the risk of volatility in these rates. The Company considers that the high cost associated with entering into transactions at fixed interest rates in the Brazilian macroeconomic scenario justifies its choice of floating rates.

The composition of the Company's interest rate risk is as follows:

	12/31/2017	12/31/2016
Financial investments - CDI	5,108,744	4,979,048
Financial investments - Selic	801,481	187,594
Financial investments - IPCA	434,905	403,709
Asset exposure	6,345,130	5,570,351
Financing - CDI	(2,278,965)	(1,021,915)
Financing - TJLP	(2,302,439)	(2,813,850)
Financing - LIBOR	(9,688,305)	(8,679,565)
Debentures - IPCA	(696,273)	(742,357)
Liability exposure	(14,965,982)	(13,257,687)

Risk relating to application of funds

The Company is exposed to risk relating to the application of funds, including deposits in banks and other financial institutions, foreign exchange transactions, marketable securities and other financial instruments that are contracted. The exposure relates mainly to marketable securities and transactions involving securities, which are described in Notes 4 and 5.

In relation to the quality of the financial assets of the Company invested in financial institutions, an internal policy is applied to the approval of the type of operation being entered into and to the analysis of the rating, applied by the rating agencies, to assess the feasibility of the investment of the funds in a given institution, provided that it meets the acceptance criteria of the policy.

The table below presents the cash, cash equivalents and marketable securities invested by the Company, classifying the amounts according to the national classification of the financial institutions by the rating agency Fitch/Moody's:

	Consolidated	
	12/31/2017	12/31/2016
National rating AAA(bra)	5,319,250	6,161,557
National rating AA+(bra)	2,952,345	302,466
	8,271,595	6,464,023

Credit risk

Credit risk is the risk that counterparty to a transaction will not fulfill an obligation established in a financial instrument or contract with a customer, leading to a financial loss. In addition to the investments referred to above, the Company is exposed to credit risk in its operating activities (mainly in connection with accounts receivables).

At December 31, 2017, the maximum exposure to credit risk was the carrying amount of the accounts receivables shown in Note 6.

Credit risk in the Company's operating activities is managed based on specific rules regarding the acceptance of customers, credit analysis and the establishment of exposure limits in respect of customers, which are periodically reviewed. Overdue receivables are monitored on a regular basis to ensure their realization, registering estimated losses with doubtful credit liquidation for items that have a risk of not being received.

Beginning in April 2017, the Company started to hold an insurance policy guaranteeing the effective receipt of its sales made after the policy was contracted, except for sales of timber and

customers that may not be accepted in the policy under the insurer's rules, such as continuity and liquidity, analyzed by the insurance company to be incorporated in the policy. The current policy is valid until July 2018.

Liquidity risk

The Company monitors the risk of shortages of funds by managing its resources through a recurring liquidity-planning tool, so that it has funds available for the fulfillment of its obligations, mainly concentrated on financing from financial institutions.

The table below shows the maturity of the financial liabilities hired by the Company and reported in the consolidated balance sheet, where the amounts include principal and future interest on transactions, calculated using the rates and indexes prevailing on December 31, 2017:

	2018	2019	2020	2021	2022	2023	2024 onwards	Total
Trade payables	(713,612)	-	-	-	-	-	-	(713,612)
Financing/debentures	(3,445,565)	(3,139,399)	(3,028,750)	(3,176,208)	(4,413,713)	(2,456,219)	(4,648,262)	(24,308,116)
Total	(4,159,177)	(3,139,399)	(3,028,750)	(3,176,208)	(4,413,713)	(2,456,219)	(4,648,262)	(25,021,728)

The budget projection for the coming years approved by the Board of Directors indicates that the Company has the ability to meet these obligations.

Capital management

The Company's capital structure comprises net debt, consisting of borrowing (Note 14) and debentures (Note 15) less cash and cash equivalents and marketable securities (Notes 4 and 5), and equity (Note 18), including the balance of issued capital and all of the constituted reserves.

The Company's net indebtedness ratio is comprised as follows:

	12/31/2017	12/31/2016
Cash and cash equivalents and marketable securities	8,271,595	6,464,023
Borrowing and debentures	(19,549,411)	(18,468,547)
Net indebtedness	(11,277,816)	(12,004,524)
Equity	7,234,151	7,100,336
Net indebtedness ratio	(1.56)	(1.69)

b) Financial instruments, by category

The Company has the following categories of financial instruments:

	Consolidated	
	12/31/2017	12/31/2016
Assets - fair value by result		
. Cash and cash equivalents	7,028,422	5,872,720
	7,028,422	5,872,720
Assets - loans and receivables		
. Trade receivables (net of provision for impairment of trade receivables)	1,754,063	1,625,380
. Other assets	705,305	661,772
	2,459,368	2,287,152
Assets - available for sale		
. Marketable securities	1,243,173	591,303
	1,243,173	591,303
Liabilities - at amortized cost		
. Borrowing and debentures	19,549,411	18,468,547
. Trade payables	713,612	634,856
. Other payables	1,124,875	1,087,383
	21,387,898	20,190,786

Fair value through profit or loss, loans and receivables and other financial liabilities at amortized cost

The financial instruments included in this group refer to balances arising from usual transactions, such as accounts receivables, trade payables, borrowing and debentures, marketable securities and cash and cash equivalents maintained by the Company. All these instruments are recorded at their notional amounts plus, when applicable, contractual charges and interest, in respect of which the related income and expenses are recognized in the results for the period.

Available for sale financial assets

The Company classifies its investments in LFTs and NTN-B (Note 5) as available-for-sale financial assets, since they can be traded in the future. These are recorded at fair value, which, in practice, corresponds to the invested amount plus interest on the transaction.

c) Sensitivity analysis

The Company presents below the sensitivity analysis of foreign exchange and interest rate risks to which it is exposed, considering that any effects would impact the future results, based on the exposure at December 31, 2017. The effects on equity are the same as those on the results.

(i) Foreign Exchange exposure

The Company had assets and liabilities indexed to a foreign currency in the balance sheet at December 31, 2017, and, for sensitivity analysis purposes, it adopted as scenario I the future market rate in effect at the end of the reporting period. For scenarios II and III this rate was adjusted by 25% and 50%, respectively

It is important to point out that most of the financing maturities will not occur in 2017, according to the maturity schedule shown in Note 14, and, therefore, foreign exchange variations in this analysis will not have an immediate effect on cash. On the other hand, the Company's exports should substantially be subject to the cash impact of the foreign exchange variation as they occur.

The sensitivity analysis of the foreign exchange variation is calculated in respect of the net foreign exchange exposure (basically, borrowing, accounts receivables and trade payables in foreign currency), not considering the effect on the scenarios of projected export sales that, as previously mentioned, will offset any future foreign exchange losses.

Accordingly, the table below shows a simulation of the effect of the foreign exchange variation on the future results for the next 12 months, if all other variables remain constant, considering the consolidated balances at December 31, 2017:

	At 12/31/2017	Scenario I		Scenario II		Scenario III	
	US\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Assets							
Cash and cash equivalents	572,411	3.23	(43,274)	4.04	419,005	4.85	882,657
Trade receivables, net of allowance for doubtful debts	161,297	3.23	(12,194)	4.04	118,069	4.85	248,720
Other assets and liabilities	(15,115)	3.23	1,143	4.04	(11,064)	4.85	(23,307)
Financing	(4,262,956)	3.23	322,279	4.04	(3,120,484)	4.85	(6,573,478)
Net effect on finance results			267,954		(2,594,474)		(5,465,408)

(ii) Exposure to interest rate fluctuations

Marketable securities and borrowing and debentures, are indexed to TJLP, IPCA, SELIC, LIBOR, and CDI floating interest rate. For sensitivity analysis purposes, the Company adopted the rates prevailing at dates close to the presentation dates of financial statements using these same rates for SELIC, LIBOR, IPCA and CDI, due to their proximity, in the scenario I projection. For scenarios II and III, these rates were adjusted by 25% and 50%, respectively.

Accordingly, with all other variables held constant, the table below shows a simulation of the effect of the interest rate variation on the future results for the next 12 months, considering the balances at December 31, 2017:

		At 12/31/2017	Scenario I		Scenario II		Scenario III	
		R\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Financial investments								
CDBs	CDI	5,108,744	9.95%	(156,328)	8.61%	(68,329)	10.34%	19,669
LFTs	Selic	801,481	7.00%	(2,004)	8.44%	11,521	10.13%	25,046
NTN - B	IPCA	434,905	3.90%	348	4.98%	4,675	5.97%	9,003
Financing								
Export Credit Notes - NCE (R\$)								
and Agribuisiness Receivables								
Certificate - CRA	CDI	(2,278,965)	9.95%	69,736	8.61%	30,481	10.34%	(8,774)
BNDES	TJLP	(2,302,439)	7.00%	5,756	8.44%	(33,098)	10.13%	(71,951)
Debentures	IPCA	(696,273)	3.90%	(557)	4.98%	(7,485)	5.97%	(14,413)
Export prepayment, BID and Finnvera	Libor	(8,710,198)	2.11%	(7,738)	2.74%	(55,549)	3.29%	(103,360)
Net effect on finance results				(90,787)		(117,784)		(144,780)

26 EMPLOYEE BENEFITS PLAN AND PENSION PLAN

The Company and its subsidiaries grant their employees' life insurance, healthcare and pension plan benefits. These benefits are recognized on the accruals basis, and their granting is discontinued at the end of the employment relationship.

In 2017, the total expenses under these defined contribution plans amounted to R\$ 24,897 (R\$ 19,738 in 2016).

a) Private pension plan

Klabin S.A.'s pension plan - the Prever Plan, administered by Itaú Vida e Previdência S.A. - was established in 1986 as a defined benefit plan. In 1998, the plan was restructured, becoming a defined contribution plan.

In November 2001, a new pension plan was established—Plano de Aposentadoria Complementar Klabin (PACK) (a complementary pension plan), administered by Bradesco Vida e Previdência S.A. and structured as a free benefit generating plan (PGBL).

The participants in the Prever Plan were offered the option to migrate to the new plan. In neither plan does the Company assume any responsibility for guaranteeing minimum benefit levels for retiring participants.

b) Healthcare

Under the agreement entered into with the Union of the Pulp and Paper Workers of the State of São Paulo, the Company pays for a lifetime healthcare plan (Hospital SEPACO, main plan) for its former employees who had retired by 2001, as well as for their dependents, until they reach the age of majority, and for their spouses. New beneficiaries cannot be added.

The Company understands that this healthcare benefit is considered as a defined benefit plan. For this reason, maintains a provision for the estimated actuarial liability, amounting to R\$ 108,059 at December 31, 2017 (R\$ 88,860 at December 31, 2016), in non-current liabilities, under "Other payables and provisions".

In the actuarial valuation, the following economic and biometric assumptions were utilized: nominal discount rate of 9.7% p.a., nominal growth rate of variable medical costs starting at 12.34% p.a. in 2017 and decreasing to 6.59% p.a. in 2029, long term inflation of 4.5 % p.a., and biometric mortality table RP-2000. Actuarial restatements are maintained in equity in the group "Carrying value adjustments (comprehensive income (loss))", as required by IAS19/CPC 33 (R1) – "Employee benefits".

The increase or decrease by one percentage point in the rates used in the actuarial calculations does not have a material effect on the Company's financial statements.

This plan does not have assets for disclosure.

c) Other employee benefits

The Company grants its employees the following benefits: healthcare, day nursery reimbursement, assistance to parents with children with special needs, agreement for discounts at drugstores, school supplies, dental care plan, private pension plan and life insurance, in addition to the benefits established by law (meal vouchers, transportation vouchers, profit sharing and food purchase vouchers). Furthermore, the Company has an organizational development program for its employees. For the year ended December 31, 2017, expenditure on training programs totaled R\$ 10,790 (R\$ 11,221 for the year ended December 31, 2016).

All these benefits are recognized on an accruals basis and are discontinued at the end of the employee's employment relationship with the Company.

27 INSURANCE COVERAGE

To protect its operational, assets and liabilities risks, the Company had insurance against many types of events that could impact on equity and operations.

Within the best market practices, the Company maintains operational risk insurance against fire, lightning, explosions, electrical damage and windstorms for its industrial and administrative facilities and inventory.

The Company also has other insurance coverage, such as for general civil liability, responsibility of directors and officers, National and International Transportation, auto, where the sum of the maximum indemnity insurance limits amount to R\$ 3.6 billion in December 31, 2017.

28 EVENTS AFTER THE REPORTING PERIOD

2017 interim dividend distribution

The Extraordinary Meeting of the Board of Directors held on January 31, 2018 approved the distribution of additional dividends for 2017 of R\$171,000, corresponding to R\$32.53 per thousand common and preferred shares and R\$162.67 per thousand Units, the amount will be paid on February 19, 2018.

Conversion of the totality of the sixth debenture issue

Upon notice to debenture holders on January 15, 2018, the company announced that on January 31, 2018 it would convert the totality of outstanding debentures into Units. This procedure happened in accordance with the terms of clause four, items 4.6.3 and 4.6.3.1 of the Deed of Issue, by means of Notification of Conversion by the Issuer..

The table below shows the number of shares of the Company as of 12/31/2017 and 1/31/2018, after the conversion of the totality of the debentures.

Quantity of shares on 12/31/2017

Common shares	1,859,852,065
Preferred shares	<u>2,926,236,825</u>
Total	4,786,088,890

Quantity of shares on 01/31/2018

Common shares	1,984,594,655
Preferred shares	<u>3,425,207,185</u>
Total	5,409,801,840

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KLABIN S.A.

All amounts in thousands of Reais

Klabin S.A.



**Financial statements at December 31, 2016 and 2015
and independent auditor's report**

PricewaterhouseCoopers Auditores Independentes

KLABIN S.A.

All amounts in thousands of Reais

Independent auditor's report

To the Board of Directors and Stockholders

Klabin S.A.

Opinion

We have audited the accompanying parent company financial statements of **Klabin S.A.** ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2016 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of **Klabin S.A.** and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Klabin S.A.** and of **Klabin S.A.** and its subsidiaries as at December 31, 2016, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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a) Tax credits (Notes 9 and 10)

Why it is a Key Audit Matter

The Company records tax credits from temporary differences, from income tax and social contribution tax losses, and Value-added Tax on Sales and Services (ICMS) and Excise Tax (IPI) credits recoverable. These credits were substantially recorded to the extent the Company's management considers it probable that the Company and its subsidiaries will generate future taxable profit as well as ICMS and IPI payable in amounts that are sufficient to offset the balances of these credits.

The systematic involving the offset of tax losses, limited to 30% of taxable profit, and the Company's history of ICMS payments indicate that the recovery of these credits could take longer than expected. Regarding IPI, because it is related to a recent judicial decision on the matter, the determination of the final total recoverable amount as well as the period for recovery could vary according to the interpretation of the applicable legislation.

We focused on this matter in our audit because the utilization of different assumptions in the aforementioned projections, including a number of subjective assumptions established by management, among which the future pulp price and any occasional exemptions, could significantly modify the expected periods for realization of tax credits and, as a result, affect the statement regarding its probable recovery, especially when the period for such recovery is extended.

How the matter was addressed in the audit

Among other audit procedures, we obtained an understanding and assessed the design and the operation of the main controls established by Management to calculate and record the tax credits, as well as the model used in the projections of the results.

We counted on the support of our tax and company-assessment experts, who helped us to test the calculation of credits and to analyze the models and critical assumptions used by the Company. We compared these assumptions with macroeconomic information available in the market. We also compared information related to these projections with the budgets approved by management. In addition, we analyzed the realization periods considered in the studies as well as the Company's history data in order to support the adequacy and the consistency of these realization estimates in relation to those used in prior years. Finally, we assessed the disclosures related to the recognition of these tax credits.

After applying these procedures, we identified no inconsistencies in the recognition and disclosure of these credits.

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All amounts in thousands of Reais

b) Measurement of the fair value of biological assets (Note 13)

Why it is a Key Audit Matter

The Company's biological assets (forests) represent a significant portion of its business and of its total assets.

As mentioned in Note 13, when establishing the fair value of the forests, the Company uses certain assumptions based on internal data that are not observable in the market, such as data on growth of the Company's forests. This practice adds subjectivity to the calculation.

In addition, the fair value calculation considers a great level of details, including the control system by forest section that feeds electronic spreadsheets, which is, in practice, a manual control.

We focused on this matter in our audit due to, additionally to the risk associated with the characteristics described in the previous paragraph and because using different evaluation techniques or variations in the assumptions could result in significantly different fair value estimates, with an immediate impact on the profit or loss for the year.

How the matter was addressed in the audit

In our audit, our procedures involved, among others, the obtaining of an understanding of the design of main controls established in relation to the assessment and measurement of the assets and the testing of such controls, as well as the analysis of the model used to estimate the fair value of the forests.

We counted on the support of biological asset evaluation experts to assess the reasonableness of the assumptions used by management and to calculate the fair value. When applicable, we compared the market data with independent sources, taking into consideration the location of the related forest. We assessed the Company's assumptions and methodologies based on our knowledge of valuation practices usually adopted for this type of asset. We also observed the consistency of the data used with the Company's key monitoring indicators.

Finally, we compared the data obtained from the assessments we made with the related disclosures, including the description of the major factors that could affect the determination and variation of the fair value of the Company's biological assets.

Our work revealed that the assumptions as well as the biological asset valuation methodology used are reasonably consistent with the market practices and with the data from the prior period.

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All amounts in thousands of Reais

c) Start of operations of the pulp plant (Notes 1 and 12)

Why it is a Key Audit Matter

In 2016, Klabin's new pulp plant (Ortigueira) started its operations. This plant received approximately R\$ 8 billion in investments with the primary purpose of producing pulp.

The selling of pulp is a new business for the Company and represents, in its full activity, a significant portion of the Company's revenue. The controls and processes related to the determination and recognition of revenue and to the calculation and appropriation of production costs are under development and, for this reason, we decided that this is a key audit matter this year.

How the matter was addressed in the audit

The audit procedures related to this subject involved, among others, (i) the obtaining of an understanding of the main controls and processes established by management to determine the cost and the revenue, and (ii) the testing of the major controls over the determination of costs and of certain transactions on revenue.

We read the product sales contracts and identified that a significant portion of sales was made on a commercial partnership basis through contracts signed with an entity that already does business in the same segment, with the main purpose of assessing whether the revenue is properly determined.

In our tests, we verified whether the determination of costs of production and of sales was appropriate, taking into consideration the appropriation of costs of raw material and of the depreciation of property, plant and equipment, including the determination of the useful lives of the assets.

Finally, we assessed the disclosures in the financial statements regarding the most relevant aspects related to the new pulp plant.

After applying these procedures, we identified no inconsistencies in the determination of revenue and of the corresponding costs related to the activation of investments made and to the operation of the new plant.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in

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conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the ability of the Company to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists.

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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, January 31, 2017

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Tadeu Cendón Ferreira
Contador CRC 1SP188352/O-5

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All amounts in thousands of Reais

BALANCE SHEETS AT DECEMBER 31, 2016 AND 2015 (All amounts in thousands of Reais)

	Note	Parent company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
A S S E T S					
Current					
Cash and cash equivalents	4	5,243,120	4,031,184	5,872,720	5,053,723
Marketable securities	5	591,303	557,143	591,303	557,143
Accounts receivable:					
. Trade receivables	6	1,421,418	1,171,540	1,666,626	1,539,071
. Provision for doubtful debts	6	(41,168)	(37,907)	(41,246)	(37,972)
. Related parties	7	534,405	771,344	-	-
Inventory	8	794,715	613,811	876,915	701,126
Taxes recoverable	9	794,628	723,748	803,355	736,501
Other assets		189,009	124,002	190,362	126,152
Total current assets		9,527,430	7,954,865	9,960,035	8,675,744
Non-current					
Long term receivables					
Judicial deposits	17	84,249	75,956	85,704	77,391
Taxes recoverable	9	1,554,672	1,159,638	1,554,672	1,159,638
Other assets		386,559	221,246	385,706	219,820
		2,025,480	1,456,840	2,026,082	1,456,849
Investments:					
. Interests in investees	11	2,192,633	1,399,292	544,401	495,839
. Other		10,944	11,436	10,944	11,436
Property, plant and equipment	12	12,737,303	11,758,931	12,995,407	12,009,146
Biological assets	13	2,397,462	2,857,142	3,656,596	3,606,389
Intangible assets		27,171	12,746	120,264	12,777
		17,365,513	16,039,547	17,327,612	16,135,587
Total non-current assets		19,390,993	17,496,387	19,353,694	17,592,436
Total assets		28,918,423	25,451,252	29,313,729	26,268,180

The accompanying notes are an integral part of these financial statements.

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All amounts in thousands of Reais

BALANCE SHEETS AT DECEMBER 31, 2016 AND 2015 (All amounts in thousands of Reais)

	Note	Parent company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
LIABILITIES AND EQUITY					
Current					
Borrowing	14	2,588,259	1,700,494	2,593,029	1,716,306
Debentures	15	245,080	329,810	245,080	329,810
Trade payables	16	619,902	696,277	634,856	702,199
Tax obligations		47,558	36,384	53,643	45,400
Social security and labor obligations		253,873	192,239	257,712	195,349
Dividends payable		180,000	-	180,000	-
Enrollment in Tax Recovery Program (REFIS)	17	66,884	61,772	66,884	61,772
Other payables and provisions		120,113	91,870	112,460	111,459
Total current liabilities		4,121,669	3,108,846	4,143,664	3,162,295
Non-current					
Borrowing	14	14,721,740	14,450,876	14,765,982	14,834,935
Debentures	15	864,456	1,140,679	864,456	1,140,679
Deferred income tax and social contribution	10	1,376,262	717,724	1,476,866	954,269
Provision for tax, social security, labor and civil contingencies	17	70,483	65,797	70,483	65,796
Payables - Investors in Special Partnership Companies (SPCs)		-	-	229,315	143,116
Enrollment in Tax Recovery Program (REFIS)	17	340,364	361,240	340,364	361,240
Other payables and provisions		323,113	253,750	322,263	253,510
Total non-current liabilities		17,696,418	16,990,066	18,069,729	17,753,545
Total liabilities		21,818,087	20,098,912	22,213,393	20,915,840
Equity					
Share capital		2,384,484	2,383,104	2,384,484	2,383,104
Capital reserves		1,301,907	1,293,962	1,301,907	1,293,962
Revaluation reserve		48,705	48,705	48,705	48,705
Revenue reserves		2,543,084	748,162	2,543,084	748,162
Carrying value adjustments		1,028,238	1,064,181	1,028,238	1,064,181
Treasury shares		(206,082)	(185,774)	(206,082)	(185,774)
Total equity	18	7,100,336	5,352,340	7,100,336	5,352,340
Total liabilities and equity		28,918,423	25,451,252	29,313,729	26,268,180

The accompanying notes are an integral part of these financial statements.

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All amounts in thousands of Reais

STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (All amounts in thousands of Reais unless otherwise stated)

	Note	Parent company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net sales revenue	19	7,009,262	5,619,567	7,090,798	5,687,589
Variation in the fair value of biological assets	13	120,363	464,699	532,911	536,113
Cost of products sold	20	(5,198,866)	(3,942,883)	(5,227,023)	(3,981,502)
Gross profit		<u>1,930,759</u>	<u>2,141,383</u>	<u>2,396,686</u>	<u>2,242,200</u>
Operating income (expenses)					
Sales	20	(570,081)	(397,075)	(586,075)	(428,902)
General and administrative	20	(453,286)	(329,364)	(466,493)	(338,013)
Other, net	20	(1,440)	(16,093)	4,707	(13,104)
		<u>(1,024,807)</u>	<u>(742,532)</u>	<u>(1,047,861)</u>	<u>(780,019)</u>
Equity in the results of investees	11	<u>586,945</u>	<u>70,316</u>	<u>49,321</u>	<u>29,641</u>
Profit before finance result and taxes		1,492,897	1,469,167	1,398,146	1,491,822
Finance result	21	<u>1,865,706</u>	<u>(3,453,453)</u>	<u>1,816,789</u>	<u>(3,439,630)</u>
Profit (loss) before taxes on income		3,358,603	(1,984,286)	3,214,935	(1,947,808)
Income tax and social contribution					
. Current	10	(177,665)	(15,699)	(190,023)	(30,210)
. Deferred	10	(698,992)	746,788	(542,966)	724,821
		<u>(876,657)</u>	<u>731,089</u>	<u>(732,989)</u>	<u>694,611</u>
Profit (loss) for the period		<u>2,481,946</u>	<u>(1,253,197)</u>	<u>2,481,946</u>	<u>(1,253,197)</u>
Basic and diluted earnings (loss) per common share - R\$	23	<u>0.4722</u>	<u>(0.2383)</u>	<u>0.4722</u>	<u>(0.2383)</u>
Basic and diluted earnings (loss) per diluted share - R\$	23	<u>0.4722</u>	<u>(0.2383)</u>	<u>0.4722</u>	<u>(0.2383)</u>

The accompanying notes are an integral part of these financial statements.

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**STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS
ENDED DECEMBER 31, 2016 AND 2015**
(All amounts in thousands of Reais)

	company and Consolidated	
	12/31/2016	12/31/2015
Profit (loss) for the period	2,481,946	(1,253,197)
Other comprehensive income (loss):		
. Foreign currency translation adjustments (i)	(24,730)	(5,044)
. Actuarial liability restatement (ii)	(6,188)	6,452
Total comprehensive income (loss) for the period, net of taxes	2,451,028	(1,251,789)

(i) Effects that might be transferred to profit or loss in the future.

(ii) Effects that will never be transferred to profit or loss.

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (All amounts in thousands of Reais)

	Parent company and Consolidated									
	Revaluation reserve			Revenue reserves				Retained earnings		
	Share capital	Capital reserves	Own assets	Legal incentives	Tax incentives	Biological assets	Proposed dividends	Investments and working capital adjustments	Treasury shares	Total
At December 31, 2014	2,271,300	1,295,919	48,767	98,403	7,610	1,729,317	102,000	596,773	1,065,446	7,058,324
Loss for the year	-	-	-	-	-	-	-	-	-	(1,253,197)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	1,408	1,408
Comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	1,408	(1,251,789)
Capital increase	104,500	-	-	(96,890)	(7,610)	-	-	-	-	62
Realization of revaluation reserve	-	-	(62)	-	-	-	(102,000)	17	-	-
Complementary dividends for 2014 - approved at the General and Extraordinary Meeting of Stockholders	-	-	-	-	-	-	-	-	-	-
Conversion of mandatory debentures convertible into share	7,068	(7,068)	-	-	-	-	-	-	-	-
Profit sharing - mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	-	-
Conversion of debentures - 7th issue	36	-	-	-	-	-	-	-	(32,623)	(56,075)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	36
Stock option plan:	-	-	-	-	-	-	-	-	-	-
• Treasury shares sold	-	3,236	-	-	-	-	-	-	2,027	5,263
• Award of treasury shares	-	-	-	-	-	-	(2,433)	-	2,433	-
• Recognition of the stock option plan remuneration	-	-	-	-	-	-	7,199	-	-	7,199
• Maturity of stock option plan	-	1,875	-	-	-	-	-1,875	-	-	-
Allocation of profit for the year:	-	-	-	-	-	-	-	-	-	-
• Biological assets reserve (own)	-	-	-	-	-	(394,887)	-	-	-	394,887
• Biological assets reserve (subsidiaries) (*)	-	-	-	-	-	(4,491)	-	-	-	4,491
• Realization of deemed cost of land (own)	-	-	-	-	-	-	-5564	-	-	5,564
• Constitution of tax incentive reserve	-	-	-	-	31,175	-	-	-	-	(31,175)
• Dividends prepaid in the year	-	-	-	-	-	-	-	-2,76012	-	2,76012
• Offsets of losses with revenue reserves	-	-	-	-	-	-	-	(320,778)	-	320,778
At December 31, 2015	2,383,104	1,293,962	48,705	1,933	31,175	614,665	715,471	1,064,181	(185,774)	(276,012)
(*) Net effect between the addition, reversal or realization of the balances contained in the equity in the results of inventories.	-	-	-	-	-	-	-	-	-	935,443
										5,352,310

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KLABIN S.A.

All amounts in thousands of Reais

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (All amounts in thousands of Reais)

	Parent company and Consolidated									
	Revaluation reserve					Revenue reserves				
	Share capital	Capital reserves	Own assets	Legal	Tax incentives	Biological assets	Proposed dividends	Investments and working capital	Treasury shares	Retained earnings (accumulated deficit)
At December 31, 2015	2,383,104	1,293,962	48,705	1,313	31,175	715,173	-	-	(185,774)	2,481,946
Profit for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Conversion of mandatory debentures convertible into share	1,380	(1,380)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Stock option plan:	-	-	-	-	-	-	-	-	-	-
• Treasury shares sold	-	4,447	-	-	-	-	-	-	1,769	6,216
• Award of treasury shares	-	-	-	-	-	-	-	-	2,185	7,380
• Recognition of the stock option plan remuneration	-	-	-	-	-	-	-	-	-	-
• Maturity of stock option plan	-	4,878	-	-	-	-	-	-	(4,878)	-
Dividends paid with revenue reserves	-	-	-	-	-	(120,015)	-	-	-	(120,015)
Profit sharing - mandatory debentures convertible into shares	-	-	-	-	-	(177,735)	-	-	-	(177,735)
Allocation of profit for the year:	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	124,097	-	-	-	-	(124,097)
• Realization of biological assets reserve (own)	-	-	-	-	-	(341,116)	-	-	-	341,116
• Realization of deemed cost of land (own)	-	-	-	-	-	-	-	-	-	5,342
• Biological assets reserve (own)	-	-	-	-	-	79,440	-	(5,342)	-	(79,440)
• Biological assets reserve (subsidiaries) (*)	-	-	-	-	-	553,810	-	-	-	(553,810)
• Constitution of tax incentive reserve	-	-	-	-	44,601	-	-	-	-	(44,601)
Profit sharing - mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	-	(47,128)
Dividends prepaid in the year	-	-	-	-	-	-	-	-	-	(327,488)
• Complementary dividends for the year - proposed	-	-	-	-	-	-	-	-	-	(180,000)
• Reserve for investment and working capital	-	-	-	-	-	-	-	147,184	-	(1,471,840)
At December 31, 2016	2,384,484	1,301,907	48,705	125,610	75,776	860,898	-	1,171,810	(206,082)	7,100,336

(*) Net effect between the addition, reversal or realization of the balances contained in the equity in the results of investees.
The accompanying notes are an integral part of this financial statements.

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All amounts in thousands of Reais

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (All amounts in thousands of Reais)

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net cash provided by operating activities	1,262,333	1,467,585	1,202,849	1,739,996
Cash provided by operations	1,338,020	2,065,481	1,360,848	2,167,727
Profit (loss) for the period	2,481,946	(1,253,197)	2,481,946	(1,253,197)
Depreciation and amortization	791,670	311,735	748,221	313,424
Change in fair value of biological assets	(120,363)	(464,699)	(532,911)	(536,113)
Depletion of biological assets	617,417	676,044	674,891	685,303
Deferred income tax and social contribution	698,992	(746,788)	542,966	(724,821)
Interest and foreign exchange variations on borrowings	(1,486,175)	3,734,741	(1,486,137)	4,004,843
Interest, monetary variation and share of results of debentures	60,166	416,815	60,166	416,815
Amortization - adjustment to present value of debentures	29,016	40,891	29,016	40,891
Payment of interest on borrowings	(969,215)	(606,105)	(970,694)	(765,019)
Accrued interest - REFIS	48,777	47,653	48,777	47,653
Result on disposal of assets	(44,670)	(6,910)	(44,670)	(6,910)
Equity in the results of investees	(586,945)	(70,316)	(49,321)	(29,641)
Income tax and social contribution paid	(130,446)	(13,657)	(134,244)	(16,326)
Other	(52,150)	(726)	(7,158)	(9,175)
Changes in assets and liabilities	(75,687)	(597,896)	(157,999)	(427,731)
Trade receivables and related parties	(9,678)	(512,929)	(124,281)	(352,423)
Inventories	(180,904)	(117,075)	(175,789)	(137,417)
Taxes recoverable	(335,468)	(1,117,316)	(327,644)	(1,118,961)
Marketable securities	(34,160)	(59,539)	(34,160)	(59,539)
Other assets	(249,412)	(58,320)	(249,208)	(53,057)
Trade payables	628,062	1,085,138	637,094	1,081,199
Tax obligations	11,174	(10,269)	8,243	(9,737)
Social security and labor obligations	61,634	54,589	62,363	55,470
Other liabilities	33,065	136,589	45,383	164,916
Net cash used in investing activities	(2,618,087)	(4,659,896)	(2,648,153)	(4,595,526)
Purchase of property, plant and equipment	(2,387,647)	(4,514,138)	(2,421,779)	(4,526,734)
Planting cost of biological assets	(112,467)	(70,069)	(144,868)	(100,471)
Proceeds from disposal of assets	10,799	14,672	10,799	14,672
Acquisition of investments and payment of capital in subsidiaries	(130,440)	(112,268)	(93,063)	-
Dividends received from subsidiaries	1,668	21,907	758	17,007
Net cash provided by financing activities	2,567,690	3,192,544	2,264,301	2,663,420
New borrowings	4,855,343	5,503,704	4,505,275	4,925,579
Repayment of borrowings	(1,371,964)	(1,563,319)	(1,371,314)	(1,514,105)
Payment of interest on debentures and monetary variation	(450,140)	(342,486)	(450,140)	(342,486)
Purchase of treasury shares	(24,262)	(32,623)	(24,262)	(32,623)
Disposal of treasury shares	6,216	5,263	6,216	5,263
Entry of investors - SPCs	-	-	65,000	-
Withdrawal of investors - SPCs	-	-	(18,971)	(213)
Dividends paid	(447,503)	(377,995)	(447,503)	(377,995)
Increase in cash and cash equivalents	1,211,936	233	818,997	(192,110)
Cash and cash equivalents at the beginning of the period	4,031,184	4,030,951	5,053,723	5,245,833
Cash and cash equivalents at the end of the period	5,243,120	4,031,184	5,872,720	5,053,723

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (All amounts in thousands of Reais)

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Revenue				
. Sales of products	8,315,257	6,858,048	8,423,584	6,962,629
. Change in fair value of biological assets	120,363	464,699	532,911	536,113
. Other income	12,059	14,289	12,057	14,286
. Provision for doubtful debts	(3,261)	7,269	(3,273)	7,272
	8,444,418	7,344,305	8,965,279	7,520,300
Inputs acquired from third parties				
. Cost of products sold	(2,980,911)	(2,410,400)	(3,018,659)	(2,439,472)
. Materials, electricity, outsourced services and other	(1,284,734)	(1,007,007)	(1,279,843)	(1,047,572)
	(4,265,645)	(3,417,407)	(4,298,502)	(3,487,044)
Gross value added	4,178,773	3,926,898	4,666,777	4,033,256
Retentions				
. Depreciation, amortization and depletion	(1,409,087)	(987,779)	(1,423,112)	(998,727)
Net value added generated by the Company	2,769,686	2,939,119	3,243,665	3,034,529
Value added received through transfer				
. Equity in the results of investees	586,945	70,316	49,321	29,641
. Finance income, including exchange variations	644,848	934,148	717,935	975,186
	1,231,793	1,004,464	767,256	1,004,827
Total value added to distribute	4,001,479	3,943,583	4,010,921	4,039,356
Distribution of value added:				
Personnel				
. Direct compensation	899,316	665,300	922,464	692,376
. Benefits	255,168	179,309	256,227	180,048
. Government Severance Indemnity Fund for Employees (FGTS)	70,917	54,777	71,072	54,930
	1,225,401	899,386	1,249,763	927,354
Taxes and contributions				
. Federal	1,357,359	(239,613)	1,220,435	(199,023)
. State	143,964	138,885	143,964	138,885
. Municipal	13,667	10,521	13,667	10,521
	1,514,990	(90,207)	1,378,066	(49,617)
Remuneration of third-party capital				
. Interest	(1,220,858)	4,387,601	(1,098,854)	4,414,816
	(1,220,858)	4,387,601	(1,098,854)	4,414,816
Remuneration of own capital				
. Dividends paid and profit sharing - mandatory debentures convertible into shares	512,365	332,085	512,365	332,085
. Profits reinvested/(loss) for the period	1,969,581	(1,585,282)	1,969,581	(1,585,282)
	2,481,946	(1,253,197)	2,481,946	(1,253,197)
	4,001,479	3,943,583	4,010,921	4,039,356

The accompanying notes are an integral part of these financial statements.

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All amounts in thousands of Reais

Notes to the financial statements (presented in thousands of Reais unless otherwise stated).

1 GENERAL INFORMATION

Klabin S.A. (the "Company") and its subsidiaries operate in segments of the paper and pulp industry supplying the domestic and foreign markets, supplying with wood, packaging paper, paper sacks, corrugated cardboard boxes and pulp. Their operations are fully integrated, from forestry activities to the production of the final products. Klabin S.A. is a publicly held corporation whose shares and certificates of deposit of shares (Units) are traded on the São Paulo Commodities, Futures and Stock Exchange (BM&FBOVESPA). The Company is domiciled in Brazil and headquartered in São Paulo.

The Company also has investments in Special Partnership Companies ("SPCs") for the specific purpose of raising funds from third parties for reforestation projects. The Company, as an ostensible partner, has contributed forest assets, mainly forests and land, by means of the granting of the right to use, whereas the other investing stockholders have contributed cash to these SPCs. The SPCs give Klabin S.A. a preemptive right to acquire forestry products at market prices and conditions.

The Company also has ownership interests in other companies (Notes 3 and 11) whose operational activities relate to the Company's business objectives.

The issue of this interim accounting information of the Company and its subsidiaries was authorized by the Board of Directors on January 31, 2017.

1.1 Startup of Klabin's new pulp mill ("Puma Unit")

March, 2016 marked the operational startup of Klabin's new pulp mill ("Puma Unit") located in Ortigueira, Parana. This project will be responsible to operations of the Company's pulp segment, advancing towards different markets, supplying short fiber bleached pulp, long fiber bleached pulp, and fluff pulp.

The first pulp bale was produced on March 4, 2016, already with certification from the Forest Stewardship Council® - FSCR (FSCC129105). The pulp sales started in April 2016, and plant ramp up evolved as planned, reaching the end of 2016 85% of the nominal capacity.

1.2 Contract for the sale of pulp

On May 4, 2015, the Company, together with Fibria Celulose S.A. ("Fibria"), announced to the market a six-year contract agreed for the supply of short-fiber pulp, that has been produced in the new pulp plant in the city of Ortigueira, in the state of Paraná.

The contract began in second quarter of 2016. It is effective for six years and can be renewed if mutually agreed by the parties. A commitment to purchase at least 900 thousand annual metric tons is established by Fibria, for the first four years, with phased-in reduction in the subsequent two years, for sale in countries outside South America. The price will be the average net price offered by Fibria in the market.

The commercial operation resulting from the contract is an innovation in the global pulp market which will benefit both companies, since it combines Fibria's commercial expertise with Klabin's acknowledged production abilities.

1.3 Creation of a wholly-owned subsidiary Klabin Austria

On June 22, 2016, the Company established a wholly-owned subsidiary located in Austria, named Klabin Austria, with the purpose to improve export's managing, internalising logistics and

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distribution activities in Europe, inventory's conservation and managing, payment to suppliers and collection of receivables.

1.4 Creation of SPC Harmonia

On August 5, 2016, the Company established a new SPC denominated Harmonia, with the specific purpose of raising funds from third parties for reforestation projects.

The Company, as an ostensible partner, contributed R\$ 102 million in forest assets and the right to use land for the constitution of this new SPC, whereas the other investing stockholders contributed R\$ 65 million in cash. The SPC ensures Klabin S.A. a preemptive right to acquire forestry products at market prices and conditions.

1.5 Purchase of Hevi Embalagens industrial assets

On August 1st, 2016, the Company concluded the acquisition of Hevi Embalagens da Amazônia Ltda ("Hevi"), corresponding to the industrial assets for the production of corrugated boxes in Manaus, Amazonas. The acquisition cost approximately R\$ 60 million and represents a 22 thousand ton annual increase in Company's corrugated box production capacity. It's in line with management's consistent growth strategy, whith on a new branch in new location.

The total asset acquisition value represent R\$ 60 million. The operation was made through the acquisition of part of the assets from Hevi, without stocks or equity acquisitions. The Company Management, applying CPC 15 – Business Combination concepts, concluded that referred operation is characterized in the standard terms, therefore proceed with the analysis of the purchase price allocation attributing economical value, obtained athwart specialized report prepared from third part. The purchase price allocation generate an amount of R\$ 2,900 of gain from a bargain purchase, registered on the Statement as an Operating Income.

In the year ended December 31, 2016 the new operation raised net revenue R\$ 16,739 and R\$ 3,190, loss before finance result and taxes, allocated in conversion segment.

1.6 Purchase of Embalplan S.A.

On October, 25, 2016, , the Company concluded the acquisition of Embalplan Indústria e Comércio de Embalagens S.A ("Embalplan"), located in Rio Negro,Parana. This acquisition, with value of R\$ 124 million, represent a 50 thousand ton annual increase in Company's corrugated box production capacity. The investment will be classified as Business Combination as required by CPC 15. The effective acquisition date, where the enterprise control was passed to the Company was on December 1st of 2016.

Due a short period between the acquisition and the preparation of referred the Financial Statements, Management is still concluding the purchase price allocation of assets and liabilities at fair value and eventual goodwill, ought be concluded until March 31 of 2017.

The statements of Embalplan presented in the Company Financial Statements at December 31 of 2016 represent temporary amounts in the best of Managements estimative. As soon as concluded the purchase price allocation, the statements will be adjusted in a retrospective form.

The accounting amounts of Embalplan, actual subsidiary of the Company, are represented in the consolidated financial statements of December 31 of 2016, such as:

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	12/31/2016
Current assets	22,714
Non-current assets	12,898
Goodwill (Intangible assets) (i)	93,063
Current liabilities	(4,293)
Non-current liabilities	-
	124,382

(i) correspond to the difference between the acquisition cost and assets value, to still be allocated to goodwill.

From the acquisition cost, the amount of R\$ 70,400 was retained in an escrow account, to be used as a guarantee in the payment of eventual indemnities that become due.

This purchase is in line with management's consistent growth strategy. The operation was duly approved by CADE (Administrative Council for Economic Defense) on November 16, 2016.

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

2.1 Basis of presentation of the financial statements

The parent company and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and evidence all relevant information specific to the Financial Statements, and only those, which are consistent with those used by Management in its management.

The preparation of the Financial Statements requires the use of certain critical accounting estimates and also the exercise of judgment by the Company's Management in the process of applying the accounting policies of the Company and its subsidiaries. Those areas that require a higher level of judgment and are more complex, as well as the areas in which assumptions and estimates are significant for the financial statements are disclosed in note 2.2.r.

The financial statements have been prepared under the historical costs convention, as modified by available-for-sale financial assets, other assets, financial liabilities and biological assets measured at fair value.

2.2 Summary of significant accounting practices adopted

The main accounting practices adopted by the Company and its subsidiaries are defined below and were consistently applied to the years presented.

Revisions to accounting standards and interpretations came into effect in 2016 and had no material impact on the Company's financial statements, including the revision of IAS 41 / CPC 29 that introduced the distinction between production plants and other biological assets. This revision does not impact the Company because its forests are harvested and replanted, there is no second cut.

a) Functional currency and translation of foreign currencies

These financial statements are presented in the Brazilian Real (R\$), which is the functional and presentation currency of the Company and its subsidiaries, except for subsidiary Klabin Argentina and Klabin Finance (Note 3), whose functional currencies are the Argentine Peso (A\$) and the US Dollar (USD), respectively.

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(i) Transactions and balances

Foreign currency transactions are originally recorded at the foreign exchange rate effective as at the transaction date. Foreign exchange gains and losses resulting from the difference between the translation of assets and liabilities in foreign currency at the end of the reporting period are recognized in the Company's statement of operations.

(ii) Foreign subsidiaries

Foreign subsidiaries with the characteristics of a branch have the same functional currency as the Company. The foreign exchange differences arising for the subsidiaries, which have a different functional currency, resulting from the translation of its financial statements, are recorded separately in an equity account, named "carrying value adjustments" (comprehensive income). On the sale of a foreign subsidiary, the accumulated deferred amount recognized in equity relating to this foreign subsidiary is recognized in the statement of operations.

The assets and liabilities of this foreign subsidiary are translated using the foreign exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the foreign exchange rates prevailing at the dates of the transactions.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and highly-liquid short term investments that are readily convertible into a known amount of cash and are subject to an immaterial risk of changes in value.

c) Financial instruments

Financial instruments are initially recognized at fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. They are subsequently measured at the end of each reporting period based on the classification of financial instruments in the following categories: 1) financial assets: (i) measured at fair value through profit or loss, (ii) loans and receivables, and (iii) available for sale; 2) financial liabilities: (i) measured at fair value through profit or loss, and (ii) other financial liabilities.

(i) Marketable securities

Marketable securities are considered as available-for-sale and are recognized in finance income (costs), according to their fair value.

(ii) Borrowing

The balance of borrowing refers to the amount of funds raised, plus interest and charges proportional to the period incurred, less installments paid, and includes the foreign exchange variation on the liability, if applicable.

(iii) Debentures

This is the balance of debentures that are mandatorily convertible into shares and considered to be hybrid (compound) financial instruments due to their nature, and are segregated, upon issuance, into debt components and equity. The amount of interest to be paid to the debenture holders up to the date of conversion, measured at present value, plus foreign exchange recognized on the liabilities, when applicable, is recorded in liabilities.

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The debentures that are not mandatorily convertible are recorded in liabilities at the amount corresponding to the total raised funds, plus interest and charges, proportionately to the time elapsed, less amortized installments and interest paid.

Financial assets and liabilities are offset, and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

d) Trade receivables

Trade receivables are stated at the original amounts of the invoices for sales of products, plus foreign exchange variations when applicable. The provision for the impairment of trade receivables is recorded based on an individual analysis of the receivables and at an amount considered by management as sufficient to cover probable losses on their realization, which can be modified as a result of the recovery of receivables from default customers or a change in a customer's financial situation.

The adjustment to present value of trade receivables is not material due to the short period of their realization.

e) Inventory

Inventory is stated at average purchase cost, net of taxes to be offset, when applicable, and the fair value of biological assets at the cut-off date, which are both lower than their net realizable values. Inventory of finished products is valued based on the cost of processed raw materials, direct labor and other production costs.

When necessary, inventory is reduced by a provision for losses, which is set up in cases of inventory devaluation, obsolescence of products and physical inventory losses. In addition, because of the nature of the Company's products, obsolete finished products may be recycled for reuse in production.

f) Income tax and social contribution

The Company calculates current and deferred corporate income tax (IRPJ) and social contribution on net income (CSLL) based on the rate of 15%, plus a 10% surcharge on any taxable profit exceeding R\$ 240, for income tax and 9% on any taxable profit for social contribution. The balances are recognized in the Company's results on an accruals basis.

The amounts of deferred income tax and social contribution are recorded net in the balance sheet, in non-current assets or liabilities.

Subsidiaries have their taxes calculated and accrued in accordance with the legislation of their country and/or their specific tax system, including, in some cases, the presumed profit. The provision for current income tax and social contribution for the year is stated in the balance sheet net of tax prepayments made during the year.

g) Investments

These refer to investments in subsidiaries and jointly-controlled subsidiaries accounted for using the equity accounting method, based on the Company's ownership interest in these companies. The financial statements of subsidiaries and jointly-controlled subsidiaries are prepared for the same

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reporting period as that adopted by the Company. When necessary, adjustments are made to bring their accounting policies in line with those adopted by the Company.

Unrealized gains and losses resulting from transactions between the Company and its subsidiaries and jointly-controlled subsidiaries are eliminated for equity accounting purposes in the parent company balance sheet, as well as for consolidation purposes.

At the end of each reporting period, the Company determines if there is objective evidence that the investments in the subsidiaries or jointly-controlled subsidiaries are impaired. If there is an indication of impairment, the Company calculates the amount of the impairment loss and recognizes it in the statement of operations.

The foreign exchange variation on the investment in foreign subsidiaries recognized in "Comprehensive income" is classified as a carrying value adjustment and realized through the realization of the investment to which it refers.

In the consolidated financial statements, the investors' interest in SPCs (Notes 3 and 11) is presented in the balance sheet in liabilities, under "Other payables - investors in SPCs", as it refers to financial liabilities, and not to equity instruments, in accordance with CPC 39 – "Financial instruments: Presentation".

The Company's management treats Special Partnerships as independent entities with the characteristics of subsidiaries, which are recorded in the parent company financial statements under the equity accounting method.

h) Property, plant and equipment

Property, plant and equipment are stated at their cost of acquisition or construction, less taxes to be offset, when applicable, and accumulated depreciation. Based on the option exercised by the Company upon the first-time adoption of IFRS, the deemed cost of property, plant and equipment (land) was determined.

Depreciation is calculated on a straight line basis, taking into consideration the estimated useful lives of the assets, based on the expected future economic benefits, except for land, which is not depreciated. The estimated useful lives of the assets are reviewed annually and adjusted, if necessary, and may vary based on the technological stage of each unit. The useful lives of the Company's assets are stated in Note 12.

The costs of maintaining the Company's assets are allocated directly to profit for the year, when realized. Finance charges are capitalized to property, plant and equipment, when incurred on construction in progress, if applicable.

i) Impairment of assets

Property, plant and equipment and other assets are tested for impairment on an annual basis or whenever significant events or changes in circumstances indicate that their carrying amounts may not be recoverable. When this is the case, the recoverable amount is calculated to determine whether assets are impaired.

The recoverable amount of an asset is the higher of the net sales price and the value in use of the asset or the Cash-Generating Unit (CGU) to which it belongs, and is determined individually for each asset, unless the asset does not generate cash inflows that are independent from those of other assets or groups of assets. In estimating the value in use, estimated future cash flow is discounted to its present value, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the net sales price and the value in use of that asset.

j) Biological assets

Biological assets refer to eucalyptus and pine forests, which are used for the production of packaging paper, paper sacks and corrugated cardboard boxes, as well as being sold to third parties. Harvesting and replanting have an approximate cycle of 7 - 14 years, which varies based on the crop and genetic material to which they refer. Biological assets are measured at fair value, less estimated selling costs at the time of harvest.

Significant assumptions for determining the fair value of biological assets are stated in Note 13.

The valuation of biological assets is carried out on a quarterly basis by the Company, and any gain or loss is recognized in the statement of operations in the period in which it occurs, in a specific line named "Change in fair value of biological assets". The depletion of biological assets is measured based on the amount of wood cut, carried at fair value.

k) Non-current assets and liabilities

Non-current assets and liabilities comprise receivables and payables maturing more than 12 months after the end of the reporting period, plus corresponding charges and monetary variations incurred, if applicable, through the end of the reporting period.

l) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, when applicable.

m) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

The expense related to any provision is presented in the statement of operations, net of any reimbursement. If the time effect of the amount is material, the provision is discounted using a discount rate that reflects the risks specific to the obligation, if applicable.

The Company records provisions for tax, social security, labor and civil claims, which are accrued when lawsuits are assessed by the Company's legal counsel and management as being likely to lead to losses. This assessment is carried out considering the nature of the lawsuits, similarities to prior lawsuits and the progress of ongoing litigation.

When the Company expects that the amount of a provision will be fully or partially reimbursed, this asset is recognized only when realization is considered clear and certain, with no recognition of assets in scenarios of uncertainty.

n) Sales revenue

Sales revenue is stated net of taxes, discounts and rebates, and is recognized when all the risks and rewards of ownership of the product are transferred to the buyer, to the extent that it is probable that economic benefits will be generated and will flow to the Company and its subsidiaries and

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jointly-controlled subsidiaries, and when these benefits can be reliably measured based on the fair value of the consideration received or receivable, net of discounts, rebates and taxes or charges on sales.

o) Employee benefits and private pension plan

The Company grants employee benefits such as life insurance, healthcare, profit sharing and other benefits, which are recognized on an accruals basis and are discontinued at the end of the employment relationship with the Company.

Additionally, the Company granted a private pension and healthcare plan to former employees who had retired by 2001. The liability and the result relating to these benefits are recognized based on an actuarial valuation prepared by an independent expert. Gains and losses on the actuarial valuation of benefits generated by changes in actuarial assumptions are recognized in an account in equity named "Carrying value adjustments" (comprehensive income), as required by CPC 33 (R1) – "Employee benefits".

p) Stock option plan

The stock option plan offered by the Company is measured at fair value on the date on which it is granted, and the related expense is recognized in the statement of operations during the period in which the granting right is acquired, against equity in the "Carrying value adjustments" group.

q) Government grant

Government grants received by the Company are recognized to the extent that the requirements relating to the grant are complied with. Grants received for the purpose of offsetting expenses are recognized as a reduction of the expenses expected to be offset.

In the case of government grants for the purpose of investment in assets, the benefits are recorded in the balance sheet as being granted by the governmental agency, and they can be either recorded in liabilities, or as deferred revenue, recorded as revenue, on a systematic basis throughout the useful life of the acquired asset, or deducted from the grant-related asset, thereby being recognized as revenue through credit to the depreciation recorded as an expense in the result.

In case the benefits received in the form of government grants must not be distributed to the stockholders, the related amounts are reclassified through the allocation of the result for the year to a specific "Tax incentive reserve" account, in equity.

r) Significant accounting judgments, estimates and assumptions

In preparing the financial statements, judgments, estimates and assumptions are utilized to account for certain assets, liabilities, income and expenses for the periods. The accounting judgments, estimates and assumptions adopted by management are made utilizing the best information available at the financial statement reporting date, involving experience of past events, forecasts of future events and the assistance of experts, when applicable.

The financial statements include various estimates, including, but not limited to, the realization of deferred tax assets, the fair value measurement of biological assets, and the provision for tax, social security, civil and labor claims and adjustment at the present value of the balances.

Actual results may differ from these estimates, and the Company could be exposed to material losses.

s) Statement of value added

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The Brazilian corporate legislation requires listed companies to present the statement of value added as part of the set of financial statements of a company. The purpose of this statement is to show the wealth created by the Company and its distribution during the reporting period.

IFRS does not require the presentation of this statement. Therefore, the presentation of such statements is considered supplementary information, and not part of the set of financial statements.

2.3 New technical pronouncements, revisions and interpretations not yet effective

The International Accounting Standards Board (IASB) approved and issued the following new standards, which have not yet become effective or been adopted early by the Company, since the Brazilian Accounting Pronouncements Committee (CPC) has not yet issued the corresponding local pronouncements. Management has been studying the possible future impacts of the adoption as mentioned below:

(i) IFRS 15 - "Revenue from Contracts with Customers"

This standard replaces IAS 11 - "Construction Contracts", IAS 18 - "Revenue" and related interpretations and introduces the principles to be applied by an entity to determine the measure and recognition of revenue. The changes establish the criteria for the measurement and recording of sales, in the form that they were effectively performed with due presentation, as well as the registration for the values that the Company is entitled to in the operation. The effective date of this revision is January 1, 2018.

Management has evaluated this new standard and in its opinion should not have a material effect on its financial statements, considering the nature of its sales transactions, where performance obligations are clear and the transfer of control of goods and services is not complex.

(ii) IFRS 9 - "Financial Instruments"

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The main changes resulting from IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) new impairment model for financial assets, which is a hybrid of expected and incurred losses, replacing the current model of incurred losses; and (iii) relaxation of the requirements for the adoption of hedge accounting. The effective date of this revision is January 1, 2018.

Management considered the new pronouncement and, considering its current transactions, did not identify changes that could have a material impact on the Company's financial statements.

(iii) IFRS 16 - "Leases"

This new standard, which replaces IAS 17 - "Leases" and related interpretations, requires lessees to recognize the liability for the future payments and the right of use of the leased asset for virtually all lease contracts, including operating leases. Certain short term and low-value contracts may be out of the scope of this new standard. The criteria for the recognition and measurement of leases in the financial statements of the lessors are substantially maintained. This new standard becomes effective as from January 1, 2019.

Management is in the process of evaluating the impacts, mainly related to the lease of third-party lands, corresponding to 77 thousand hectares of forest land and future commitments of R \$ 167 million (see note 16). For the time being, the understanding is that the potential effect is the recognition of a value close to this as an asset and as a liability, with a higher expense distribution at the beginning and lower at the end, when compared to the current accounting of lease expenses. Given the complexity of the topic, it may be that, until the initial adoption of this standard, the

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conclusion is revised.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

3 CONSOLIDATED QUARTERLY INFORMATION

Subsidiaries are fully consolidated from the date of acquisition of control and continue to be consolidated until the date on which such control ceases to exist, except for jointly-controlled entities (joint ventures), which are accounted for using the equity accounting method both in the parent company financial statements and in the consolidated financial statements.

The subsidiaries' financial statements are prepared for the same reporting period as that of the parent company, using accounting policies that are consistent with the policies adopted by the parent company. The following criteria are adopted for consolidation purposes: (i) investments in subsidiaries and equity in the results of investees are eliminated, and (ii) profits from intercompany transactions and the related assets and liabilities are also eliminated. The consolidated financial statements comprise Klabin S.A. and its subsidiaries as at December 31, 2016 and 2015, as follows:

				Ownership - %	
	Country	Activity	Participation	12/31/2016	12/31/2015
Subsidiaries:					
Klabin Argentina S.A.	Argentina	Industrial sacks	Direct	100	100
Klabin Ltd.	Cayman Islands	Investments in other companies	Direct	100	100
. Klabin Trade	United Kingdom	Sale of products in the foreign market	Indirect	100	100
Klabin Forest Products Company	USA	Sale of products in the foreign market	Direct	100	100
IKAPÊ Empreendimentos Ltda.	Brazil	Hotels	Direct	100	100
Klabin do Paraná Produtos Florestais Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klabin Florestal Ltda.	Brazil	Forestry	Direct	100	100
Monterla Holdings S.A.	Brazil	Investment in companies	Direct	100	100
Klabin Finance S.A.	Luxembourg	Finance	Direct	100	100
Klabin Áustria GmbH	Austria	Sale of products in the foreign market	Direct	100	-
Embalplan Ind. e Com. de Embalagens S.A.	Brazil	Packaging paper	Direta	100	-
SPCs:					
Correia Pinto	Brazil	Reforestation	Direct	91	89
CG Forest	Brazil	Reforestation	Direct	83	77
Monte Alegre	Brazil	Reforestation	Direct	80	76
Harmonia	Brazil	Reforestation	Direct	74	-
Joint ventures (not consolidated)					
Florestal Vale do Corisco S.A.	Brazil	Reforestation	Direct	51	51

Investments in joint ventures

Considering its characteristics, the investment in Florestal Vale do Corisco S.A. is classified as a joint venture, and is recorded based on the equity accounting method in the parent company and consolidated financial statements.

4 CASH AND CASH EQUIVALENTS

In accordance with its policy, the Company has made low-risk investments with no significant risk of changes in value with financial institutions considered by management as prime banks both in Brazil and abroad, based on the ratings assigned to them by risk ratings agencies as described in Note 25. Management records these financial assets as cash and cash equivalents due to their immediate liquidity with financial institutions, and their insignificant risk of changes in value.

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	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash and bank deposits - local currency	29,578	20,416	33,591	21,590
Cash and bank deposits - foreign currency (i)	-	-	7,985	34,921
Financial investments - local currency	4,807,936	3,661,827	4,979,048	3,767,021
Financial investments - foreign currency (i)	405,606	348,941	852,096	1,230,191
	5,243,120	4,031,184	5,872,720	5,053,723

(i) In U.S. dollars

Financial investments in local currency, relating to Bank Deposit Certificates (CDBs) and repurchase transactions, are indexed to the Interbank Deposit Certificate (CDI) rate with an average annual yield of 13.76% (14.32% at December 31, 2015). Financial investments in foreign currency, relating to time deposits in US Dollars and over night, have an average annual yield of 0.53% (0.55% at December 31, 2015). These investments have daily liquidity, as guaranteed by the financial institutions.

5 MARKETABLE SECURITIES

Marketable securities comprise National Treasury Bills (LFTs) and National Treasury Notes (NTN-B). LFT has yields indexed to the Special System for Settlement and Custody (SELIC) interest rate, and with maturities up to 2020 and NTN-B has yields indexed to the Amplified Customer Price Index (IPCA) + 6% p.a. interest rate, and with maturities up to 2020 and 2022.

At December 31, 2016, the balance of these securities was R\$ 591,303 (R\$ 557,143 at December 31, 2015). Management has classified these securities as available-for-sale financial assets. There is an active trading market for securities with these characteristics, and their fair value substantially represents the principal plus originally established interest.

Marketable securities are included in Level 1 of the fair value measurement hierarchy, according to the hierarchy defined in CPC 46 (equivalent to IFRS 13), "Fair value measurement", since they are assets with prices quoted in the market.

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6 TRADE RECEIVABLES

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Trade receivables				
. Local	1,101,562	920,171	1,111,455	920,232
. Foreign	319,856	251,369	555,171	618,839
Total trade receivables	1,421,418	1,171,540	1,666,626	1,539,071
Provision for doubtful debts ("PECLD")	(41,168)	(37,907)	(41,246)	(37,972)
	1,380,250	1,133,633	1,625,380	1,501,099
Overdue	65,039	91,490	69,880	92,594
% on total portfolio (without PECLD)	1.68%	4.57%	1.72%	3.55%
1 to 10 days	6,128	4,685	6,128	4,685
11 to 30 days	9,448	10,483	14,211	10,875
31 to 60 days	7,217	6,961	7,217	7,608
61 to 90 days	168	14,344	168	14,344
Over 90 days	42,078	55,017	42,156	55,082
Not yet due	1,356,379	1,080,050	1,596,746	1,446,477
Total portfolio	1,421,418	1,171,540	1,666,626	1,539,071

The average collection period for trade receivables is approximately 78 days for domestic market sales and approximately 135 days for foreign market sales, and interest is charged after the contractual maturity date. As mentioned in Note 25, the Company has rules for monitoring receivables and overdue notes as well as for the risk of not receiving the amounts arising from credit sale transactions.

The provision for doubtful debts is considered sufficient to cover any losses on the outstanding receivables. The changes in the provision for doubtful debts were as follows:

	Parent company	Consolidated
At December 31, 2014	(45,177)	(45,245)
Provision for doubtful debts	(16,349)	(16,347)
Reversals	1,750	1,750
Definitive write-off	21,869	21,870
At December 31, 2015	(37,907)	(37,972)
Provision for doubtful debts	(20,885)	(20,898)
Reversals	12,003	12,003
Definitive write-off	5,621	5,621
At December 31, 2016	(41,168)	(41,246)

The balance of the provision for doubtful debts relates mainly to trade notes overdue for more than 90 days. The expense incurred on the recognition of the provision for doubtful debts is recorded in the statement of operations, under "Selling expenses".

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7 RELATED PARTIES

a) Balances and transactions with related parties

	Parent company											
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Type of relationship												
Balances												
Current assets												
Non-current assets												
Current liabilities												
Non-current liabilities												
Transactions												
Sales revenue												
Purchases												
Interest expenses on financing												
Guarantee commission - expenses												
Royalty expenses												
(i) Balances receivable from product sale transactions carried out under terms and conditions established between the parties;												
(ii) Purchases of timber at usual market prices and on normal terms and conditions;												
(iii) Licensing for the use of brands;												
(iv) Prepaid expenses for guarantee commission, calculated based on the ENDES financing balance of 1% semiannually;												
(v) Supply of seedlings, seeds and services at usual market prices and under normal terms and conditions;												
(vi) Loans raised based on normal market conditions;												
(vii) Advances on future capital subscriptions;												

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	Consolidated				
	12/31/2016				12/31/2015
	Monteiro Aranha S.A. (i) Stockholder	Klabin Irmãos & Cia. (i) and (ii) Stockholder	BNDES (iii) Stockholder	Other (i)	Total
<u>Type of relationship</u>					Total
<u>Balances</u>					
Current assets		917			917
Current liabilities	673	3,283	746,101	991	751,048
Non-current liabilities			3,909,635		3,909,635
					3,723,450
<u>Transactions</u>					
Interest expenses on financing			(340,773)		(340,773)
Guarantee commission - expenses		(30,226)			(30,226)
Royalty expenses	(7,389)	(36,062)		(5,799)	(49,250)
					(46,555)
(i) Licensing for the use of brands;					
(ii) Prepaid expenses for guarantee commission, calculated based on the BNDES financing balance of 1% semiannually;					
(iii) Loans obtained based on usual market conditions;					

b) Management and Fiscal Board remuneration and benefits

Management and Fiscal Board remuneration is determined by the stockholders at the Annual General Meeting, in accordance with the Brazilian corporate legislation and the Company's bylaws. Accordingly, at the Annual General Meeting held on March 10, 2016, the stockholders established the overall amount of the annual remuneration of the members of the Board of Directors and Statutory Audit Board as up to R\$ 56,100 for 2016 (R\$ 41,700 for 2015).

The table below shows the remuneration of the members of the Board of Directors and Statutory Audit Board:

	Parent company and Consolidated					
	Short term		Long term		Total benefits	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Board of Directors and Statutory Audit Board	32,212	30,332	5,558	5,100	37,770	35,432

Management remuneration includes the fees paid to the Board members, along with the fees paid to, and variable remuneration of, officers. Long term benefits relate to contributions made by the Company to the pension plan. These amounts are mainly recorded under "Operating expenses - administrative".

In addition, the Company grants a stock option plan to the statutory directors and other executives, as described in Note 22.

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8 INVENTORY

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Finished products	161,499	124,413	212,632	162,899
Raw materials	219,019	170,026	241,930	203,596
Timber and logs	214,153	150,842	214,153	150,842
Maintenance supplies	195,527	161,956	200,485	167,478
Estimated losses	(13,481)	(13,633)	(13,481)	(13,862)
Other	17,998	20,207	21,196	30,173
	794,715	613,811	876,915	701,126

Raw materials inventory includes paper rolls transferred from paper units to conversion units.

The main variation in the balance of inventories is due to the formation of the pulp and wood stocks required for the Puma's operation.

The expenses incurred for the recognition of estimated losses is recorded in the statement of operations under "Cost of products sold".

The Company does not have any inventory pledged as collateral.

9 TAXES RECOVERABLE

	12/31/2016		12/31/2015	
	Current assets	Non-current assets	Current assets	Non-current assets
Value-added Tax on Sales and Services (ICMS)	188,865	1,174,309	122,397	1,048,897
Social Integration Program (PIS)	35,265	14,117	40,056	10,897
Social Contribution on Revenue (COFINS)	153,595	77,314	179,329	62,578
Income tax/social contribution	366,564	-	324,041	-
Tax on Industrialized Products (IPI)	20,968	271,742	19,145	-
Other	29,371	17,190	38,780	37,266
Parent company	794,628	1,554,672	723,748	1,159,638
Subsidiaries	8,727	-	12,753	-
Consolidated	803,355	1,554,672	736,501	1,159,638

The Company recognizes credits of taxes and contributions levied on purchases of property, plant and equipment, as permitted by the prevailing legislation, in addition to the ICMS government grant obtained from the Government of the State of Paraná in relation to the new pulp plant (the "Puma Project"). The credits are being offset against taxes payable of the same nature or against other taxes, when applicable.

On May, 2016, the Company recognized credits of IPI gain in tax litigation, final and unappealable decision, substantially allocated in finance result. Credits are already available to offset in accordance with tax legislation in force.

PIS/COFINS and ICMS on current assets are expected to be offset against the same taxes payable in the next 12 months, according to management's estimate.

Based on analyses and the budget projections approved by management, the Company does not foresee any risk of non-realization of these tax credits.

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10 INCOME TAX AND SOCIAL CONTRIBUTION

a) Nature and expected realization of deferred taxes

The balances of deferred tax assets and liabilities were as follows:

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Provision for tax, social security, labor and civil contingencies	23,964	24,556	23,964	24,556
Income tax and social contribution losses	801,307	892,392	801,363	892,392
Actuarial liability	30,212	20,314	30,212	20,314
Other temporary differences	169,107	71,282	169,107	71,366
Non-current assets	1,024,590	1,008,544	1,024,646	1,008,628
Fair value of biological assets	532,081	692,340	560,120	856,369
Revisions to useful lives of property, plant and equipment (Law 12,973/14)	370,625	322,032	370,625	322,032
Deemed cost of property, plant and equipment (land)	486,426	489,178	559,047	561,798
Adjustment to present value of balances	43,938	45,641	43,938	45,641
Interest capitalized (Law 12,973/14)	166,269	131,939	166,269	131,939
Deferred foreign exchange variations (i)	749,303	-	749,303	-
Other temporary differences	52,210	45,138	52,210	45,118
Non-current liabilities	2,400,852	1,726,268	2,501,512	1,962,897
Net balance in the balance sheet (liabilities)	1,376,262	717,724	1,476,866	954,269

(i) Management opted for the tax recognition of the exchange variations of its foreign currency receivables and payables on the cash basis, while for 2016, thereby generating temporary differences, which will be taxed according to the settlement of the receivables and payables.

Management, based on the budgets approved by the Board of Directors, estimates that tax credits arising from temporary differences and tax losses will be realized as follows:

	12/31/2016	
	Parent company	Consolidated
2017	292,492	292,492
2018	205,722	205,722
2019	168,675	168,675
2020	275,286	275,286
2021	82,415	82,471
	1,024,590	1,024,646

The projected realization of the balance, considers, especially regarding tax losses and negative bases, the compensation limitation of 30% of the actual profit for the year. In addition, the projection may not materialize if the estimates used in the preparation of these financial statements differ from those actually performed.

Information regarding the Company's taxes that are subject to litigation is disclosed in Note 17.

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b) Analysis of income tax and social contribution in the results

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Current tax expense	(164,008)	(15,699)	(176,366)	(30,210)
Prior-year adjustment	(13,657)	-	(13,657)	-
Current	(177,665)	(15,699)	(190,023)	(30,210)
Recognition and reversal of temporary differences	(612,782)	(145,564)	(582,219)	(189,499)
Recording of credits arising from tax losses	-	892,392	-	892,392
Revisions to useful lives of property, plant and equipment	48,593	45,389	48,593	45,390
Variation in fair value and depletion of biological assets	(134,803)	(45,429)	(9,340)	(23,462)
Deferred	(698,992)	746,788	(542,966)	724,821

c) Reconciliation of income tax and social contribution with the result of applying the statutory tax rate

	Parent company		Consolidated	
	12/31/2016	12/31/2015	30/09/2016	30/09/2015
Income before income tax and social contribution	3,358,603	(1,984,286)	3,214,935	(1,947,808)
Income tax and social contribution at the rate of 34 %	(1,141,925)	674,657	(1,093,078)	662,255
Tax effect on permanent differences:				
Difference in taxation - subsidiaries (i)	-	-	292,238	3,136
Equity in the results of investees	199,561	23,907	16,769	10,078
Other effects	65,707	32,525	51,082	19,142
	(876,657)	731,089	(732,989)	694,611
Income tax and social contribution				
. Current	(177,665)	(15,699)	(190,023)	(30,210)
. Deferred	(698,992)	746,788	(542,966)	724,821
Income tax and social contribution expense	(876,657)	731,089	(732,989)	694,611

(i) The tax effect of the difference in subsidiaries taxation is caused, substantially, by differences between Company's real profit system and deemed profit system adopted by some of their subsidiaries.

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11 INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

	Klabin Finance S.A.	Soc. Conta de Participação Correia Pinto	Soc. Conta de Participação CG Forest	Soc. Conta de Participação Mt Alegre	Soc. Conta de Participação Harmonia	Florestal Vale do Corisco S.A. (i)	Other	Total
At December 31, 2014	(55,382)	463,605	68,403	118,763	-	483,204	135,066	1,243,659
Acquisitions and capital contributions	109,880						2,388	112,268
Dividends distributed	(30,378)	(4,900)				(17,007)		(21,907)
Equity in the results of investees (iii)		(1,007)	14,647	34,708		29,642	22,705	70,317
Foreign exchange variations on investments abroad							(5,045)	(5,045)
At December 31, 2015	54,120	457,698	83,050	153,471	-	495,839	155,114	1,399,292
Acquisitions and capital contributions			(910)		103,354	(758)	130,440	232,794
Dividendos distribuídos	(597)	294,005	49,573	103,496	83,277	49,321	7,870	(1,668)
Equity in the results of investees (iii)								586,945
Foreign exchange variations on investments abroad							(24,730)	(24,730)
At December 31, 2016	53,523	751,703	131,713	256,967	185,631	544,402	268,694	2,192,633
Summary of the financial information of subsidiaries at December 31, 2016								
Total assets	1,716,688	916,824	162,661	330,426	261,930	1,434,183		
Total liabilities	1,663,165	89,968	4,767	10,479	11,298	366,731		
Equity	53,523	826,856	157,894	319,947	250,632	1,067,452		
Profit for the period	12,407	301,800	68,526	116,478	83,277	102,378		

(i) Because it is a joint venture (Note 3), Vale do Corisco is not consolidated and is the only investment in the consolidated balance sheet that is accounted for on an equity basis.

(ii) Includes the effects of variations in, and the realization of, fair value of biological assets (Note 13).

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12 PROPERTY, PLANT AND EQUIPMENT

a) Composition of property, plant and equipment

	12/31/2016			12/31/2015		
<u>Parent company</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	1,832,779	-	1,832,779	1,776,761	-	1,776,761
Buildings and construction	1,955,929	(298,540)	1,657,389	676,240	(238,052)	438,188
Machinery, equipment and facilities	10,559,205	(2,798,607)	7,760,598	4,986,462	(2,268,151)	2,718,311
Construction in progress	972,136	-	972,136	6,620,794	-	6,620,794
Other (i)	921,453	(407,052)	514,401	442,080	(237,203)	204,877
	16,241,502	(3,504,199)	12,737,303	14,502,337	(2,743,406)	11,758,931
<u>Consolidated</u>						
Land	2,066,047	-	2,066,047	2,008,613	-	2,008,613
Buildings and construction	1,964,206	(300,534)	1,663,672	682,058	(240,478)	441,580
Machinery, equipment and facilities	10,600,003	(2,828,346)	7,771,657	5,007,468	(2,281,382)	2,726,086
Construction in progress	973,342	-	973,342	6,627,185	-	6,627,185
Other (i)	929,021	(408,332)	520,689	444,261	(238,579)	205,682
	16,532,619	(3,537,212)	12,995,407	14,769,585	(2,760,439)	12,009,146

(i) Refers to leasehold improvements, vehicles, furniture and fittings and IT equipment.

Information about property, plant and equipment pledged as collateral in transactions carried out by the Company is disclosed in Note 14.

b) Summary of changes in property, plant and equipment

	Parent company					
	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery, equipment and facilities</u>	<u>Construction in progress</u>	<u>Other</u>	<u>Total</u>
At December 31, 2014	1,784,065	449,862	2,740,247	2,948,566	188,727	8,111,467
Purchases (i)	7,348	(4,563)	-	3,687,304	1,426	3,691,515
Disposals	(20,951)	(790)	(3,060)	-	(582)	(25,383)
Depreciation	-	(21,107)	(274,241)	-	(32,069)	(327,417)
Internal transfers	6,299	14,954	255,860	(324,106)	46,993	-
Interest capitalized (ii)	-	-	-	313,971	-	313,971
Other	-	(168)	(495)	(4,941)	382	(5,222)
At December 31, 2015	1,776,761	438,188	2,718,311	6,620,794	204,877	11,758,931
Purchases (i)	34,290	-	(79)	1,650,269	(1,270)	1,683,210
Disposals	(16,041)	(7,734)	(71,453)	(148)	51,430	(43,946)
Depreciation	-	(61,831)	(635,363)	-	(87,708)	(784,902)
Internal transfers	40,908	1,303,963	5,762,030	(7,505,427)	398,526	-
Interest capitalized (ii)	-	-	-	130,640	-	130,640
Other	(3,139)	(15,197)	(12,848)	76,008	(51,454)	(6,630)
At December 31, 2016	1,832,779	1,657,389	7,760,598	972,136	514,401	12,737,303

(i) Net of recoverable taxes (Note 9).

(ii) Interest capitalized related to the borrowing obtained for investment projects, such as the Puma Project (Notes 14, 15, and 21).

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	Consolidated				
	Land	Buildings and construction	Machinery, equipment and facilities	Construction in progress	Other
At December 31, 2014	2,013,562	453,484	2,745,677	2,949,530	189,134
Purchases (i)	9,737	(4,482)	4,330	3,692,435	2,091
Disposals	(20,951)	(789)	(3,077)	-	(488)
Depreciation	-	(21,268)	(275,562)	-	(32,276)
Internal transfers	6,299	14,954	255,860	(324,106)	46,993
Interest capitalized (ii)	-	-	-	313,971	-
Other	(34)	(319)	(1,142)	(4,645)	228
At December 31, 2015	2,008,613	441,580	2,726,086	6,627,185	205,682
Purchases (i)	35,881	3,996	23,789	1,648,987	4,689
Disposals	(16,041)	(7,734)	(71,453)	(148)	51,526
Depreciation	-	(61,955)	(655,942)	-	(87,935)
Internal transfers	40,908	1,303,963	5,780,037	(7,463,811)	338,903
Interest capitalized (ii)	-	-	-	130,640	-
Other	(3,314)	(16,178)	(30,860)	30,489	7,824
At December 31, 2016	2,066,047	1,663,672	7,771,657	973,342	520,689

(i) Net of recoverable taxes (Note 9).

(ii) Interest capitalized related to the borrowing obtained for investment projects, such as the Puma Project (Notes 14, 15, and 21).

Depreciation was mainly allocated to the production cost for the period.

As mentioned in Note 1, with the start of operations of Puma Project in April 2016, the amount of R\$ 7,233,660 was transferred to the definitive accounts starting the depreciation, which totalled R\$ 395,621 in 2016. As a result, and the capitalization of interest in property, plant and equipment ceased.

c) Useful lives and depreciation method

The table below shows the annual depreciation rates calculated based on the straight line method, which were applicable in the years ended December 31, 2016 and 2015, defined based on the economically useful lives of assets:

	Rate - %
Buildings and construction	2.86 to 3.33
Machinery, equipment and facilities	2.86 to 10 (i)
Other	4 to 20

(i) Mainly rate of 8%.

d) Construction in progress

The balance of construction in progress at December 31, 2016 relates to the following main projects: (i) concluding of a new pulp plant ("Puma Project"), (ii) construction of a Research and Development Center in and (iii) current investments in the Company's continuing operations.

e) Impairment of property, plant and equipment

The Company did not identify indicators of impairment of its assets at December 31, 2016 and 2015.

13 BIOLOGICAL ASSETS

The Company's biological assets comprise the planting of pine and eucalyptus trees for the supply of raw materials for the production of short fiber bleached pulp, long fiber bleached pulp, and fluff pulp, used in the manufacture of paper and for sales of logs to third parties. Including its interest in the forestry area of its joint venture Florestal Vale do Corisco, the Company owned 232 thousand hectares of planted areas at December 31, 2016 (235 thousand hectares at December 31, 2015), not considering the permanent preservation areas and legal reserve that it maintains in compliance with Brazilian environmental legislation.

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The balance of the Company's biological assets recorded at fair value, as follows:

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cost of development of biological assets	832,519	836,726	1,181,274	1,103,596
Fair value adjustment of biological assets	1,564,943	2,020,416	2,475,322	2,502,793
	2,397,462	2,857,142	3,656,596	3,606,389

The fair value measurement of biological assets considers certain estimates, such as estimates of the price of wood, the discount rate, the harvesting plan for the forests and the productivity level, all of which are subject to uncertainties and fluctuations, which could have an impact on the Company's future results.

a) Assumptions regarding the recognition of the fair value of biological assets

The Company recognizes its biological assets at fair value. In its calculation of this fair value, the Company adopts the following assumptions:

(i) Eucalyptus forests are maintained at historical cost through the third year of planting and pine forests through the fifth year of planting, based on management's understanding that during this period the historical cost of biological assets approximates their fair value.

(ii) After the third and fifth years of the planting of eucalyptus and pine forests, respectively, the forests are measured at fair value, which reflects the sales price of the asset less the costs necessary to prepare the assets for their intended use or sale.

(iii) The methodology utilized in the fair value measurement of biological assets corresponds to the discounted future cash flow estimated according to the projected productivity cycle of the forests, taking into consideration price variations and the growth of biological assets.

(iv) The discount rate utilized for cash flow is the Company's weighted average cost of capital, which is reviewed annually by management.

(v) The projected productivity volumes of forests are determined based on a categorization which considers the forest type, genetic material, handling system, productive potential, rotation and age. Together, these characteristics form an index called the Average Annual Growth (AAG) index, which is expressed in cubic meters per hectare/year, and which is utilized as the basis in the projection of productivity. The Company's harvesting plan varies mainly from six to seven years for eucalyptus trees and 14 to 15 years for pine trees.

(vi) The prices of biological assets, denominated in R\$/cubic meter, are obtained through market price surveys carried out by specialized firms. The prices obtained are adjusted by deducting the cost of capital relating to land, since this asset contributes to the planting of forests, and other costs necessary to prepare the assets for sale or consumption.

(vii) Planting expenses relate to the costs of the development of the biological assets.

(viii) The depletion of biological assets is calculated based on the fair value of the biological assets harvested in the period.

(ix) The Company has decided to review the fair value of its biological assets on a quarterly basis, since it understands that this period is sufficiently short to prevent any significant misstatement in the fair value of the biological assets recorded in its financial information.

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b) Reconciliation and movement in fair value

	Parent company	Consolidated
At December 31, 2014	3,010,395	3,667,085
Planting	70,069	100,471
Depletion:		
. Historical cost	(77,728)	(79,814)
. Fair value adjustment	(598,316)	(605,489)
Change in fair value due to:		
. Price	11,950	36,114
. Growth	452,749	499,999
Sale of assets	(11,977)	(11,977)
At December 31, 2015	2,857,142	3,606,389
Planting	112,467	144,868
Depletion:		
. Historical cost	(100,575)	(114,509)
. Fair value adjustment	(516,842)	(560,382)
Change in fair value due to:		
. Price	2,376	(3,355)
. Growth	117,987	536,266
Purchase of assets	81,263	81,263
Sale of assets	(33,944)	(33,944)
Creation of subsidiaries (i)	(122,412)	-
At December 31, 2016	2,397,462	3,656,596

(i) Creation of Special Partnership Company as mentioned in Note 1.4.

The depletion of biological assets in the periods presented was mainly included in production cost, after allocation to inventory through the harvesting of forests and their use in the production process or their sales to third parties.

c) Sensitivity analysis

In accordance with the hierarchy set out in CPC 46 (equivalent to IFRS 13), "Measurements at fair value", the calculation of biological assets is classified as Level 3 due to its complexity and calculation structure.

The assumptions applied include sensitivity to the prices used in the evaluation and the discount rate used in the discounted cash flow. Prices refer to the prices obtained in the regions in which the Company is located. The discount rate corresponds to the average cost of capital, taking into consideration the basic interest rate (SELIC) and inflation levels.

Significant increases (decreases) in the prices used in the appraisal would result in an increase (decrease) in the measurement at fair value of the biological assets. The weighted average price used in the appraisal of the biological assets for the year ended 2016 was equivalent to R\$ 59/m³ (R\$ 57/m³ at December 31, 2015).

The effects of a significant increase (decrease) in the discount rate used in the measurement of the fair value of biological assets would result in a decrease (increase) in the values measured. The Company's WACC is updated on an annual basis. The new rate is applied from the date of the first quarterly evaluation for each year, and this rate remains unchanged for the year. The discount rate

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used in the appraisal of the biological assets for the year ended 2016 was 6.4% in constant currency (5.9% at December 31, 2015).

14 BORROWING

a) Composition of borrowing

	Annual interest rate - %	12/31/2016		
		Current	Non-current	Total
<u>In local currency</u>				
. BNDES - Project Puma	6.0 to TJLP + 2.48	275,339	1,840,803	2,116,142
. BNDES - Other	JLP + 4.82 and basket(i) + 2.06	171,488	526,220	697,708
. BNDES - FINAME	2.5 to 10.28	102,389	210,599	312,988
. Export credit notes (in R\$)	CDI	79,415	942,500	1,021,915
. Other	1.0 to 6.8	55,020	57,224	112,244
. Commission		(1,588)	(7,589)	(9,177)
		682,063	3,569,757	4,251,820
<u>In foreign currency (ii)</u>				
. BNDES - Project Puma	USD + 6.6	154,950	1,068,765	1,223,715
. BNDES - Other	USD + 1.71 to 6.7	41,935	263,248	305,183
. Export prepayments	USD + Libor 6M + 1.7 to 6.4	1,105,909	5,554,579	6,660,488
. Export credit notes	USD + 2.0 to 8.0	441,995	896,253	1,338,248
. Export prepayments in subsidiaries	USD + 3.1 to 5.7	33,495	1,580,664	1,614,159
. BID	USD + Libor 6M + 1.4 to 1.78	7,057	847,366	854,423
. Finnvera	USD + Libor 6M + 1 to 3.4	133,506	1,031,148	1,164,654
. Commission		(20,809)	(122,631)	(143,440)
		1,906,196	11,151,983	13,058,179
Total parent company		2,588,259	14,721,740	17,309,999
Subsidiaries:				
<u>In foreign currency (ii)</u>				
. Bonds (Notes)	USD + 5.2	38,980	1,629,550	1,668,530
. Commission		(715)	(4,644)	(5,359)
. Elimination of prepayments in subsidiaries		(33,495)	(1,580,664)	(1,614,159)
		4,770	44,242	49,012
Total Consolidated		2,593,029	14,765,982	17,359,011

(i) Currency basket mainly comprising US Dollars

(ii) In US Dollars

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	Annual interest rate - %	12/31/2015		
		Current	Non-current	Total
<u>In local currency</u>				
. BNDES - Project MA1100	TJLP + 2.0 and basket(i) + 1.5	40,947	507	41,454
. BNDES - Project Puma	6.0 to TJLP + 2.48	46,742	1,692,054	1,738,796
. BNDES - Other	TJLP + 4.82 and basket(i) + 2.06	162,233	441,669	603,902
. BNDES - FINAME	2.5 to 10.28	107,882	312,311	420,193
. Export credit notes (in R\$)	CDI	219,679	961,500	1,181,179
. Other	1.0 to 6.8	72,693	155,995	228,688
. Commission		(2,174)	(4,040)	(6,214)
		648,002	3,559,996	4,207,998
<u>In foreign currency (ii)</u>				
. BNDES - Project Puma	USD + 6.6	12,558	992,042	1,004,600
. BNDES - Other	USD + 1.71 to 6.7	50,182	284,867	335,049
. Export prepayments	USD + Libor 6M + 1.7 to 6.4	492,904	5,347,602	5,840,506
. Export credit notes	USD + 2.0 to 8.0	415,180	1,581,444	1,996,624
. Export prepayments in subsidiaries	USD + 3.1 to 5.7	30,122	1,561,920	1,592,042
. Finnvera	USD + Libor 6M + 1 to 3.4	58,756	1,116,365	1,175,121
. Other	USD + 1.9	27,721	116,671	144,392
. Commission		(34,931)	(110,031)	(144,962)
		1,052,492	10,890,880	11,943,372
Total parent company		1,700,494	14,450,876	16,151,370
Subsidiaries:				
<u>In foreign currency (ii)</u>				
. Bonds (Notes)	USD + 5.2	46,790	1,952,400	1,999,190
. Commission		(856)	(6,421)	(7,277)
. Elimination of prepayments in subsidiaries		(415,180)	(1,581,444)	(1,996,624)
		(369,246)	364,535	(4,711)
Total Consolidated		1,331,248	14,815,411	16,146,659

(i) Currency basket mainly comprising US Dollars

(ii) In US Dollars

National Bank for Economic and Social Development (BNDES)

The Company has contracts with BNDES for the financing of industrial development projects, such as the construction of the new paper machine in Correia Pinto (SC), the construction of a new recycled paper machine in Goiana (PE), and the paper segment expansion project, referred to as MA 1100, in addition to the construction of the Project Puma pulp plant, the settlement of which is projected to take place in 2025. This financing is paid monthly, along with the related interest.

Export prepayments and export credit notes

Export prepayment and credit note transactions were carried out for the purposes of working capital management and the development of the Company's operations. These agreements will be settled up to February 2024.

Bonds (Notes)

The Company, through its wholly-owned subsidiary Klabin Finance S.A., has issued securities representing debt (Notes) in the international market, which are listed on the Luxembourg Securities Exchange (Euro MTF). The Notes, of the Senior Notes 144A/Reg S type, amount to US\$ 500 million and mature within ten years, with a coupon of 5.25% paid semi-annually. The raising of funds, which was concluded on July 16, 2014, had the objective of financing the activities of the Company and its subsidiaries in the normal course of business, in accordance with their business objectives.

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Finnvera (Finnish Export Credit Agency)

As part of the funds necessary for the execution of the Puma Project, the Company entered into a loan agreement, for the financing of the assets acquired. The commitment amounts to US\$ 460 millions, divided into two tranches: the first of US\$ 414 millions with interest of 3.4% p.a. and the second tranche of US\$ 46 millions, with interest of LIBOR 6M + 1% p.a., which two disbursements occurred in 2015 totaling US\$ 325.7 millions and the remaining disbursements occurred in the fourth quarter of 2016, totaling US\$ 364.3 millions. The value obtained in USD was lower than originally forecast due to the impact of imports being in Euro and the appreciation of the dollar against the Euro in the period.

IDB (Inter-American Development Bank)

The commitment amounts to US\$ 300 millions, divided into two tranches: the first of US\$ 150 millions with interest of LIBOR 6M +1.8% p.a. and the second tranche of US\$ 150 millions, with interest of LIBOR 6M + 1.4% p.a.. In 2016 three disbursements occurred totaling US\$ 260 millions. The remaining will be released over 2017.

b) Schedule of non-current maturities

The maturity dates of the Company's borrowing at December 31, 2016, classified in non-current liabilities in the consolidated balance sheet, are as follow:

Year	2018	2019	2020	2021	2022	2023	2024 onwards	Total
Amount	2,258,600	2,434,800	2,402,700	2,444,800	1,921,600	963,700	2,339,782	14,765,982

c) Summary of changes in borrowing

	Parent company	Consolidated
At December 31, 2014	8,818,356	9,640,108
Borrowing	5,503,704	4,925,579
Accrued interest	783,758	889,295
Foreign exchange and monetary variations	3,264,954	3,429,519
Repayments and payment of interest	(2,169,424)	(2,279,124)
Transfers - commission	(49,978)	(54,136)
At December 31, 2015	16,151,370	16,551,241
Borrowing	4,855,343	4,505,275
Accrued interest	989,976	980,258
Foreign exchange and monetary variations	(2,345,511)	(2,335,755)
Repayments and payment of interest	(2,341,179)	(2,342,008)
At December 31, 2016	17,309,999	17,359,011

d) Guarantees

The financing agreements with BNDES are guaranteed by the land, buildings, improvements, machinery, equipment and facilities of the plants in Ptacilio Costa (SC), Telêmaco Borba (PR) and Ortigueira (PR), which are the object of the related borrowings and escrow deposits, as well as sureties from the controlling stockholders Klabin Irmãos & Cia.

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The financing from Finnvera is guaranteed by the industrial plants in Angatuba (SP), Lages (SC), Piracicaba (SP), Betim (MG), and Goiana (PE).

The financing from IDB is guaranteed by the industrial plants in Correia Pinto (SC), Jundiaí/Distrito Industrial (SP) and Jundiaí/Tijucu Preto (SP).

Export credits, export prepayments, and working capital loans are not collateralized.

e) Restrictive covenants

At the end of the reporting period, the Company and its subsidiaries did not have any financing agreements containing restrictive covenants requiring compliance with financial ratios for the contracted transactions, where non-compliance would automatically accelerate the maturity of the debt.

15 DEBENTURES

a) Sixth issue of debentures

On January 7, 2014, the Company concluded the process of subscription and payment of 27,200,000 debentures issued through private placement, with a unit value of R\$ 62.50, totaling R\$ 1.7 billion. The debentures issued are subordinated, issued in a single series and in local currency, without guarantees, and are mandatorily convertible into shares. The conversion of the debentures will be in the proportion of one debenture for five units, where the certificate of deposit of shares comprises one common registered share (ON) and four preferred registered shares (PN).

The debenture holders have the possibility of converting debentures into units in advance.

The funds obtained from the issue of the debentures were allocated to the construction of a pulp plant related to the Puma Project.

The debentures have an effective term of five years, with maturity on January 8, 2019, and are remunerated at 8% p.a., plus the variation in the Brazilian currency in relation to the US Dollar.

As reported to the debenture holders published on August 02, 2016, the Company reported that it reached the operational level of the pulp plant in accordance with item 4.6.3 of the Deed of Issue, with the production and sale of 300 thousand tons of pulp.

Accordingly, on January 31, 2018, the Company will convert all outstanding debentures into Units.

In addition, debentureholders are included in any profit distribution to the Company's stockholders, which is calculated as if the shares that will be converted in the future already existed, with the respective amount deducted from the equity due to the debentures' nature as equity instruments.

As of July 7, the debentures started to be traded on the São Paulo Commodities, Futures and Stock Exchange (BM&FBOVESPA), under the ticker symbol KLBN-DCA61.

In accordance with CPC 39, "Financial instruments: Presentation", the Company recorded these debentures as a compound instrument (hybrid), and the present value of the interest up to the conversion was determined and recognized as a financial liability, whereas the carrying amount of the equity instrument was recorded at the net amount - that is, the total amount of the debentures less the present value of the interest payable and less the issuance costs of the security - in the "Capital Reserve" account in equity.

b) Seventh issue of debentures

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The Company concluded its seventh issue of debentures on June 23, 2014, issuing 55,555,000 simple debentures, with personal sureties, combined with a subscription bonus, at the nominal unit value of R\$ 14.40, totaling R\$ 800 million, divided simultaneously into two series of 27,777,500 debentures each.

	Number	Unit value	Total value (R\$ thousand)	Interest rate	Maturity	Amortization	Interest	Nature	Subscription bonus
First series	27,777,500	14.40	399.996	IPCA + 7.25%	6/15/2020	Without amortization	Semi-annual	Convertible debt	Yes
Second series	27,777,500	14.40	399.996	IPCA + 2.50%	6/15/2022	Semi-annual	Semi-annual	Debt	No
	55,555,000		799.992						

(i) First series - The first series debentures mature on June 15, 2020, and have a yield at the Amplified Consumer Price Index (IPCA) + 7.25% per annum, with payment of interest on a semi-annual basis, and a grace period of two years, without amortization of the principal. They represent a convertible debt, since they can be utilized at any time until their maturity, at the discretion of the holder, to subscribe and pay-up shares issued by the Company, in the form of Units (comprising one common share and four preferred shares), in the proportion of one Unit for each debenture, through the exercise of the subscription bonus, which will be attributed as an additional benefit to the debenture holders.

(ii) Second series - The second series debentures mature on June 15, 2022, and have a yield of IPCA + 2.50% per annum, paid semi-annually, together with the amortization of the principal, and a grace period of two years. This series of debentures is not convertible. They are, therefore, not linked to the subscription bonus.

Those who acquired the first series are obliged to acquire debentures of the second series. The amount of R\$ 28,503 arising from the subscription bonus on the debentures issued was allocated to equity. The debenture holders have the possibility of converting debentures into units in advance.

A total of 98.86% of the debentures was subscribed by BNDES and the remaining debentures by other stockholders in the market.

c) Composition of the balance of debentures

	Parent company and Consolidated			Parent company and Consolidated		
	12/31/2016			12/31/2015		
	6th Issue	7th Issue	Total	6th Issue	7th Issue	Total
Current liabilities						
. Principal	-	61,538	61,538	-	61,538	61,538
. Interest	136,000	69	136,069	69,700	175,913	245,613
. Monetary restatement/profit sharing	47,473	-	47,473	22,659	-	22,659
	183,473	61,607	245,080	92,359	237,451	329,810
Non-current liabilities						
. Principal	-	676,881	676,881	-	738,419	738,419
. Interest	136,000	-	136,000	272,000	-	272,000
. Adjustment to present value of interest	(15,093)	-	(15,093)	(44,114)	-	(44,114)
. Monetary restatement/profit sharing	62,799	32,372	95,171	184,076	18,801	202,877
. Subscription bonus	-	(28,503)	(28,503)	-	(28,503)	(28,503)
	183,706	680,750	864,456	411,962	728,717	1,140,679
Equity - capital reserve						
. Debentures issued	1,691,552	-	1,691,552	1,692,932	-	1,692,932
. Interest up to maturity at present value	(410,119)	-	(410,119)	(410,119)	-	(410,119)
. Subscription bonus	-	28,503	28,503	-	28,503	28,503
. Cost of the issue of debentures	(29,841)	-	(29,841)	(29,841)	-	(29,841)
	1,251,592	28,503	1,280,095	1,252,972	28,503	1,281,475
Total	1,618,771	770,860	2,389,631	1,757,293	994,671	2,751,964

In 2016 were paid R\$ 112,981 of interest of the 6th issue of the debentures and R\$ 337,159 of interest of the 7th issue of the debentures.

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All amounts in thousands of Reais

Due to the exercise of the right of conversion requested by the debentures holders of the 6th emission, 135,172 debentures were converted into shares since the end of the lock-up period on July 6, 2-15. From this total, 22,082 debentures were converted in 2016.

16 TRADE PAYABLES

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Local currency	590,754	524,819	591,234	524,889
Foreign currency	29,148	171,458	43,622	177,310
	619,902	696,277	634,856	702,199

The Company's average payment term to operational suppliers is approximately 36 days. In the case of suppliers of property, plant and equipment, the terms follow the commercial negotiations of each operation; there is no specific average term.

a) Commitments

Because of construction of a new pulp plant ("Puma Project"), contracts were negotiated with suppliers related to main machines, equipment and services totaling approximately R\$ 150 millions committed in December 31, 2016 and should be disbursed during 2017.

The Company has several land lease agreements for the development of forestry activities in pine and eucalyptus signed with third parties in the states of São Paulo, Parana and Santa Catarina with maturity until 2041. Is calculated based on the real / hectare agreed between the parties for the defined periods.

The projection of the amounts that will be disbursed over the years can be presented as follows.

	12/31/2016
	Consolidated
2017	21,668
2018	19,945
2019	19,310
2020	17,379
2021	13,887
2022 - 2026	41,801
2027 - 2031	22,008
2032 - 2036	9,638
2037 - 2041	1,401
	167,037

The Company and its subsidiaries did not have other material future commitments at the end of the reporting period not disclosed in these financial statements, which are no longer disclosed.

17 PROVISION FOR TAX, SOCIAL SECURITY, LABOR AND CIVIL CONTINGENCIES

a) Provisioned risks

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All amounts in thousands of Reais

Based on the individual analysis of lawsuits filed against the Company and its subsidiaries and the opinion of legal counsel, provisions have been constituted and classified in non-current liabilities for losses considered as probable, as follows:

	12/31/2016			
	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
In the parent company:				
Tax:				
. PIS/COFINS	-	-	-	28,366
. ICMS/IPI	-	-	-	22,320
. Income tax/social contribution	(3,573)	3,573	-	139
. Other	(1,546)	1,546	-	2,499
	(5,119)	5,119	-	53,324
Labor	(54,386)	21,475	(32,911)	-
Civil	(10,978)	4,331	(6,647)	-
	(70,483)	30,925	(39,558)	53,324
Subsidiaries:				
Other	-	-	-	1,455
Consolidated	(70,483)	30,925	(39,558)	54,779

	12/31/2015			
	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
In the parent company:				
Tax:				
. PIS/COFINS	-	-	-	27,194
. ICMS/IPI	-	-	-	22,319
. Income tax/social contribution	(3,573)	3,573	-	1,116
. Other	(1,890)	1,890	-	1,959
	(5,463)	5,463	-	52,588
Labor	(50,662)	16,174	(34,488)	-
Civil	(9,672)	1,731	(7,941)	-
	(65,797)	23,368	(42,429)	52,588
Subsidiaries:				
Other	1	-	1	1,435
Consolidated	(65,796)	23,368	(42,428)	54,023

The risks for which provisions were made by the Company at December 31, 2016 relate to tax lawsuits, comprising mainly challenges regarding income tax and social contribution on monetary restatements under Law 8,200/91; labor lawsuits filed by former employees of the Company's plants claiming labor rights (severance pay, overtime, hazardous duty and health hazard premiums), indemnities and joint liability; civil lawsuits relating mainly to compensation claims for tangible damage and/or pain and suffering resulting from accidents.

b) Summary of changes in the provisioned amounts

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All amounts in thousands of Reais

	Consolidated			
	Tax	Labor	Civil	Net exposure
At December 31, 2014	(1,332)	(44,768)	(6,906)	(53,006)
New lawsuits/increases	(965)	(8,200)	(902)	(10,067)
(Provision)/reversals	2,297	12,448	-	14,745
Monetary variations	(5,463)	(10,142)	(1,864)	(17,469)
Judicial deposits variations	5,463	16,174	1,731	23,368
At December 31, 2015	-	(34,488)	(7,941)	(42,429)
New lawsuits/increases	-	(5,707)	(1,439)	(7,146)
(Provision)/reversals	-	5,148	1,568	6,716
Monetary variations	(5,119)	(19,339)	(3,165)	(27,623)
Judicial deposits variations	5,119	21,475	4,330	30,924
At December 31, 2016	-	(32,911)	(6,647)	(39,558)

c) Provisions for tax, social security, labor and civil contingencies not recognized

At December, 2016, the Company and its subsidiaries were parties to other tax, labor and civil litigation involving risks of loss evaluated as "possible", totaling approximately: R\$1,599,834, R\$242,175 and R\$112,967 respectively. Based on individual analyses of the disputes and the opinion of the Company's legal counsel, management understands that they do not need to be provided for, since the likelihood of loss is assessed as only possible.

d) Lawsuits filed by the Company

At December 31, 2016, the Company was a plaintiff in lawsuits of which there was no accounting recognition in its quarterly information: the related assets will only be recognized after a final and unappealable decision is rendered and the gain is virtually certain.

The Company's legal counsel assessed the likelihood of a favorable outcome in some of the lawsuits as "probable", including claims for deemed Excise Tax (IPI) credits on purchases of electrical power, fuel oil and natural gas used in the production process.

e) Enrollment in the Tax Recovery Program (REFIS)

The Tax Recovery Program (REFIS) (Law 11,941/09 and Law 12,865/13) balance payable recorded in the parent company and consolidated totaled R\$ 407,248 at December 31, 2016 which R\$ 66,884 is accounted on current liabilities and R\$ 340,364 on non-current liabilities (R\$ 423,012 at December 31, 2015, R\$ 61,772 on current and R\$ 361,240 on non-current), restated at the effective interest rate, which considers the future values and the SELIC variation. The balance is being paid in monthly installments, with settlement projected for 2029

18 EQUITY

a) Share capital

The Company's subscribed and paid-up capital was R\$ 2,384,484 at December 31, 2016 (R\$ 2,383,104 at December 31, 2015), comprising 4,733,181,140 shares at December 31, 2016 (4,732,629,090 at December 31, 2015), without par value, held as follows:

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Stockholders	12/31/2016		12/31/2015	
	Common shares	Preferred shares	Common shares	Preferred shares
BNDSPAR	42,573,128	170,292,512	49,425,928	197,703,712
The Bank of New York Departament	57,901,224	231,604,896	57,891,204	231,564,816
Capital World Investors	58,026,600	232,106,400	63,474,000	253,896,000
Monteiro Aranha S/A	49,290,692	197,194,218	70,290,789	281,163,156
Klabin Irmãos & Cia	941,837,080	-	941,837,080	-
Niblak Participações S/A	142,023,010	-	142,023,010	-
Other	525,670,981	1,924,921,399	493,234,594	1,795,207,301
Treasury shares	31,947,800	127,791,200	30,983,500	123,934,000
	1,849,270,515	2,883,910,625	1,849,160,105	2,883,468,985

Besides common and preferred registered shares, the Company negotiates certificates of deposit of shares, referred to as Units, each corresponding to one common share (ON) and four preferred shares (PN).

The Company's authorized capital comprises 5,600,000,000 common shares (ON) and/or preferred shares (PN) approved at the Extraordinary General Meeting held on March 20, 2014.

Capital increase due to the exercise of the debentures conversion

Due to the exercise of the right of conversion requested by the debentures holders of the 6th emission, Board of Directors of the Company, at an Extraordinary Meeting held on April 10, 2016 approved the increase of the subscribed and paid-up capital, within the authorized capital limit, of R\$ 9.6, with the issue of 765 common shares and 3,060 preferred shares, corresponding to the conversion of 153 debentures.

The Company's subscribed and paid-up capital increased to R\$ 2,384,484, represented by 1,849,270,515 common shares and 2,883,910,625 preferred shares, totaling 4,733,181,140 shares, without par value.

b) Treasury shares

The Company maintained 159,739,000 shares of its own issue in treasury at December 31, 2016, corresponding to 31,947,800 Units. The price on the São Paulo Stock Exchange was R\$ 17.72 per Unit at December 31, 2016 (code KLBN11 - BM&FBovespa).

The Company bought back 400,000 Units in May, 2016, at an average price of R\$16.50 per Unit, totaling R\$ 6,601. The Company bought back 160,000 Units in July and September, 2016, at an average price of R\$16.20 per Unit, totaling R\$ 2,593. In the fourth quarter, the Company bought back 1,064,500 Units at an average price of R\$14.16 per Unit, totaling R\$ 15,068.

In accordance with the stock option plan described in Note 22, granted as long-term remuneration to the Company's officers, 1,475,000 treasury shares were sold in February and March 2016, corresponding to 295,000 Units. The right to use 3,006,000 shares, corresponding to 601,200 "Units" was also granted. The amount was derecognized from the treasury share account.

c) Carrying value adjustments

Created by Law 11,638/07, the group "Carrying value adjustments" in the Company's equity comprises adjustments for increases and decreases in assets and liabilities, when applicable, that are not computed in the results for the year, up to their effective realization.

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The balance maintained by the Company corresponds to: the adoption of the deemed cost of property, plant and equipment for forestry land; an option exercised on the initial adoption of the new accounting pronouncements for convergence with IFRS, at January 1, 2009; the foreign exchange variations of the subsidiaries abroad with functional currencies different to the parent company; balances relating to the stock option plan granted to executives (Note 22); and actuarial liability restatements.

	Parent company and Consolidated	
	12/31/2016	12/31/2015
Deemed cost of property, plant and equipment (land)	1,085,208	1,090,550
Foreign exchange variations - subsidiaries abroad	(56,505)	(31,778)
Stock option plan	4,115	3,801
Actuarial liability	(4,580)	1,608
	1,028,238	1,064,181

Foreign exchange variations - subsidiaries abroad will be transferred to profit or loss only in case of alienation or perishing of the investee. The other items, due to its nature and force of accounting standard, will never be transferred to profit or loss, even in case of their financial realization.

d) Dividends

Dividends represent a portion of the profits earned by the Company which are distributed to the stockholders as remuneration of invested capital in the fiscal year. All stockholders are entitled to receive dividends proportionately to their ownership interest, as guaranteed by the Brazilian corporate legislation and the Company's bylaws. The bylaws also determine that management has the option to prepay interim dividends during the year, "ad referendum" of the Ordinary General Meeting held to consider the accounts for the year.

The basis of the calculation of the mandatory dividends, defined in the Company's bylaws, is adjusted in accordance with the constitution, realization and reversal, during the year, of the biological assets reserve, and entitles the Company's stockholders to receive, every year, a mandatory minimum dividend of 25% of the annual adjusted profit. Additionally, the Company is entitled to distribute dividends with balances of "Profit Reserves" held in Shareholders' Equity.

The profit distribution in 2016 can be presented as follows:

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	Parent company
(=) Profit for the year	2,481,946
(-) Legal reserve (5 % of profit)	(124,097)
(+) Realization of biological assets reserve - own	341,116
(-) Biological assets reserve - own	(79,440)
(-) Biological assets reserve - subsidiaries (*)	(553,810)
(-) Constitution of tax incentive reserve	(44,601)
(+) Realization of deemed cost of property and equipment (land)	5,342
(=) Basic profit for distribution of mandatory dividends	2,026,456
 (=) Minimum mandatory dividends, according to the bylaws (25%)	 506,614
<u>Interim dividends distributed from the result for 2016</u>	
April (paid on May 11, 2016)	
. R\$ 22.37 per thousand common and preferred shares	102,500
. R\$ 111.86 per thousand Units	
July (paid on August 10, 2016)	
. R\$ 23.58 per thousand common and preferred shares	107,988
. R\$ 117.91 per thousand Units	
October (paid on November 14, 2016)	
. R\$ 25.56 per thousand common and preferred shares	117,000
. R\$ 127.76 per thousand Units	
	327,488
<u>Proposal of complementary dividends for 2016 to be approved at the OGM</u>	
. R\$ 39.36 per thousand common and preferred shares	180,000
. R\$ 196.79 per thousand Units	
(-) Total dividends distributed on the 2016 result	507,488
(-) Share of results of debentures mandatorily convertible into shares	47,128
(-) Reserve for investments and working capital	1,471,840
	2,026,456

(*) Included in equity in results of subsidiaries.

The Company's management will present, at the Ordinary General Meeting to be held on March 8, 2017, together with the request for the approval of the accounts for the year, a proposal for the distribution of complementary dividends in 2016 equivalent to R\$ 180,000, corresponding to R\$ 39.36 per thousand registered common shares and R\$ 196.79 per thousand Units, distributed with a portion of the result for the year (see Note 28). The total dividends proposed in 2016 amount to R\$ 507,488.

During 2016, R\$ 447,503 was effectively paid, R\$ 327,488 related to interim dividends for 2016 and R\$ 120,015 as Profit Reserve.

e) Share of profits of mandatory convertible debentures

As mentioned in Note 15, the holders of debentures mandatorily convertible into shares of the sixth issue are entitled to a share of the profits upon the distribution of dividends to the Company's stockholders.

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The amount is calculated considering the number of shares that will be converted in the future, corresponding to 135,324,140 common shares and 541,296,560 preferred shares, after the conversions in advance occurred up to until December 31, 2016. In 2016 it was paid R\$64,863 of share of profits to the debentures holder of the 6th emission.

19 NET SALES REVENUE

The Company's net sales revenue is composed as follows:

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Gross sales revenue	8,081,481	6,604,846	8,204,424	6,745,775
Discounts and rebates	(34,464)	(21,195)	(61,718)	(57,885)
Taxes on sales	(1,037,755)	(964,084)	(1,051,908)	(1,000,301)
	7,009,262	5,619,567	7,090,798	5,687,589
. Domestic market	4,218,569	3,856,795	4,229,957	3,841,390
. Foreign market	2,790,693	1,762,772	2,860,841	1,846,199
Net sales revenue	7,009,262	5,619,567	7,090,798	5,687,589

20 COSTS, EXPENSES AND OTHER INCOME, BY NATURE

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Variable costs (raw materials and consumables)	(2,511,917)	(2,029,016)	(2,455,915)	(2,016,991)
Personnel	(1,289,910)	(896,603)	(1,302,939)	(905,660)
Depreciation, amortization and depletion	(1,409,087)	(987,779)	(1,423,112)	(998,727)
Freight	(334,182)	(255,591)	(340,808)	(261,921)
Services contracted	(399,661)	(272,523)	(403,698)	(275,276)
Revenue from sales of property, plant and equipment	105,289	17,400	105,289	17,400
Cost of sales and write-offs of property, plant and equipment	(60,619)	(10,490)	(60,619)	(10,490)
Other	(323,586)	(250,813)	(393,082)	(309,856)
	(6,223,673)	(4,685,415)	(6,274,884)	(4,761,521)

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21 FINANCE RESULT

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Finance income				
. Income from financial investments	605,476	519,554	624,599	535,637
. Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income	(53,081)	-	(53,081)	-
. Other (i)	307,414	19,273	307,427	46,262
	859,809	538,827	878,945	581,899
Finance costs				
. Interest on borrowing and debentures	(1,101,086)	(947,960)	(1,095,332)	(967,716)
. Interest on REFIS (ii)	(48,777)	(47,653)	(48,777)	(47,653)
. Capitalized interest in property, plant and equipment (iii)	130,640	313,971	130,640	313,971
. Amortization of present value adjustments to debentures	(29,016)	(40,891)	(29,016)	(40,891)
. Loan guarantees from related parties	(30,226)	(22,266)	(30,226)	(22,266)
. Investor remuneration - SPCs	-	-	(39,729)	(13,052)
. Other	(114,338)	(54,732)	(118,648)	(69,892)
	(1,192,803)	(799,531)	(1,231,088)	(847,499)
Exchange variations				
. Foreign exchange variations on assets	(214,961)	395,069	(214,090)	393,287
. Foreign exchange variations on liabilities	2,413,661	(3,587,818)	2,383,022	(3,567,317)
	2,198,700	(3,192,749)	2,168,932	(3,174,030)
	1,865,706	(3,453,453)	1,816,789	(3,439,630)

(i) See Note 9 relative to IPI credits gain in tax litigation.

(ii) See Note 17.

(iii) See Note 12.

22 STOCK OPTION PLAN

The Extraordinary General Meeting of Stockholders held on July 10, 2012 approved the stock option plan as a benefit for the members of the Executive Board and the Company's key personnel.

CVM authorized the Company, through Circular Letter/CVM/SEP/GEA-2/221/2012, to realize the private transactions included in the incentive plan for its directors and employees, except for the controlling stockholders, through the private transfer of treasury shares.

Pursuant to this plan, the Company established that its statutory and non-statutory directors could utilize 25% to 70% of their variable remuneration for the acquisition of treasury shares, and the Company would grant the right of use of the same amount of shares to the acquirers for three years, transferring to them the ownership of the shares after three years, provided that the clauses established in the plan are complied with.

The plan does not establish the acquisition of shares by the Company's key personnel, but only the granting of the right to use a certain number of shares for three years, the ownership of which will be transferred to the beneficiary, provided the established clauses are complied with.

The right of use grants to the beneficiary the right to the dividends distributed in the period during which the benefit is valid.

The value of the acquisition of treasury shares by the beneficiaries of the plan will be calculated based on the lower of the average of the market value quotations in the last 60 trading sessions of the Company's shares and their quotation on the acquisition date. The value of shares granted with right of use corresponds to the quotation of shares traded on BOVESPA on the transaction date.

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The clauses that grant the transfer of shares establish the participation of the beneficiary in the Company and stipulate that the shares acquired on enrollment in the plan may not be sold. The shares granted can be immediately assigned in the case of the termination of employment by the Company, or the retirement or death of the beneficiary, in which case the right to the shares becomes part of the estate of the deceased.

The shares granted and the expense proportional to the grant term, recorded in the results, is accumulated in equity in the "Carrying value adjustments" group, up to the end of the grant, which may occur due to the three-year maturity or any other clause of the plan that may terminate the grant.

The table below presents information about the agreed-upon plans:

a) Statutory and non-statutory Board members

	Plan 2011	Plan 2012	Plan 2013	Plan 2014	Plan 2015	Total
Start of the plan	3/01/2012	3/01/2013	3/01/2014	3/01/2015	3/01/2016	-
Final grant date	3/01/2015	3/01/2016	3/01/2017	3/01/2018	3/01/2019	-
Treasury shares acquired by the beneficiaries (i)	2,375,000	1,904,500	2,302,500	1,855,000	1,475,000	9,912,000
Purchase value per share (R\$) (i)	1.56	2.57	2.34	2.84	4.23	
Treasury shares granted with right to use (i)	2,375,000	1,904,500	2,302,500	1,855,000	1,475,000	9,912,000
Value of the right to use per share (R\$) (i)	1.75	2.67	2.29	3.26	4.30	
Accumulated plan expenses - from the beginning	4,166	5,089	4,971	3,869	1,762	19,857
Expenses of the plan - 1/1 to 12/31/2015	694	1,696	1,754	1,681	-	5,825
Expenses of the plan - 1/1 to 12/31/2016	-	283	1,783	2,189	1,762	6,017

b) Key personnel

	Plan 2012	Plan 2013	Plan 2014	Plan 2015	Total
Start of the plan (ii)	3/01/2013	4/30/2014	4/30/2015	3/30/2016	
Final grant date	3/01/2016	4/30/2017	4/30/2018	3/30/2019	
Treasury shares granted with right to use (i)	682,500	542,500	372,500	351,000	1,948,500
Value of the right to use per share (R\$) (i)	2.67	2.30	3.36	4.34	
Accumulated plan expenses - from the beginning	1,824	1,164	800	380	4,168
Expenses of the plan - 1/1 to 12/31/2015	608	423	342	-	1,373
Expenses of the plan - 1/1 to 12/31/2016	101	423	457	380	1,361

(i) Considers the stock split mentioned in Note 1.

(ii) The 2012 plan was granted in June 2013, on a retrospective basis.

23 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are calculated by dividing the profit or loss for the period attributable to holders of the Company's common and preferred shares by the weighted average number of common and preferred shares available during the period. The Company has debentures mandatorily convertible into shares (see Note 15) recorded in equity - therefore, the future conversion of the debentures into the total amount of shares is already reflected in the number of shares used for calculation purposes.

The shares from the future conversion of the seventh issue of debentures (Note 15) were not considered in the calculation because does not have dilutive effect.

The diluted earnings (loss) per share are equal to the basic earnings (loss) per share.

As mentioned in Note 18, the changes in the balance of treasury shares affect the weighted average number of preferred shares held in treasury in the calculation for the year ended December 31, 2016. The weighted average used in the calculation of earnings (loss) per share was determined as follows:

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Weighted average number of treasury shares - December 31, 2016 (i)									
Jan	Feb	Mar to May	Jun	Jul	Aug to Sep	Nov	Dec	12 Mo	
154.917.500 x 1/12	= 151.967.500 x 1/12	= 151.616.500 x 3/12	= 153.616.500 x 1/12	= 154.116.500 x 1/12	= 154.416.500 x 2/12	= 156.739.000 x 1/12	= 159.739.000 x 1/12	= 154.099.583	

(i) Because the Company only has Units held in treasury, the distribution between common and preferred shares is made according to the composition of the Units.

The table below, presented in R\$, reconciles the profit or loss for the years ended December 31, 2016 and 2015 with the amounts used in the calculation of basic and diluted earnings (loss) per share:

	Parent company and Consolidated		
	From 1/1 to 12/31/2016		
	Common (ON)	Preferred (PN)	Total
Denominator			
Total weighted average number of shares	1,849,270,515	2,883,910,625	4,733,181,140
Number of shares to be converted from debentures	135,324,140	541,296,560	676,620,700
Weighted average number of treasury shares	(30,819,917)	(123,279,667)	(154,099,583)
Weighted average number of outstanding shares	1,953,774,738	3,301,927,518	5,255,702,257
% of shares in relation to the total	37.17%	62.83%	100%
Numerator			
Loss attributable to each class of shares (R\$)	922,648,042	1,559,297,958	2,481,946,000
Weighted average number of outstanding shares	1,953,774,738	3,301,927,518	5,255,702,257
Basic and diluted loss per share (R\$)	0.4722	0.4722	
	Parent company and Consolidated		
	From 1/1 to 12/31/2015		
	Common (ON)	Preferred (PN)	Total
Denominator			
Total weighted average number of shares	1,849,160,105	2,883,468,985	4,732,629,090
Number of shares to be converted from debentures	135,434,550	541,738,200	677,172,750
Weighted average number of treasury shares	(30,238,958)	(120,955,833)	(151,194,792)
Weighted average number of outstanding shares	1,954,355,697	3,304,251,352	5,258,607,048
% of shares in relation to the total	37.16%	62.84%	100%
Numerator			
Loss attributable to each class of shares (R\$)	(465,749,327)	(787,447,673)	(1,253,197,000)
Weighted average number of outstanding shares	1,954,355,697	3,304,251,352	5,258,607,048
Basic and diluted loss per share (R\$)	(0.2383)	(0.2383)	

24 OPERATING SEGMENTS

a) Criteria for identification of operating segments

The Company's operating structure is divided into segments according to the manner in which management manages the business. The operating segments defined by management are as follows:

(i) Forestry segment: involves operations relating to planting and growing pine and eucalyptus trees to supply the Company's plants. Also involves selling timber (logs) to third parties in the domestic market.

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(ii) Paper segment: mainly involves the production and sale of cardboard, kraftliner and recycled paper rolls in the domestic and foreign markets.

(iii) Conversion segment: involves the production and sale of corrugated cardboard boxes, corrugated cardboard and industrial sacks in the domestic and foreign markets.

(iv) Pulp segment: include the production and sale of short fiber bleached pulp, long fiber bleached pulp, and fluff pulp in the domestic and foreign markets.

b) Consolidated information about operating segments

	From 1/1 to 12/31/2016					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	324,361	1,559,274	2,163,545	185,449	(2,672)	4,229,957
.Foreign market	-	1,530,321	264,428	1,066,092	-	2,860,841
Revenue from sales to third parties	324,361	3,089,595	2,427,973	1,251,541	(2,672)	7,090,798
Revenue between segments	1,101,307	1,219,165	18,335	13,615	(2,352,422)	-
Total net sales	1,425,668	4,308,760	2,446,308	1,265,156	(2,355,094)	7,090,798
Changes in the fair value of biological assets	532,911	-	-	-	-	532,911
Cost of products sold	(1,621,872)	(2,847,660)	(2,059,276)	(1,075,843)	2,377,628	(5,227,023)
Gross profit	336,707	1,461,100	387,032	189,313	22,534	2,396,686
Operating income (expenses)	(45,170)	(421,517)	(309,707)	(245,085)	22,939	(998,540)
Operating result before finance result	291,537	1,039,583	77,325	(55,772)	45,473	1,398,146
Sales of products (in metric tons)						
.Domestic market	-	553,071	659,394	103,874	-	1,316,339
.Foreign market	-	590,875	48,955	693,414	-	1,333,244
.Inter-segmental	-	763,464	2,975	9,040	(775,479)	-
	-	1,907,410	711,324	806,328	(775,479)	2,649,583
Sales of timber (in metric tons)						
.Domestic market	2,461,870	-	-	-	-	2,461,870
.Inter-segmental	11,922,206	-	-	-	(11,922,206)	-
	14,384,076	-	-	-	(11,922,206)	2,461,870
Investments during the year	284,644	311,162	228,844	1,726,589	15,408	2,566,647
Depreciation, depletion and amortization	(724,057)	(273,467)	(51,663)	(368,549)	(5,376)	(1,423,112)
Total assets - 12/31/2016	7,293,614	5,612,131	1,489,221	8,605,092	6,313,671	29,313,729
Total liabilities - 12/31/2016	1,562,441	601,323	244,223	330,453	19,474,953	22,213,393
Equity - 12/31/2016	5,731,173	5,010,808	1,244,998	8,274,639	(13,161,282)	7,100,336

	From 1/1 to 12/31/2015					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	364,095	1,421,589	2,055,407	-	299	3,841,390
.Foreign market	-	1,610,977	235,222	-	-	1,846,199
Revenue from sales to third parties	364,095	3,032,566	2,290,629	-	299	5,687,589
Revenue between segments	627,865	1,102,500	23,669	-	(1,754,034)	-
Total net sales	991,960	4,135,066	2,314,298	-	(1,753,735)	5,687,589
Changes in the fair value of biological assets	536,113	-	-	-	-	536,113
Cost of products sold	(1,261,060)	(2,572,652)	(1,904,581)	-	1,756,791	(3,981,502)
Gross profit	267,013	1,562,414	409,717	-	3,056	2,242,200
Operating income (expenses)	(53,875)	(413,565)	(270,378)	-	(12,560)	(750,378)
Operating result before finance result	213,138	1,148,849	139,339	-	(9,504)	1,491,822
Sales of products (in metric tons)						
.Domestic market	-	551,589	653,800	-	-	1,205,389
.Foreign market	-	591,923	35,470	-	-	627,393
.Inter-segmental	-	713,588	4,065	-	(717,653)	-
	-	1,857,100	693,335	-	(717,653)	1,832,782
Sales of timber (in metric tons)						
.Domestic market	3,203,721	-	-	-	-	3,203,721
.Inter-segmental	7,682,025	-	-	-	(7,682,025)	-
	10,885,746	-	-	-	(7,682,025)	3,203,721
Investments during the year	201,624	297,350	68,722	4,052,895	6,614	4,622,446
Depreciation, depletion and amortization	(709,611)	(246,515)	(48,856)	-	6,255	(998,727)

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The balance in the Corporate/eliminations column refers to the corporate unit's expenses not apportioned among the segments, and eliminations refer to adjustments of operations between the segments.

Information about the finance result and income tax was not disclosed in the segment reporting because management does not utilize such data on a segmental basis, and the data is instead managed and analyzed on a consolidated basis.

c) Information on net sales revenue

The table below shows the distribution of net revenue in 2016 and 2015:

Consolidated			Consolidated		
From 1/1 to 12/31/2016			From 1/1 to 12/31/2015		
Country	Total revenue (R\$/million)	% of total net revenue	Country	Total revenue (R\$/million)	% of total net revenue
Austria	884	12.5 %	Argentina	574	10.1 %
Argentina	501	7.1 %	China	325	5.7 %
China	308	4.3 %	Singapore	195	3.4 %
Singapore	236	3.3 %	Italy	123	2.2 %
Italy	152	2.1 %	Ecuador	83	1.5 %
Ecuador	130	1.8 %	Turkey	54	0.9 %
Turkey	60	0.8 %	France	41	0.7 %
France	52	0.7 %	Mexico	36	0.6 %
Belgium	51	0.7 %	Chile	32	0.6 %
Peru	48	0.7 %	Nigeria	31	0.5 %
Other	439	6.2 %	Other	352	6.2 %
	2,861	40%		1,846	32%

In the paper segment, in the year ended December 31, 2016, a single customer for cardboard accounted for approximately 19% of the Company's net revenue, corresponding to approximately R\$ 1,347,252 (R\$ 1,251,270 in 2015). The remaining customer base is diluted as none of the other customers individually accounts for a material share (above 10%) of the Company's net sales revenue.

c) Pro forma net sales revenue

As mentioned in Note 3, the Company is party to a joint venture that operates in the forestry segment, named Florestal Vale do Corisco, which is not consolidated, and which is accounted for using the equity accounting method, considering its share of the investment.

If the jointly-controlled investee were consolidated in the Company's financial statements, *pro forma* net sales revenue for the year ended December 31, 2016 would be R\$ 7,158,000 (R\$ 5,749,000 in 2015).

25 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Risk management

The Company and its subsidiaries enter into transactions involving financial instruments, all recorded in balance sheet accounts, in order to meet their operational needs and reduce their exposure to financial risks, mainly related to credit risks and investments of funds, market risks (foreign exchange and interest rates) and liquidity risks, to which the Company understands that it is exposed based on the nature of its business and operating structure.

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These risks are managed through the definition of strategies prepared and approved by the Company's management, linked to the establishment of control systems and determination of limits. The Company does not enter into transactions involving financial instruments for speculative purposes.

Management also carries out regular assessments of the Company's consolidated position, monitors the financial results obtained, analyzes future projections to ensure compliance with the business plan defined, and monitors the risks to which it is exposed.

The main risks to which the Company is exposed are described below:

Market risk

Market risk is the risk that the fair value of the future cash flow of a financial instrument will fluctuate due to changes in market prices. In the case of the Company, market prices are affected by two types of risk: interest rate and foreign exchange. The financial instruments affected by market risk are financial investments, trade receivables, trade payables, loans payable, available-for-sale instruments, and derivative financial instruments.

(i) Foreign exchange rate risk

The Company has transactions denominated in foreign currencies (mainly in US Dollars) that are exposed to market risks arising from fluctuations in foreign exchange rates. Any fluctuation in a foreign exchange rate could increase or reduce a balance expressed in Reais. The composition of this exposure was as follows:

	Consolidated	
	12/31/2016	12/31/2015
Bank deposits and financial investments	860,081	1,265,112
Trade receivables (net of provision for doubtful debts)	555,093	618,774
Other assets and liabilities	(29,100)	(154,400)
Borrowing	(13,107,191)	(12,376,000)
Net exposure	(11,721,117)	(10,646,514)

The balance of this net exposure at December 31, 2016 was as follows:

Year	2017	2018	2019	2020	2021	2022	2023 onwards	Total
Amount	(373,317)	(1,540,900)	(1,834,500)	(1,748,900)	(1,936,800)	(1,504,300)	(2,782,400)	(11,721,117)

The Company did not have derivative contracts to hedge against long term foreign exchange exposure at December 31, 2016. However, in order to hedge against this net liability exposure, the Company has a sales plan under which the projected flow of export revenue is approximately US\$ 800 million annually and the related receipts, if realized, would exceed, or approximate, the flow of payments of the related liabilities, offsetting the cash effect of this foreign exchange exposure in the future.

(ii) Interest rate risk

The Company has loans indexed to the variations in the TJLP, LIBOR, IPCA and the CDI and financial investments indexed to the variations in the CDI, SELIC and IPCA, which expose these assets and liabilities to fluctuations in interest rates, as shown in the interest sensitivity analysis

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below. The Company does not have derivative contracts to swap/hedge against the exposure to these market risks.

The practice adopted by the Company in relation to interest rate risk is to continuously monitor market interest rates in order to assess the possible need to contract derivatives to hedge against the risk of volatility in these rates. The Company considers that the high cost associated with entering into transactions at fixed interest rates in the Brazilian macroeconomic scenario justifies its choice of floating rates.

The composition of the Company's interest rate risk is as follows:

	Consolidated	
	12/31/2016	12/31/2015
Financial investments - CDI	4,979,048	3,767,021
Financial investments - Selic	187,594	557,143
Financial investments - IPCA	403,709	-
Asset exposure	5,570,351	4,324,164
Financing - CDI	(1,021,915)	(1,181,179)
Financing - TJLP	(2,813,850)	(2,384,152)
Financing - LIBOR	(8,679,565)	(1,996,624)
Debentures - IPCA	(742,357)	(966,168)
Liability exposure	(13,257,687)	(6,528,123)

CDI - Interbank Deposit Certificate
 IPCA - Amplified Customer Price Index
 SELIC - Special System for Settlement and Custody

Risk relating to application of funds

The Company is exposed to risk relating to the application of funds, including deposits in banks and other financial institutions, foreign exchange transactions, financial investments and other financial instruments that are contracted. The exposure relates mainly to financial investments and transactions involving securities, which are described in Notes 4 and 5.

In relation to the quality of the financial assets of the Company invested in financial institutions, an internal policy is applied to the approval of the type of operation being entered into and to the analysis of the rating, applied by the rating agencies, to assess the feasibility of the investment of the funds in a given institution, provided that it meets the acceptance criteria of the policy.

The table below presents the cash, cash equivalents and marketable securities invested by the Company, classifying the amounts according to the national classification of the financial institutions by the rating agency Fitch:

	Consolidated	
	12/31/2016	12/31/2015
National rating AAA(bra) (i)	6,161,557	5,465,466
National rating AA+(bra)	302,466	145,400
	6,464,023	5,610,866

(i)The Financial Treasury Bills (LFTs) are included in this group due to the low risk of the operation.

Credit risk

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Credit risk is the risk that a counterparty to a transaction will not fulfill an obligation established in a financial instrument or contract with a customer, leading to a financial loss. In addition to the investments referred to above, the Company is exposed to credit risk in its operating activities (mainly in connection with trade receivables).

At December 31, 2016, the maximum exposure to credit risk was the carrying amount of the trade receivables shown in Note 6.

Credit risk in the Company's operating activities is managed based on specific rules regarding the acceptance of customers, credit analysis and the establishment of exposure limits in respect of customers, which are periodically reviewed. Overdue receivables are monitored on a regular basis to ensure their realization.

Liquidity risk

The Company monitors the risk of shortages of funds by managing its resources through a recurring liquidity-planning tool, so that it has funds available for the fulfillment of its obligations, mainly concentrated on financing from financial institutions.

The table below shows the maturity of the financial liabilities contracted by the Company and reported in the consolidated balance sheet: the amounts include principal and future interest on transactions, calculated using the rates and indexes prevailing at December 31, 2016:

	2017	2018	2019	2020	2021	2022	2023 onwards	Total
Trade payables	(634,856)	-	-	-	-	-	-	(634,856)
Financing/debentures	(3,202,386)	(3,428,765)	(3,131,687)	(3,051,447)	(3,045,721)	(2,513,259)	(3,510,730)	(21,883,995)
Total	(3,837,242)	(3,428,765)	(3,131,687)	(3,051,447)	(3,045,721)	(2,513,259)	(3,510,730)	(22,518,851)

The budget projection for the coming years approved by the Board of Directors indicate that the Company has the ability to meet these obligations.

Capital management

The Company's capital structure comprises net debt, consisting of borrowing (Note 14) and debentures (Note 15) less cash and cash equivalents and marketable securities (Notes 4 and 5), and equity (Note 18), including the balance of issued capital and all of the constituted reserves.

The Company's net indebtedness ratio is comprised as follows:

	Consolidated	
	12/31/2016	12/31/2015
Cash and cash equivalents and marketable securities	6,464,023	5,610,866
Borrowing and debentures	(18,468,547)	(18,021,730)
Net indebtedness	(12,004,524)	(12,410,864)
Equity	7,100,336	5,352,340
Net indebtedness ratio	(1.69)	(2.32)

b) Financial instruments, by category

The Company has the following categories of financial instruments:

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	Consolidated	
	12/31/2016	12/31/2015
Assets - loans and receivables		
. Cash and cash equivalents	5,872,720	5,053,723
. Trade receivables (net of provision for impairment of trade receivables)	1,625,380	1,501,099
. Other assets	661,772	423,363
	8,159,872	6,978,185
Assets - available for sale		
. Marketable securities	591,303	557,143
	591,303	557,143
Liabilities - at amortized cost		
. Borrowing and debentures	18,468,547	18,021,730
. Trade payables	634,856	702,199
. Other payables	1,087,383	809,670
	20,190,786	19,533,599

Loans and receivables and other financial liabilities at amortized cost

The financial instruments included in this group refer to balances arising from usual transactions, such as trade receivables, trade payables, borrowing, financial investments and cash and cash equivalents. All these instruments are recorded at their notional amounts plus, when applicable, contractual charges and interest, in respect of which the related income and expenses are recognized in the results for the period.

Available-for-sale financial assets

The Company classifies its investments in LFTs and NTN-B (Note 5) as available-for-sale financial assets, since they can be traded in the future. These are recorded at fair value, which, in practice, corresponds to the invested amount plus interest on the transaction.

c) Sensitivity analysis

The Company presents below the sensitivity analysis of foreign exchange and interest rate risks to which it is exposed, considering that any effects would impact the future results, based on the exposure at December 31, 2016. The effects on equity are basically the same as those on the results.

(i) Foreign exchange exposure

The Company had assets and liabilities indexed to a foreign currency in the balance sheet at December 31, 2016, and, for sensitivity analysis purposes, it adopted as scenario I the future market rate in effect at the end of the financial statements. For scenarios II and III this rate was adjusted by 25% and 50%, respectively.

It is important to point out that most of the financing maturities will not occur in 2017, according to the maturity schedule shown in Note 14, and, therefore, foreign exchange variations in this analysis will not have an effect on cash. On the other hand, the Company's exports should substantially be subject to the cash impact of the foreign exchange variation as they occur.

The sensitivity analysis of the foreign exchange variation was calculated in respect of the net foreign exchange exposure (basically, borrowing, trade receivables and trade payables in foreign currency), not considering the effect on the scenarios of projected export sales that, as previously mentioned, will offset any future foreign exchange losses.

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Accordingly, the table below shows a simulation of the effect of the foreign exchange variation on the equity and on future results for the next 12 months, if all other variables remain constant, considering the consolidated balances at December 31, 2016:

	At 12/31/2016	Scenario I		Scenario II		Scenario III	
	US\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Assets							
Cash and cash equivalents	263,901	3.21	(12,958)	4.01	198,164	4.82	411,924
Trade receivables, net of provision for doubtful debts	170,321	3.21	(8,363)	4.01	127,894	4.82	265,854
Other assets and liabilities	(8,929)	3.21	438	4.01	(6,705)	4.82	(13,937)
Financing	(4,021,721)	3.21	197,467	4.01	(3,019,910)	4.82	(6,277,504)
Net effect on finance results			176,584	(2,700,557)		(5,613,663)	

(ii) Exposure to interest rate fluctuations

Financial investments and financing, except those subject to TJLP, IPCA, SELIC and LIBOR, are indexed to the CDI floating interest rate. For sensitivity analysis purposes, the Company adopted the rates prevailing at dates close to the presentation dates of financial statements using these same rates for SELIC, LIBOR, IPCA and CDI, due to their proximity, in the scenario I projection. For scenarios II and III, these rates were adjusted by 25% and 50%, respectively.

Accordingly, with all other variables held constant, the table below shows a simulation of the effect of the interest rate variation on the future results for the next 12 months, considering the balances at December 31, 2016:

		At 12/31/2016	Scenario I		Scenario II		Scenario III	
		US\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Financial investments								
CDBs	CDI	4,979,048	14.00%	24,895	18.13%	205,386	21.75%	385,876
LFTs	Selic	187,594	13.75%	(1,407)	16.25%	4,690	19.50%	10,787
NTN - B	IPCA	403,709	6.29%	-	7.86%	6,348	9.44%	12,697
Financing								
Export credit notes (R\$)	CDI	(1,021,915)	14.00%	(5,110)	18.13%	(42,154)	21.75%	(79,198)
BNDES	TJLP	(2,813,850)	7.50%	-	9.38%	(52,760)	11.25%	(105,519)
Debentures	IPCA	(742,357)	6.29%	-	7.86%	(11,674)	9.44%	(23,347)
Export prepayments	Libor	(1,338,248)	1.69%	8,859	1.28%	5,434	1.54%	2,009
Net effect on finance results				27,237		115,270		203,305

26 EMPLOYEE BENEFITS AND PENSION PLAN

The Company and its subsidiaries grant their employees life insurance, healthcare and pension plan benefits. These benefits are recognized on the accruals basis, and their granting is discontinued at the end of the employment relationship.

In 2016, the total expenses under these defined contribution plans amounted to R\$ 19,738 (R\$ 12,901 in 2015).

a) Private pension plan

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Klabin S.A.'s pension plan - the Prever Plan, administered by Itaú Vida e Previdência S.A. - was established in 1986 as a defined benefit plan. In 1998, the plan was restructured, becoming a defined contribution plan.

In November 2001, a new pension plan was established—Plano de Aposentadoria Complementar Klabin (PACK) (a complementary pension plan), administered by Bradesco Vida e Previdência S.A. and structured as a free benefit generating plan (PGBL).

The participants in the Prever Plan were offered the option to migrate to the new plan. In neither plan does the Company assume any responsibility for guaranteeing minimum benefit levels for retiring participants.

b) Healthcare

Under the agreement entered into with the Union of the Pulp and Paper Workers of the State of São Paulo, the Company pays for a lifetime healthcare plan (Hospital SEPACO, main plan) for its former employees who had retired by 2001, as well as for their dependents, until they reach the age of majority, and for their spouses. New beneficiaries cannot be added.

The Company understands that this healthcare benefit is considered as a defined benefit plan in accordance with the accounting practices adopted in Brazil and, for this reason, maintains a provision for the estimated actuarial liability, amounting to R\$ 88,860 at December 31, 2016 (R\$ 59,746 at December 31, 2015), in non-current liabilities, under "Other payables and provisions".

In the actuarial valuation, the following economic and biometric assumptions were utilized: nominal discount rate of 11.4% p.a., nominal growth rate of variable medical costs starting at 12.71% p.a. in 2016 and decreasing to 6.95% p.a. in 2028, long term inflation of 4.85 % p.a., and biometric mortality table RP-2000. Actuarial restatements are maintained in equity in the group "Carrying value adjustments (comprehensive income (loss))", as required by CPC 33 (R1) – "Employee benefits".

The increase or decrease by one percentage point in the rates used in the actuarial calculations does not have a material effect on the Company's financial statements.

This plan does not have assets for disclosure.

c) Other employee benefits

The Company grants its employees the following benefits: healthcare, day nursery reimbursement, assistance to parents with children with special needs, agreement for discounts at drugstores, school supplies, dental care plan, private pension plan and life insurance, in addition to the benefits established by law (meal vouchers, transportation vouchers, profit sharing and food purchase vouchers). Furthermore, the Company has an organizational development program for its employees. For the year ended December 31, 2016, expenditure on training programs totaled R\$ 11,221 (R\$ 9,461 for the year ended December 31, 2015).

All these benefits are recognized on an accruals basis and are discontinued at the end of the employee's employment relationship with the Company.

27 INSURANCE COVERAGE

ISSUER

Klabin Austria GmbH

Albertgasse 35
1080 Wien
Austria

GUARANTOR

Klabin S.A.

Av. Brig. Faria Lima, 3600 – 3rd, 4th and 5th floors
São Paulo, SP
Brazil

TRUSTEE, PAYING AGENT, TRANSFER AGENT AND REGISTRAR

The Bank of New York Mellon

240 Greenwich Street, Floor 7E
New York, NY 10286
U.S.A.

LEGAL ADVISERS

to the issuer and Guarantor as to U.S. law

Clifford Chance LLP

R. Funchal 418, 15th floor
04551-060, São Paulo, SP
Brazil

to the issuer and Guarantor as to Brazilian law

Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados

Alameda Joaquim Eugenio de Lima, 447
Sao Paulo, SP 01403-001
Brazil

*to the initial purchasers as to U.S. law, in relation to the
initial notes*

White & Case LLP

Avenida Brigadeiro Faria Lima, 2277, 4th floor
01452-000, São Paulo, SP
Brazil

*to the initial purchasers as to U.S. law, in relation to the
additional notes*

Milbank LLP

Avenida Brigadeiro Faria Lima, 4100, 5th floor
04538-132, São Paulo, SP
Brazil

to the initial purchasers as to Brazilian law

Tozzini Freire

Rua Borges Lagoa, 1328
04038-004, São Paulo, SP
Brazil

to the issuer and Guarantor as to Austrian law

Cerha Hempel Rechtsanwälte GmbH

A-1010 Wien, Parkring 2
Austria

INDEPENDENT AUDITORS

As of and for the years ended December 31, 2019, 2018 and 2017

Ernst & Young Auditores Independentes S.S.

Avenida Juscelino Kubitschek, 1909,
Torre Norte, 6th floor,
04543-011, São Paulo, SP
Brazil

As of and for the year ended December 31, 2016

PricewaterhouseCoopers Auditores Independentes

Avenida Francisco Matarazzo, 1400
Torre Torino
05001-100, São Paulo, SP
Brazil

